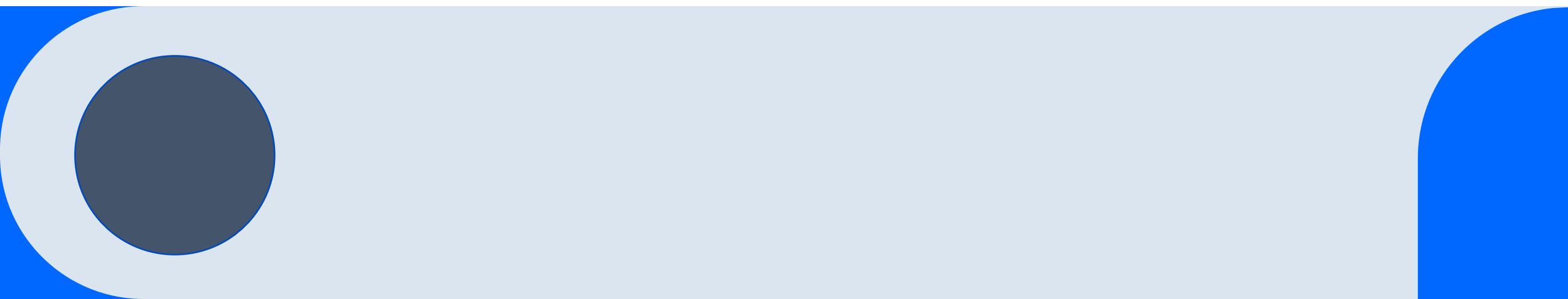




The 5 C's of Credit in Review

(Maybe 7 or 8)



The List

Character

Capacity

Capital

Collateral

Conditions



Character

- Define in YOUR OWN WORDS
- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

Character (continued)

- **Credit 101 Definition:** Willingness of debtor to pay obligations, trustworthiness
- **Another Definition:** Pertains to the set of moral qualities or virtues that define a person's ethical nature. A person's character, in this sense, is shaped by their consistent actions, decisions, and attitudes that reflect their sense of right and wrong.

Character (continued)

- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

Capacity

- Define in YOUR OWN WORDS
- How do we research/measure/quantify?
- Why is it important?
- How do we use or apply in our daily responsibilities?

Capacity (continued)

- **Credit 101 Definition:** To operate successfully and the ability to pay when the debt is due. Measured by the applicant's ability to generate positive cash flow.
- **Another definition:** This refers to the amount of capital or financial resources a business has available to fund operations, growth, or investment. This could involve cash flow, access to credit, or other financial assets.

Capacity (continued)

- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

Capital

- Define in YOUR OWN WORDS
- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

Capital (continued)

- **Credit 101 Definition:** The equity or net worth signifies the financial strength. The trend of business is significant and weighs heavily in the overall judgment of the customer.
- **Another Definition:** Refers to the financial resources or assets that a company uses to fund its operations, invest in growth, and generate profits. It can take several forms, each playing a critical role in helping the business run effectively and expand. Broadly speaking, capital is essential for covering expenses like equipment, inventory, salaries, and even long-term investments in infrastructure or research and development.
- Financial, Equity, Debt, Working, Human, Intellectual

Capital (continued)

- **Financial Capital** – The money or funds that a business raises to finance its activities, including operating costs, expansions, and investments. This can be sourced through equity (selling ownership stakes) or debt (taking out loans).
- **Equity Capital** – This is the money that business owners or shareholders invest in the company. In return, they typically receive ownership shares or equity stakes in the business. Equity capital is used for long-term growth and does not need to be repaid, unlike debt.

Capital (continued)

- **Debt Capital** – Funds that a business borrows, typically through loans or issuing bonds. Debt capital needs to be repaid over time, usually with interest. It is often used for short-term needs or larger projects, such as purchasing equipment or expanding operations
- **Working Capital** – The funds a business uses to cover its day-to-day operational expenses, such as paying suppliers, employees, and managing inventory. Working capital is calculated as current assets minus current liabilities. It is crucial for ensuring smooth business operations without running into liquidity problems.

Capital (continued)

- **Human Capital** – While not financial in nature, human capital refers to the knowledge, skills, and experience of a company's workforce. It is an intangible but valuable asset that can greatly contribute to business growth and productivity.
- **Intellectual Capital** – This refers to the intangible assets such as patents, trademarks, proprietary knowledge, and brand reputation. These elements add value to a business and can be leveraged for competitive advantage.

Capital (continued)

- **Social Capital** – The networks, relationships, and connections a business has with other entities (e.g., partners, customers, suppliers) that can help facilitate business operations, growth, and innovation.
- **Capital is one of the core components of a business's ability to grow, operate efficiently, and remain competitive. Proper management of capital—whether it's ensuring sufficient working capital or balancing equity and debt—can make the difference between success and failure for a business.**

-

Capital (continued)

- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

Collateral

- Define in YOUR OWN WORDS
- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

Collateral (continued)

- **Credit 101 Definition:** Additional Resources in assets or other equities
- **Another Definition:** Refers to an asset or property that a borrower pledges to a lender as security for a loan or credit. If the borrower fails to repay the loan according to the terms agreed upon, the lender has the right to seize and sell the collateral to recover the outstanding debt.
- Real Estate, Inventory, Accounts Receivable, Equipment, Securities, Personal Guarantees

Collateral (continued)

- **Real Estate** – Property such as land, buildings, or other real estate can be pledged as collateral for large loans, like mortgages or commercial real estate loans.
- **Inventory** – Businesses may offer their inventory (raw materials, finished goods, etc.) as collateral to secure short-term loans or lines of credit.
- **Accounts Receivable** – A company can pledge its outstanding invoices or receivables as collateral to secure financing, often through a process called "factoring."

Collateral (continued)

- **Equipment** – Machinery, vehicles, or other tangible assets used in the business can be used as collateral to obtain loans for purchasing new equipment or expanding operations.
- **Securities** – Stocks, bonds, or other financial assets can also serve as collateral, especially in cases of margin loans or business lines of credit.
- **Personal Guarantees** – In some cases, business owners or entrepreneurs may offer personal assets, like their home or savings, as collateral to secure a business loan, especially if the business is in its early stages.

Collateral (continued)

- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

Conditions

- Define in YOUR OWN WORDS
- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

Conditions (continued)

- **Credit 101 Definition:** Economic, business cycle, industry, community, fiscal, political
- **Another Definition:** Refers to the specific terms, requirements, circumstances, or factors that affect a business's operations, agreements, and decision-making processes. Conditions can be internal (within the company) or external (in the broader market or environment) and play a significant role in shaping the strategies, policies, and financial aspects of a business.
- Business, Operating, Market, Credit or Loan, Environmental or Regulatory

Conditions (continued)

- **Business Conditions:** These refer to the overall economic, market, and operational environment in which a business operates. Factors such as economic growth, inflation, interest rates, competition, and consumer demand are all part of business conditions. A strong economic environment with favorable conditions can boost a business's performance, while unfavorable conditions, such as a recession, can present challenges.

Conditions (continued)

- **Operating Conditions:** These are the internal factors and operational requirements that determine how a business functions. It includes aspects like:
 - **Working hours** (e.g., normal business hours or flexible schedules),
 - **Safety regulations** (health and safety protocols),
 - **Employee conditions** (workplace environment, compensation, benefits, etc.),
 - **Resource availability** (availability of raw materials, technology, or staff).

Conditions (continued)

Market Conditions: These refer to the dynamics of the market in which a business operates. Factors include:

- **Supply and demand** (availability of products and consumer demand),
- **Competition** (the number and strength of competitors),
- **Regulatory conditions** (industry-specific laws and regulations),
- **Technological advancements** (impact of innovation on market conditions).

Conditions (continued)

Credit or Loan Conditions: When applying for loans or credit, **conditions** refer to the terms set by lenders, such as:

- **Interest rates,**
- **Repayment schedules,**
- **Collateral requirements,**
- **Loan maturity** (duration of the loan).

Conditions (continued)

Environmental or Regulatory Conditions: In certain industries, businesses must operate under specific legal and environmental conditions, such as compliance with environmental laws, taxation rules, and other regulatory frameworks. These conditions might include:

- **Environmental standards** (sustainability and waste management practices),
- **Compliance with government regulations** (health codes, industry-specific rules).

Conditions (continued)

- How do we research/measure/quantify?
- Why is it important?
- **How do we use or apply in our daily responsibilities?**

The List (Again)

Character

Capacity

Capital

Collateral

Conditions



Which one is the most important?

AND WHY???



Add a Wrinkle—the 2 extras

Communication

Cash Flow

DOES THIS CHANGE YOUR RANKING?



The 8th C (according to Stu)

CHANGE!!!!!!

