The Ins & Outs of Business Banking & Borrowing

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What Does a Bank Look for in a Business Loan?

Banks look at the 5 C’s

- Character
- Credit
- Cash
- Capacity
- Collateral

What Does a Bank Look for in a Business Loan?

Character

- Like to make loans to individuals who the bank has reason to believe based on demonstrated history will pay back the loan in a timely manner
- Character today is more likely connected with credit scoring than it used to be

What Does a Bank Look for in a Business Loan?

Credit

- Credit history today is determined by examining the reports of the three major national credit reporting agencies – Experian, Trans Union and Equifax
- Bank regulations limit all banks from making loans to non-credit worthy businesses
- Prime loans have associated credit scores of 640 or above

What Does a Bank Look for in a Business Loan?

Cash

- Banks do not make 100 percent loans. Risk sharing is good business for the borrower and the bank
- Banks like to know that customers can meet their ongoing operating needs and unforeseen expenses without the need for borrowing over and beyond the loan request
- Remember . . . All banks are risk averse

What Does a Bank Look for in a Business Loan?

Capacity

- Capacity is a business' ability to repay the loan out of cash generated through operating activities

What Does a Bank Look for in a Business Loan?

Capacity

- Capacity is evaluated using historical and forecasted financial results and the business plan
  - Banks in general would like three years of history and explanation for major variances
  - The historical financials should be of a professional level of quality – e.g. balance sheet balances, all liabilities are listed, depreciation is included, taxes are current, etc.

What Does a Bank Look for in a Business Loan?

Capacity

- Banks like to know that a customer has thought through his needs on their own as evidenced by a cash flow model and a business plan
- Financial statements and a business plan are tools primarily for the benefit of the business and not the bank
- If a business does not have the internal expertise to develop a well done cash flow model and/or a business plan, banks will encourage a potential customer to seek professional support

What Does a Bank Look for in a Business Loan?

Collateral

- Banks are cash flow lenders, not asset lenders. Therefore, collateral is the least valuable to the bank of the 5 C's.
- Having collateral helps banks offer more favorable terms as expressed by lower rates and longer amortization

What Does a Bank Look for in a Business Loan?

Collateral

- Loan qualification is predicated on the first four C’s
- Collateral is a last-resort fallback only for the last-resort protection of the bank
- Banks lose money if forced to repossess collateral. Banks don’t like to lose money.

What Should You Look for in a Business Banking Relationship

First, Think About Whether You Like Your Banker – Your Banker is Your Partner

- Do you communicate well with the banker?
- Does the banker have time for you?
- Does the banker listen or is the banker just an “order taker”?

What Should You Look for in a Business Banking Relationship

First, Think About Whether You Like Your Banker – Your Banker is Your Partner

- What experience does your banker have in banking and all aspects of business-related financial services?
- Is the banker interested in the success of your business (recognizing that sometimes caring means saying “no”)

What Should You Look for in a Business Banking Relationship

Does Your Banker Offer the Full Array of Services Your Business Needs?

- Multiple locations in multiple states, multiple ATMs
- Internet banking
- Merchant and payroll services
- 401k, commercial insurance, mortgage lending
- Size can be a virtue – variety of offerings and lower fixed costs per customer result in lower banking prices

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