5 C's of Credit

Many lenders are taught "the 5 C's of Credit" in banking school, and they still provide the core analytical framework for most small-business lending decisions:

1. **Character** – Since your loan will be to a cooperative entity and not to an individual person, you will need to convince your lender that your co-op itself has sufficient "character." You can demonstrate this through the credit relationships you have built, but more convincing will be the structure and practice of your cooperative—your well-thought-out policies, procedures, minutes, and other documents that will convince your lender that your co-op is a place where everyone takes responsibility, and will show that your co-op is perpetuating itself by design and practice so that your lender can be assured that the co-op will still be around years from now, when the loan is due.
2. **Capital** – It is often true that you have to have money to borrow money. A lender always wants to know what resources a borrower is putting into the deal. If you want to borrow money, it helps a lot if the co-op can demonstrate a history of earnings retained for the good of the cooperative .
3. **Capacity** – To a lender, even more important than having money is your ability to make money. When applying for a loan, you must demonstrate that your cooperative has the ability to pay it back. Knowing your industry, business, ratios, sales figures, and what products or department you make money on all demonstrate to the lender that your management staff has a handle on your business and knows what makes it go.
4. **Collateral** – Having a strong balance sheet with lots of available collateral helps a lender feel secure in making the loan. Some lenders will also ask for personal guarantees from co-op members; to avoid this, you will have to make extra sure the other factors in the credit analysis are strong.
5. **Conditions** – Being smart about local market conditions, as well as industry trends, will convince your lender that you have the ability to manage risk and deal with changing market variables.

Source: Northcountry Cooperative Foundation, *In Good Company: A Guide to Cooperative Employee Ownership* (Minneapolis: Northcountry Cooperative Foundation, 2006) p. 42.