

Establishing a Good Banking Relationship

The relationship with your banker is an important one, because your banker will have a keen interest in your business financing needs and help evaluate your financial performance on a timely basis.

What the Bank will Evaluate

- Your business management ability
- Your financial ability to repay the loan
- Your financial estimates of how you will perform with the loan in place
- Your ability to secure the loan

The Five C's of Credit

1. **Character.** Moral character that will cause the borrower to repay
2. **Capacity.** Cash flow, in relation to expenses and debt
3. **Capital.** What the owners or investors have invested into the business
4. **Collateral.** Assets of the business which may be converted to cash as a back-up source of repayment
5. **Conditions.** Impact of the external environment of the business: Competition, Legal, Political - local and national levels

How the Bank Evaluates the Five C's

1. **Character.** Credit report, Dun & Bradstreet Report, supplier or trade references, past payment performance
2. **Capacity.** Income statement: cash flows are evaluated compared to amount of debt on balance sheet
3. **Capital.** Balance Sheet: assets minus liabilities. Owners' assets that can be converted to cash to keep business sustained if profits do not materialize, or if the business must be liquidated.
4. **Collateral.** Balance Sheet: current and fixed assets
5. **Conditions.** Tracking of economic trends, industry data reports, newspaper articles, periodicals, market research

Helpful Hints

- Package your application; binding, tabbing, indexing and labeling projects a competent image.
- Provide answers to all tough questions clearly and forthrightly - if there is a lawsuit, get an analysis letter from your attorney.
- Provide personal financial statements on the lender's form, unless you have CPA-prepared statements.
- Secure a credit report and UCC check on yourself and business; clean up released liens and inaccuracies.
- Clearly describe repayment sources and timing.
- Offer demand deposits (DDA's) to bank; offer total relationship to bank; bank profits are in the DDA's and multiple relationships; give bank a copy of your account statements for prior twelve months.
- Offer a loan proposal and collateral you would accept as a banker.
- Don't provide overly optimistic projections.
- Continue to educate banker about your business.
- Send your banker good referrals.