



# Loan officers decide on character and credit

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CAPACITY TO PAY THE loan back, sufficient capital to invest and adequate collateral to pledge are three of the "5 Cs" bankers analyze before lending you money. I wrote about them in my last three columns.

Credit and character are the remaining two.

Your loan officer will order credit reports on you and your company after you formally apply for the loan. That is because tarnished credit is the quickest way for the bank to turn down your business loan application.

In addition to your payment history, "the credit report also discloses whether the business or you have (or have had) civil judgments against them, unpaid tax liabilities, liens against their assets, or ever sought protection under bankruptcy proceeding," Charles Green writes in his

third edition of "The SBA Loan Book." The author and former banker says a bad credit report means "You don't take the responsibility of repayment seriously."

What is more, loan committees are not interested in explanations or extenuating circumstances in this unforgiving lending environment. A foreclosure, deed-in-lieu of foreclosure, or even a short sale is sufficient reason to reject your loan application.

The lender simultaneously orders your credit score.

Credit scoring is mostly based upon the information in your credit report. It reduces all the factual data to a number. Bill Fair and Earl Isaac, the concept's originators, created credit scoring in 1950 when they were researchers at

Stanford University. They founded Fair Isaac Corp. and developed FICO scores to streamline the credit underwriting process.

Currently, small-business lenders want FICO scores over 700. That is up from the mid to high 600s required before the financial meltdown.

Craig Watts, a spokesman for Fair Isaac, emailed me that consumers with tainted credit "can rebuild their scores over time by sticking to the three guidelines for getting a good FICO score: 1) pay all bills on time as agreed, 2) use credit cards sparingly and keep account balances low relative to credit limits, and 3) take on new credit sparingly and only when needed."

Furthermore, he warns against companies that claim to fix your credit quickly through devious

means.

In addition to credit, former banker Green says, "Character may be the most important assessment a lender can make about the loan applicant."

Your attitude, appearance and answers to questions must demonstrate integrity and trustworthiness.

It is mostly subjective and includes your manner of dress, principles and ethical behavior. Green says there is no checklist, and evaluating your character is more difficult when the applicant "is a new acquaintance."

Accordingly, it is important to target the lending institution that is most likely to finance your type of business. Then, form a banking relationship.

Ask questions about their lending policies prior to opening a checking, savings or money-market account.

Has the bank recently made small-business loans in your industry and will they consider start-ups? What kind of collateral does the bank require? How much of your own cash must be invested?

Preorder your credit report and have it available to show the loan officer. Make sure it is acceptable before establishing a banking relationship.

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