

WHAT LENDERS ARE LOOKING FOR

Applying for a small business loan? Think like a lender to strengthen your case and give your business the best chance of getting approved.

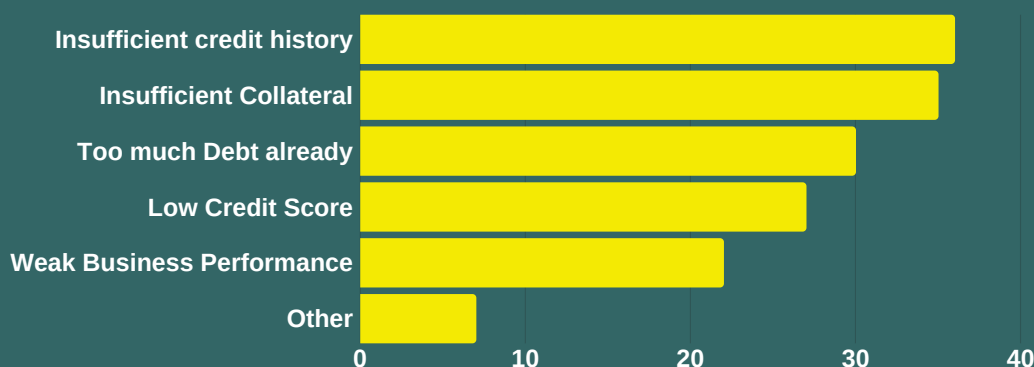
Think Like a Lender to Improve Your Chances of Approval

While lenders review a number of factors when considering your loan application, what they're really looking at is your ability to repay the loan.

Want to improve your chances of getting approved? Take steps to minimize the risk you represent and maximize the confidence a lender has in your business's ability to repay the loan.

Different types of lenders weigh different factors more heavily. Understanding what your particular lender is looking at most closely will help you know where to focus your efforts to ensure that your application is as strong as possible.

Reasons for credit denial





KREA
cultivating financial confidence



“The 5 C’s” & Beyond

Traditionally, lenders are taught to consider the “5 Cs of Credit”: character, capacity, capital, collateral and conditions. While these factors are most certainly still taken into account when you apply for a loan, technological advances and the introduction of online lenders have started to change the lending landscape.

Cash flow is more important than ever, but a lack of collateral is no longer a roadblock to receiving funding. These days, more small businesses are turning to alternative lenders who generally don’t require collateral. The amount of applicants who applied for a loan, line of credit or cash advance from alternative lenders has grown significantly in the past few years.



The 5 C’s

CHARACTER

Your track record repaying your debts with vendors (credit history) along with your business reputation.

CAPACITY

Your ability to repay the loan (cash flow).

CAPITAL

How much of your own capital you’ve invested in the business.

COLLATERAL

The assets you put up to cover the cost of the loan if you default.

CONDITIONS

Conditions of both the loan and the economy, along with your intended use of the loan.



Cash Flow

In the eyes of a lender, cash flow is king as it represents proof of your ability to repay the loan. The strength (or weakness) of your business's cash flow is one of the main factors lenders consider when deciding whether or not to approve your loan.

Ideally, lenders are looking for a history of positive cash flow — when more money is coming in than going out. They want to see that you have enough money to cover all of your monthly expenses, with enough left over to comfortably make a hypothetical loan payment. Dips into the negative are a red flag that indicate risk.

Traditional lenders will consider at least one to two years of your cash flow history, while alternative lenders may look at as little as three months of your bank transactions. It pays to get serious about cash flow management, so now you can build up a history that lenders are comfortable with.

Collateral

Collateral refers to the business or personal assets that you offer a lender in the case that you default on your loan. Collateral can be real estate, savings, equipment, an auto title or other assets. Your lender may also require a personal guarantee.

Character

In addition to considering the length of time you've been in business and your credit history with vendors, lenders will also consider the industry you operate in, makeup of customers and online reputation.

Businesses operating in industries that are subject to market swings and scrutiny are considered higher risk than those with more predictable patterns and favorable coverage. A growing, diverse customer base with repeat customers represents less risk than a business with nascent revenue and no repeat customers.

Your business profile also includes your reputation. Online reviews from customers and employees can strengthen your application, especially when you plan to use the funds to serve more customers and keep your team happy and growing.

Cash Balance

In addition to positive cash flow, lenders are looking for a history of your ability to maintain a positive bank balance. Ideally, they want to see a balance that's increasing, which indicates that you're growing and getting good at managing cash flow. This is especially important if your business is subject to market swings or other dynamics that can lead to less predictable cash flow.

Credit

Lenders want to see a positive payment history with vendors, as it leads them to believe they can expect the same from you. Likewise, they'll view a negative history as a risk that you won't be able to make your loan payments.

Many vendors don't report to the business credit report bureaus — be mindful of the ones that do. Applicants with good credit are more likely to secure financing.

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About KREA

Krea was set up by entrepreneur Leah Donaldson, to equip and empower small business owners to understand their numbers and look ahead. Krea works alongside owners and staff to cultivate financial confidence. We accomplish this by analysing data and mapping processes to understand what a business is doing then working on where it wants to go. More importantly we make credible recommendations on the financial management, inventory or service system that best suits your organisation.

Vision

"Equipping entrepreneurs to succeed, through customised system integration, training and experience that works.

**Let KREA help you understand your
financial statements to present
to your bank**

Our Values

Accountability

We are
answerable

Committed

Keep promises

Confidential

Private is private

Fun

Laugh, enjoy and
create adventure.

Innovative

Striving to
continuously
evolve

Integrity

We champion a
culture of
transparency.

Respect

Value and honour
even in our
differences

Teachable

Learning is a
permanent
condition for us
and our clients



KREA

cultivating financial confidence

The 5C's & beyond

Think like a lender, to
improve your chances of
approval



Swipe up to access
soft copy of this flyer