THE FIVE C'S OF LENDING

SBDC STARTUP SERIES

One of the most common questions among small business owners seeking financing is: "How will the bank evaluate my business?" While each lending situation is unique, many banks will use some variation of the Five C's.

Capital

You must put cash into your business if you expect someone else to provide funds. There are no 100% financing programs. Be prepared to provide at least 20% of all startup costs and/or equipment.

Cash Flow

Cash flow projections determine your ability to repay a loan. Your business must be profitable in the first year or early second year when considering startup costs and matching monthly expenses to revenue.

Character

Producing something people want to buy does not guarantee success. You also have to manage marketing, hiring, recordkeeping, problem-solving and planning.

Collateral

Lenders want security through a pledge of business assets like vehicles, equipment and buildings, and personal assets if necessary. Home equity funds obtained through separate financing may be used for business financing.

Credit

Your credit score will be a major factor. If you have credit problems, get a copy of your credit report and be prepared to explain any problems or discrepancies.

For more information about small business lending, visit sba.gov/content/borrowing-money.

ABOUT THE MONTANA SBDC

SBDC STARTUP SERIES

The Montana Small Business Development Center Network is a partnership among the Montana Department of Commerce, the U.S. Small Business Administration, regional economic development organizations and institutions of higher education.

This network consists of 10 centers throughout the state that offer free, confidential, one-on-one business counseling and low-cost training programs to small businesses and entrepreneurs.

The SBDCs are dedicated to helping small businesses throughout Montana grow, innovate and succeed. Our network combines the resources of federal, state and local organizations with the education system and private sector to meet the specialized and complex needs of the small business community.

Visit sbdc.mt.gov and contact the SBDC nearest you to learn more about counseling services and training programs are available in your area.

LEARN MORE

Images courtesy of the Montana Department of Commerce.