



KANSAS SMALL BUSINESS DEVELOPMENT CENTER

How Business Loans Are Evaluated

Lenders consider many factors as they review loan applications. Although specific systems and criteria vary, most lenders consider the “6Cs” listed below. Work with your Kansas SBDC Advisor to develop a strong business plan with financial projections that addresses these considerations.

CAPITAL (CASH)

You must be willing to invest your own funds before a lender will risk investment. There is no fixed amount or percentage that you must invest, but most lenders want to see 10-20% of the funding coming from the owner.

Lenders will also analyze your net worth – the value of your assets minus your liabilities. They will look at your savings, investments and other assets that could be used to repay the loan if you lose employment or business revenue.

COLLATERAL

Some lenders require the borrower to use personal assets (home, car) or business assets (land, equipment) as a guarantee on a loan. That means that the lender can sell those items if you fail to repay the loan. Your willingness to risk personal and business assets as collateral demonstrates your commitment to your business. When lenders consider collateral offered by borrowers, they prefer more easily liquidated collateral.

CREDIT SCORE

Lenders use your personal credit history as a measure of character and a way to understand how reliable you have been in repaying past loans. If you already own a business, lenders will also review your business credit score. Check your FICO personal score and FICO Liquid Credit SBSS small business score before you apply for a loan. Lenders differ as to what they consider an appropriate credit score. Some want borrowers to have exemplary scores, while others accept lower scores if sufficient cash and/or collateral is pledged.

CAPACITY

Lenders need to determine if you can manage your loan payments. Work with your Kansas SBDC Advisor to prepare three year financial projections for your business cash flow broken down by month. As lenders examine your cash flow, they will look for market research and other documentation to determine if you can support the numbers you use. They will consider if you routinely show sufficient funds to cover your expenses and debts comfortably while also providing for adequate salaries for all principals. Your income, employment history, stability, payment history on previous loans, and other factors will also be considered.

CONDITIONS

Lenders want to understand the condition of the business, the industry, and the economy to understand whether current conditions of the business will continue, improve, or worsen. They want to know specifically how you plan to use the money you borrow so they can assess risk.

CHARACTER

Lenders need to believe that a business owner is a reliable individual who can be depended on to repay the loan. They will consider characteristics like your educational history, business background, and familiarity with your industry.

