

THE FIVE C'S OF CREDIT

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WHAT IS CREDIT? A POINT TO PONDER.....?

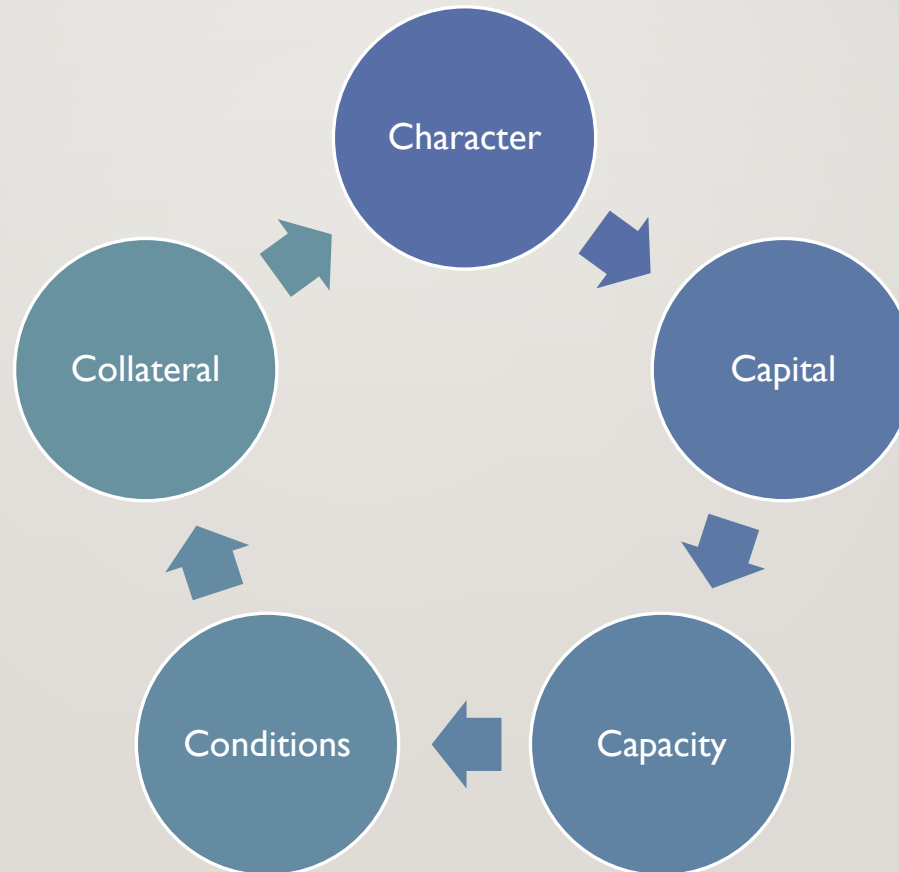
Credit is a system whereby a person who can't pay gets another person who can't pay to guarantee that he can pay.

- Charles Dickens

OKAY, WHAT IS THE REAL DEFINITION OF CREDIT?

The ability of a customer to obtain goods or services before payment, based on the trust that payment will be made in the future.

THE FIVE C'S ARE:



CHARACTER

- The most important of the (5) C's of credit.
- The willingness of the debtor to pay obligations.
- Morality.
- Integrity.
- Trustworthiness.
- Quality of Management.
- The individual's previous background.



CAPITAL

- 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.

The capital of a business is the money it has available to pay for its day-to-day operations and to fund its future growth.



CAPACITY

- To operate successfully and the ability to pay when the debt is due.
- Measured by the applicant's ability to generate positive cash flow.
- Previous business experience.





- **CONDITIONS**

- Economic
- Business Cycle
- Industry
- Community
- Fiscal
- Political



- **COLLATERAL**

- Additional Resources in assets or other equities.
 - UCC Financing Statements.
 - Security Agreements.
 - PSI (Priority Security Interest).

TWO ADDITIONAL C'S: COMMUNICATION AND CASH FLOW

COMMUNICATION

- Coherent
- Clear
- Complete
- Concise
- Concrete
- Correct
- Courteous



CASH FLOW

- The lifeblood of any business.
- Can only pay bills with cash: not Net Income, not Equity, and not Retained Earnings.
- A firm can be showing a profit and still file bankruptcy if they run out of cash.