JUST THE FACTS BUSINESS:
HELPING YOU TALK ABOUT MONEY

Financing: What a Bank is Looking For

When determining whether to lend money for a business, a financial institution will primarily be considering the borrower's credit-worthiness i.e., ability to pay back the funds (plus interest).

To make this decision, banks will generally look at the **5 Cs of Credit**:

1. Character

The borrower's reputation, based on considerations such as personal credit score, experience in business, relationship with the lender and community standing.

2. Capacity

The size of the business, its projected growth, profitability and other financial metrics indicating the borrower's ability to repay the loan.

3. Capital

The borrower's own stake in the business (how much has been personally invested) to demonstrate commitment to success.

4. Collateral

Ability to secure the loan, including assets the lender could take if payment is not made (such as property or inventory).

5. Conditions

Based on the four Cs above, the terms of the financing, such as lending rates, fixed or variable, renewal periods, fees, etc. (These terms depend on the situation. For example, interest rates may be higher if there is no collateral.)

Business Plan

To document the information for the 5 Cs above, banks will expect a Business Plan detailing the borrower's strategy to ensure the business is successful both in the short-term and long-term. This could include details on anticipated growth, revenue projections, customer profiles, management and staffing.

BETTER YOUR BUSINESS AT cpacanada.ca/JTFBusiness

CPA CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

sage Helping small businesses perform at their best

20-1252E