What Criteria do Lenders Look for?

Items needed from Potential Borrower:

*Business Plan – What the borrower plans to do and how it "makes money"
*1-3 Years of Tax Returns
*Signed Personal Financial Statement
*If purchasing an existing business, 1-5 Years' worth of Tax Returns on that business along with Corresponding Financial Statements
*References

The Bank's goal is to understand the needs of the borrower and to creatively formulate a plan to respond to those needs in the context of their lending policy and regulatory requirements. There are the Traditional 5 "C's" of Lending:

Character – Is this person known to be of good character?

Credit History – This goes right along with Character. The loan officer will pull a credit report to see how the potential borrower has handled past debts. Also, the loan officer may call loan officers familiar with the potential borrower and other people such as vendors, past employers, etc. to see how prior relationships were handled.

Capacity – Does the business plan make sense? i.e., does this plan show the capacity to repay the proposed loan in a timely and orderly manner? Does this individual have the technical and financial capacity to manage the business/project? Also, by pulling a credit report, the lender can see the "Global Picture" of the individual's financial capacity. Is this individual already leveraged with too much personal debt? Is this individual currently involved in a business enterprise that is not producing a positive cash flow and/or is this enterprise requiring more debt to continue?

Capital – Does the potential borrower have adequate capital to inject into the business/project? This lessens the bank's risk as well as shows the bank the potential borrower has the capacity and discipline to save money. The bank will want the borrower to have "skin in the game" to lessen the risk of them walking away.

Collateral – What asset(s) are involved that can help secure the loan. Collateral is almost always considered the second or third form of repayment. The Primary form of repayment in a banker's and regulator's mind is the cash flow created from the venture. Collateral is there to lessen risk.

**Publication prepared by Chris Pierce, Commercial Lender with First Farmers & Merchants National Bank*

Bryan Stading
507.344.7897
bryan@rcef.net

Jon Herzog
507.344.7895
jon@rcef.net

934 Marsh Street, Mankato, MN 56001
Located on the Bethany Lutheran College Campus

RCEF is funded in part by Blue Earth County and the Department of Employment & Economic Development (DEED)