



Neighborhood
Business Initiative

MICHIGAN
COMMUNITY
RESOURCES

Capital Readiness Checklist

An assessment tool for business service organizations

5 C's of Credit

The 5 C's of Credit cover the basic components of how lenders assess the creditworthiness of potential borrowers.

CAPACITY to repay is the most critical of the five factors. Cash is the primary source of repayment. Lenders want to know exactly how you intend to repay the loan and will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing personal or commercial credit relationships is considered an indicator of future payment performance.

CAPITAL is the money you personally have invested in the business and is an indication of how much you have at risk should the business fail. Interested lenders and investors will expect you to have contributed from your own assets and to have undertaken personal financial risk to establish the business before asking them to commit any funding.

CHARACTER is the general impression you make on the prospective lender or investor. The lender will form a subjective opinion as to whether or not you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background, quality of your references, and experience in business and in your industry will be considered.

COLLATERAL are additional forms of security you can provide the lender. Giving a lender collateral means that you pledge an asset you own, such as your home, to the lender with the agreement that it will be the repayment source in case you can't repay the loan.

CONDITIONS describe the intended purpose of the loan. Will the money be used for working capital, additional equipment or inventory? Lenders consider local economic conditions and the overall climate, both within your industry and in other industries that could affect your business.

Developed by



BUSINESS NAME

BUSINESS OWNER / APPLICANT

BUSINESS ADDRESS

INDUSTRY

BUSINESS AGE

LOAN AMOUNT SOUGHT

LENDING GOAL / OBJECTIVE

Using the Checklist

The Capital Readiness Checklist is an assessment tool for business service organizations to use to evaluate the small businesses they serve. It features a checklist of basic criteria that a small business typically needs to meet before a lender will consider lending to them.

After a business owner receives a copy of the checklist from a business service organization, the business owner can use it when interacting with other business service organizations and lenders. Business service organizations can refer to the information the business owner has documented in the checklist to make recommendations and referrals regarding next steps for the small business.

The checklist is intended to help business service organizations prepare small business loan applicants and make stronger referrals to lenders. The checklist is not intended to replace underwriting criteria of individual lenders

Completion of this checklist does not guarantee that a business owner will receive a business loan. However, completion of the checklist will assist small business owners in assessing their own readiness to incur business debt and in strengthening components of their business plans.

Capital Readiness Checklist

STATUS

- I am requesting financing for a specific purpose.
- My business has recorded sales.
- I have an estimate of what it will cost to start (or expand) my business.
- I have experience in this industry or in running businesses.
- I invested my own money in this business.

Reviewer Recommendation / Referral

PERSONAL

- I know my credit score.
- I understand my personal assets and liabilities.
- My personal tax filings are up to date.
- I know my total monthly household income and expenses.
- I have filed for bankruptcy in the past 7 years.
- I own commercial or personal property or other collateral.
- I know my US citizenship or immigration status.
- I have an Individual Taxpayer Identification Number (ITIN).
- I have been convicted of a felony.
- I am obligated to pay garnishments, liens, child support, or alimony.
- I am current on payments for garnishments, liens, child support, or alimony.

Reviewer Recommendation / Referral

MARKETING & OPERATIONS

- I have a written business plan.
- I know which of my products and services are the most profitable, and which are least.
- I understand my customer base and can describe my ideal customer.
- I have business insurance.
- I have a strategy or plan for marketing.
- I have workers' compensation insurance.

Reviewer Recommendation / Referral

INSTRUCTIONS FOR BUSINESS SERVICE ORGANIZATIONS

Check each box if the business owner agrees with the statement. For the Personal section, check the box that applies. For each section, fill out the Reviewer Recommendation / Referral box with next steps for the business owner.

The statements in bold are components of a complete and accurate business plan.

CASH FLOW

- I am able to pay my bills on time.
- I have a budget for how to use any loan I receive.
- My current cash flow will cover my loan repayments.

Reviewer Recommendation / Referral

ACCOUNTING & BOOKKEEPING

- I have accurate financial statements, such as a balance sheet and income statement.
- I have a CPA, bookkeeper or accounting system in place.
- I have a business bank account.
- I have a list of my business assets and liabilities.

Reviewer Recommendation / Referral

LEGAL

- I am a LLC, LLP, L3C, Corporation, or other incorporated legal structure.
- I have access to my company's legal formation documents or operating agreements.
- I have a sales tax license.
- My business is in a regulated industry.
- I have the required licenses necessary to operate my business.
- I have access to legal assistance.
- I have an Employer Identification Number (EIN).
- I have a DUNS number.

Reviewer Recommendation / Referral

TAXES

- I am current on my payroll taxes.
- I am current on my sales taxes.
- My current and prior year taxes are up to date.
- I know my tax liability.
- I am on a payment plan with the IRS.

Reviewer Recommendation / Referral

Capital Readiness Checklist

Glossary of Common Terms

STATUS

- **FINANCING** are funds used for business activities, purchases or investments that are obtained using credit and must be repaid
- **INDUSTRY** is a classification that refers to groups of companies that are related based on their primary business activities.
- **RECORDED SALE** is documentation of business activities

PERSONAL

- **ALIMONY** is payments that are legally required to be made from one ex-spouse to another after divorce
- **BANKRUPTCY** is a legal tool that a person or business may use to forgive or restructure debt that they are unable to pay
- **COMMERCIAL PROPERTY** is real estate that is used for business activities, such as stores, production facilities, and warehouses
- **CREDIT SCORE** evaluates a person's creditworthiness based on credit history
- **GARNISHMENT** is a legal process whereby payments towards a debt owed by an individual is paid by a third party directly to the creditor
- **HOUSEHOLD INCOME** is the combined income of all household members
- **LIEN** is a creditor's legal claim over a debtor's assets until a debt is repaid
- **PERSONAL ASSETS** are cash and things that have monetary value; they are owned by a person and are not business assets
- **PERSONAL LIABILITIES** are the responsibility of a person to pay a debt or other obligation, such as a home mortgage or personal vehicle loan
- **PERSONAL PROPERTY** are possessions other than real estate

MARKETING & OPERATIONS

- **BUSINESS INSURANCE** protects businesses from loss due to events that may occur in a normal course of business
- **BUSINESS PLAN** is a written document that describes in detail how a business will achieve its goals
- **CUSTOMER BASE** is a company's primary source of business and target market
- **DUNS NUMBER** (Data Universal Numbering System) is a nine-digit number that uniquely identifies a business and is a method of credit reporting for the business
- **EIN** (Employer Identification Number) is a unique identification number that is assigned to a business entity so that they can easily be identified by the Internal Revenue Service.
- **MARKETING PLAN** is a for advertising campaigns designed to reach its target market
- **MARKETING STRATEGY** is a plan for reaching people and turning them into customers for a product or service
- **PROFITABILITY** is when a business' revenue is greater than expenses
- **WORKERS' COMPENSATION INSURANCE** is a publicly-sponsored system that pays money to workers who become injured or disabled at work

CASH FLOW

- **LOAN** is the giving of money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges

ACCOUNTING & BOOKKEEPING

- **BALANCE SHEET** is a snapshot of a company's financial position that includes assets, liabilities, and owners' equity
- **BOOKKEEPER / CPA** (Certified Public Accountant) is a person who tracks a business' income and expenses; a CPA may also perform more complex accounting duties
- **BOOKKEEPING SYSTEM / ACCOUNTING SYSTEM** is used by a business to collect, store, manage, process, retrieve, and record its financial data
- **BUDGET** estimates revenue and expenses over a specified future time period
- **BUSINESS ASSETS** are items owned by a company, such as vehicles, real estate, and computers
- **BUSINESS LIABILITIES** are financial debts or obligations, such as money owed, mortgages, vehicle loans, and other debts in the business name
- **EQUITY** is money provided to the business by or on behalf of the owner
- **EXPENSES** are costs a business incurs through operations to earn revenue
- **FINANCIAL STATEMENTS** are structured reports used to reflect a business' financial health that include income statements, balance sheets, and statements of retained earnings and cash flows
- **INCOME STATEMENT** is a financial statement including income, revenue and expenses, that reports a business' financial performance over a specific accounting period

LEGAL

- **CORPORATION** is a legal entity that is separate and distinct from its owners
- **INCORPORATED LEGAL STRUCTURE** is a classification of businesses based on ownership and tax reporting that includes LLC, LLP, L3C, and corporations
- **LEGAL FORMATION DOCUMENT** is the paperwork filed with the state and IRS when forming a business based on legal structure and provides legitimacy to the business
- **LLC** (Limited Liability Company) is a corporate legal structure whereby the members of the company cannot be held personally liable for the company's debts or liabilities
- **LLP** (Limited Liability Partnership) is a corporate legal structure whereby the members of the company cannot be held personally liable, must have more than one partner, and has specific tax implications
- **L3C** (Low Profit Limited Liability Company) is a for-profit, social enterprise venture that has a stated goal of performing a socially beneficial purpose, not maximizing income
- **OPERATING AGREEMENTS** are a business contract that describe the operations of a company and the responsibility of the people associated with it
- **REGULATED INDUSTRY** is a type of industry controlled by government rules

TAXES

- **PAYMENT PLAN** is a plan for paying outstanding debts, include taxes owed
- **PAYROLL TAXES** is a tax that an employer withholds and pays on behalf of his employees
- **SALES TAX LICENSE** is a document obtained by the state of Michigan that sellers of tangible goods must obtain
- **TAX FILINGS** are a collection of forms used to record income and expenses annually in order to submit to government agencies
- **TAX LIABILITY** is the amount of taxation that a business or an individual incurs based on current tax laws

About the Authors

The Neighborhood Business Initiative's Gaps Committee worked with Michigan Community Resources to create this guide with support from the New Economy Initiative.

The NBI Gaps Committee was formed by the New Economy Initiative to focus on gaps in Detroit's entrepreneurial ecosystem. Committee members represent a variety of business service organizations supporting neighborhood-based entrepreneurs in Detroit. The committee united around a vision, which guides its work: "Everyone who is interested in a loan understands what it takes to get funding and how to get there. Lenders treat all potential borrowers fairly and equitably."

Michigan Community Resources is a statewide non-profit organization that seeks to build strong communities through strong organizations, strong leaders, and a strong non-profit network. Since 1998, Michigan Community Resources has equipped non-profit organizations serving low-income communities with the tools, resources, training, and consulting they need to do their best work.

The New Economy Initiative, a special project of the **Community Foundation for Southeast Michigan**, is a philanthropy-led entrepreneurial development strategy working to build an inclusive network of support for entrepreneurs and small businesses in southeast Michigan.

Produced by



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