

# UNDERSTAND THE 5 C'S OF CREDIT BEFORE YOU APPLY FOR A LOAN

If you're like most farmers, ranchers, or rural landowners, you'll need to borrow money at some point to fund expenses. To get the capital you need, it helps to understand how credit decisions are made.

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Most lenders, including Lone Star Ag Credit, consider five criteria — known as the Five C's of Credit. These are used when reviewing a loan application and setting a loan's terms and conditions. Understanding these key factors can help prepare you to meet with your loan officer:

## CHARACTER:

**the borrower's dependability and integrity**

Lenders look at repayment history, credit reports, and business and personal references when determining an applicant's character. We recommend checking your credit score and taking care of any problems before meeting with your loan officer. Also, take time to organize your financial records and business plans into a professional package.

## CAPACITY:

**the applicant's financial capacity to repay the loan  
and meet all financial obligations**

Capacity includes your ability on an annual basis to make your loan payments and pay vendor invoices and taxes — plus family living expenses.

# CAPITAL:

## **the applicant's liquidity and solvency**

Your lender needs to know you have enough equity in your assets to secure operating loans and take care of unexpected circumstances. To determine owner equity, divide your net worth (assets minus liabilities) by your total assets.

# COLLATERAL:

## **the physical property that will minimize the lender's risk in the event of loan default**

The collateral required for a loan is dependent upon the specifics of your loan request and is typically the property you're financing.

# CONDITIONS:

## **the conditions for granting and repaying the loan**

If you've maintained a reasonable financial position during tough conditions in the past, you'll likely manage conservatively during good times, knowing that a downturn is possible. Our loan officers will try their best to set a loan repayment schedule that is reasonable and fits your income stream should tough conditions arise.

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You'll be in a better position to get the credit you need if you think about the Five C's and how they apply to you before you meet with your loan officer.

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Lone Star Ag Credit is always here to work with you and we look forward to helping you

**FINANCE YOUR PIECE OF TEXAS.**

