

# The 5 C of Credit

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## About Merlin

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# Choosing a Bank.

- ▶ Most banks offer similar products and services
- ▶ However, the features and benefits will vary
- ▶ Chose a bank that match your values
- ▶ Chose a bank that can be a partner to you
- ▶ Most importantly, chose a banker who can be an advisor to you

# About KeyBank

- ▶ Headquartered in Cleveland, Ohio
- ▶ Operates in 15 States from Maine to Alaska
- ▶ About 1,000 Full-service Branches & over 40,000 KeyBank & Allpoint ATMs
- ▶ Over 17,000 diverse Teammates
- ▶ \$190 Billions in Assets

# A Business Plan Should Include

- ▶ Executive Summary
- ▶ Market Analysis & Plan
- ▶ Location of the business
- ▶ Organization & Management
- ▶ Financial Details / Projections
- ▶ Additional Supporting Documents

*\*\*\* See reference guide provided by BLDC-EAP for additional details \*\*\**

# Remember your “why”

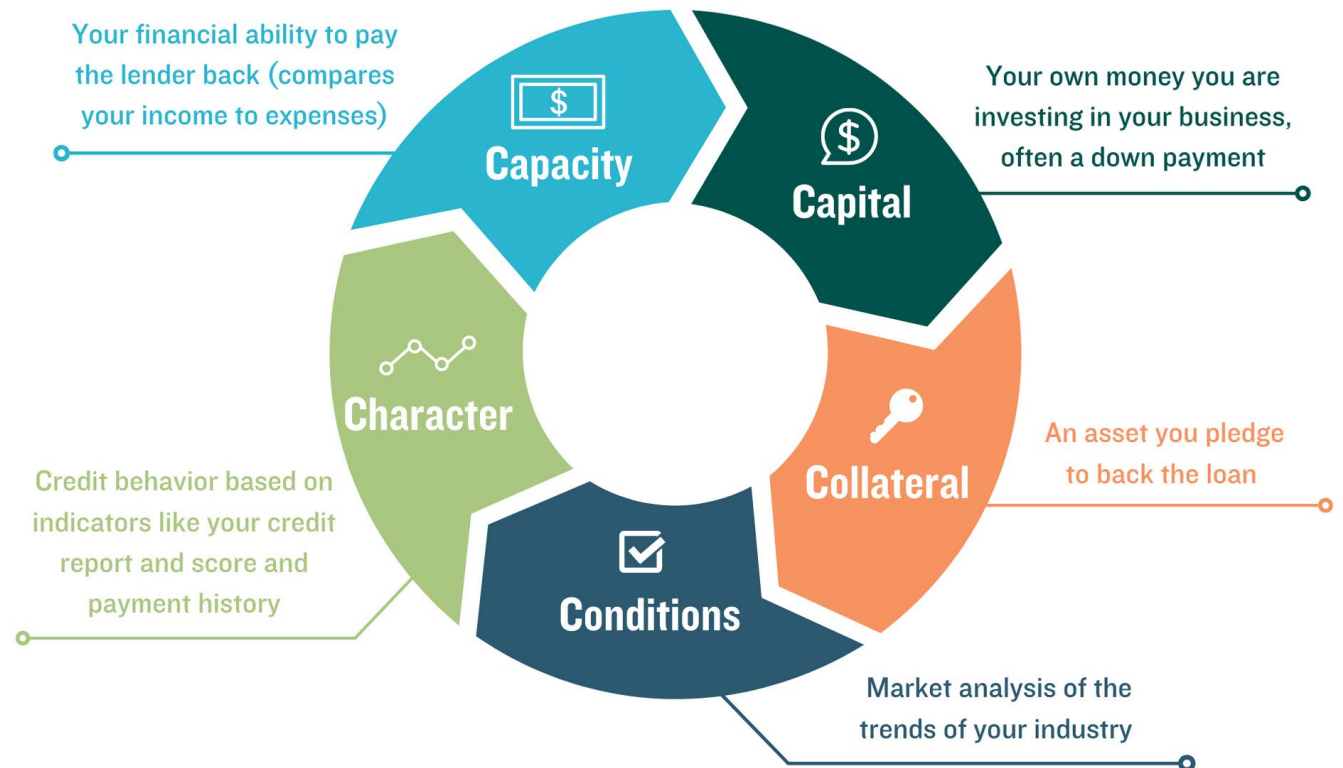
- ▶ To get a business loan
- ▶ To set S.M.A.R.T. strategic goals for the business
- ▶ To create a succession plan
- ▶ To get it ready for sale
- ▶ Personal reason or story of inspiration

**Remember The 5 C of Credit !**

# The Five C's of Credit

1. Character
2. Capacity
3. Capital
4. Collateral
5. Conditions

## The 5 C's of Credit



# Character = Credit Score

- ▶ Credit Score is an indicator of how you manage your finances.
- ▶ How you have managed debt in the past, and how you may handle borrowing in the future.
- ▶ Most lenders have a minimum credit score, below which they will not provide credit.

To order a copy of your credit report:

[Annualcreditreport.com](http://Annualcreditreport.com) or 1-877-322-8228

Check for errors and get them corrected before submitting official business plan application for review.

# Credit Score ranges from (350-850)

- ▶ 1<sup>st</sup> 30-40% of the score is your payment history
- ▶ 2<sup>nd</sup> 20-25% is how much you owe & what is the make up of the balance
- ▶ 3<sup>rd</sup> 10-15% is the length of your credit history & how you manage it
- ▶ 4<sup>th</sup> How much you have borrowed in the last 12 months, why, most recent payments history. **About 10% of the score.**
- ▶ 5<sup>th</sup> **5-10%the type of credits you are using**

# Credit ranges

- ▶ Excellent            800- TO 850
- ▶ VERY GOOD        750 TO 799
- ▶ GOOD                720 TO 749
- ▶ FAIR                 650 TO 749
- ▶ POOR                LESS THAN 650
- ▶ Ranges may vary by banks' modeling.

# Capacity = Cash

- ▶ Sales are important, but **Cash is King!!!**
- ▶ Positive cash flow tells the lender that the business generates enough money to meet their financial obligations and contributes to the business's return earnings.

- ❖ Can you generate enough profit to manage both the existing and the new debt acquired by the business? (Global Debt Service Ratio)
- ❖ Most banks and lenders want at least a debt service ration of 1.2 or better. This means the business is generating \$1.20 in net profit for every dollar it pays out to cover debt.

How quickly do you get pay,? How quickly do you pay suppliers?

How do you protect your business from Fraud?



# What is working Capital?

- ▶ Working Capital is the money the business has on hand to pay its current bills and run its day-to-day operations.
- ▶ It is a key indicator of the business' short-term financial health.

# Financial Analysis

- ▶ Sources of funds:
  - ▶ Cash on Hand, in your bank account
  - ▶ Account receivables & how quickly you can convert them to cash
  - ▶ “Do you have a Line of credit to finance your receivable?”
  - ▶ Inventory
  - ▶ Securities
  - ▶ Other assets
  - ▶ Sales or should I say Net Profit

# Use of funds

- ▶ Think of Current liability & long-term Debt
  - ▶ How do YOU pay or Finance them
    - ▶ Short term liabilities should be paid from Current assets & from operations
    - ▶ Long-term debt should finance over a specific time
    - ▶ Long-term investments

# Capital = Owner's Equity

- ▶ Invest in yourself and in your business!
  - ▶ A lender is unlikely to finance your business, if you do not believe in yourself and in the business to back it up with your own funds.
- 
- Owner's Equity is the business's cushion to absorb losses should they occur.
  - It is a type of reserve savings to ensure the longevity and viability of the business.



# Collateral = Assets

The lender will look at the collateral as the last source of repayment, in order to reduce risk of nonpayment. However, the lender knows that not all collateral assets are equal or valuable.

- ❖ What are some forms of collateral?
- ❖ What if a business has collateral short fall or no collateral?



# What are some forms of collateral?

## Commercial properties

- ▶ Equipment
- ▶ Inventories
- ▶ Account receivables
- ▶ Personal assets of the owner(s)



# What if the business has insufficient collateral?



Lenders will look to get an SBA guarantee or other sources of acceptable guarantors



Lenders consider the owner's personal guarantee, especially your positive net worth and its quality, when assessing collateral



Lenders may ask you to inject more money in the business by making you a counter-offer of approval

# SBA Benefits you (borrower)

- ▶ Smaller Equity injections
- ▶ Longer amortization
- ▶ Improved cashflow
- ▶ Approval for tougher industries
- ▶ No Guaranty fee for SBA's Fiscal year 2025 for loans less than \$1 million
- ▶ More flexible terms

# SBA can **not** mitigate

- ▶ Poor credit
- ▶ Insufficient cashflow
- ▶ Lack of management experience
- ▶ Inappropriate use of funds
- ▶ Weak balance sheet
- ▶ Insufficient working capital
- ▶ No post closing liquidity ( fallback )

# Approve



# Conditions = Terms

- ▶ The criteria under which the bank will lend the business funds.
- ▶ It details:
  - ▶ Amount of the loan or line of credit
  - ▶ Rates & Annual Percentage Rates (APR)
  - ▶ Duration (months, years)
  - ▶ When the payments are due
  - ▶ Loan structures
  - ▶ What constitutes default
  - ▶ Lender's rights & borrower's rights in case of default
  - ▶ Guarantor
  - ▶ Etc...

# Summary

- ▶ The 5 C of credit are important because they give a holistic view of your business's probability for financial success.
- ▶ In addition, Communication is also Vital!
- ▶ - Be proactive and openly communicate with your banker and other financial advisors about your business so they can support you.

# Additional Resources

Small Business Administration (SBA) • [www.SBA.gov](http://www.SBA.gov)

- ▶ Learning Center Dashboard

<https://learn.sba.gov/dashboard>

KeyBank online resources • [www.key.com/small-business/index.jsp](http://www.key.com/small-business/index.jsp)

- ▶ Small Business Worksheets & Checklists

<https://www.key.com/small-business/tools-resources/sheets-checklists/index.jsp>

- ▶ Small Business Calculators

<https://www.key.com/small-business/tools-resources/calculators/index.jsp>

Should you need a private Consultation ...  
You can reach me at:

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**Thank You**

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