AF
Stewardship Connections
An Informational Newsletter For Financial Connections

The Five C's of Credit – Understanding the Logic of Lending
by Nevin Beiler

As we interact with people who apply for a loan at Anabaptist Financial, we often hear questions like: "What does it take to qualify for a loan?", or "How much would I be able to borrow?" Understanding the way lending institutions arrive at the answers to these questions is important, because many people, at some point in their lives, will need to borrow money to finance a major purchase, such as a house. While every lending institution has its own unique set of lending standards (and AF is no exception to this), there are some universal lending criteria that are used in almost any lending context. These are commonly referred to as the *Five C's of Credit,* which consists of *Character, Capital, Collateral, Capacity, and Conditions*.

It is worthwhile to note that of these Five C's, four of them are relative to the amount of debt a person is carrying. However, *Character* is absolute and imperative in any case. *Character* is the glue that holds the Five C's together. While a weakness in any of the other elements of the Five C's can be improved by lowering a person's debt load, a deficiency of character is a concern whether a person is borrowing $10,000 or $1,000,000.

Character

In our automated world where computers crunch numbers, statisticians use software to analyze data, and quantitative analysis is embraced for its efficiency, it is significant that *Character* is still one of the most important of the Five C's, even to a secular banking institution. Weak character will jeopardize the ability of a person to receive a loan in any context, even if the other elements of the Five C's are very strong.

From a lender's perspective, some of the important aspects of a person's character include honesty, integrity, managerial ability, experience, and past credit history. A lender wants to know that a borrower is not only competent and experienced, but that he also is fully committed to repaying the loan as a matter of principle, not just a legal obligation. Character is also revealed in the presentation of information. A well-organized, detailed, and accurate loan application helps the lender gain insight into the organizational skills of the borrower, while a disorganized, incomplete, or inaccurate loan application suggests to the lender that the applicant may not be diligent with his finances.

Demonstrating consistent honesty and transparency throughout the loan application process is another powerful way to assure the lender that the borrower has strong character. It can be easy for a person to gloss over his weak areas, especially if he is desperate to receive the loan. However, if a loan officer perceives any contradictory information, or reluctance from the applicant to be totally transparent, the chances that the loan will be approved diminish significantly. Fudging numbers or omitting information also increases the likelihood that a person may end up with a loan that he cannot truly afford. In recent years, some unethical lenders actually encouraged people to lie about their income in order to qualify them for higher value loans. The negative results of such practices can still be observed in today's record-level foreclosures and struggling housing market.

While the desire to work with people of character and integrity is universal,

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Foundation Update

God continues to demonstrate His goodness. The year 2011 saw strong growth in the number of people using the Charitable Gift Fund Program, and the contributions made through it. Dozens of churches and charities have been, and will be, recipients of anonymous gifts through this program. Praise the LORD for supplying financial resources, generous and humble hearts, and quality charitable organizations to do His work!

Decisions for Young Couples: Teaching Children about Contentment

Children learn in many different ways. Hearing, seeing, and doing are all avenues for learning. While it has been said that "Experience is the best teacher," perhaps children learn best when what they hear, see, and experience are all mutually reinforced. Children begin life blissfully ignorant of financial matters, but gradually gain an awareness of their family's attitudes and situation. In most families, more ends up being "caught" than "taught." What is being caught—and taught—in your family?

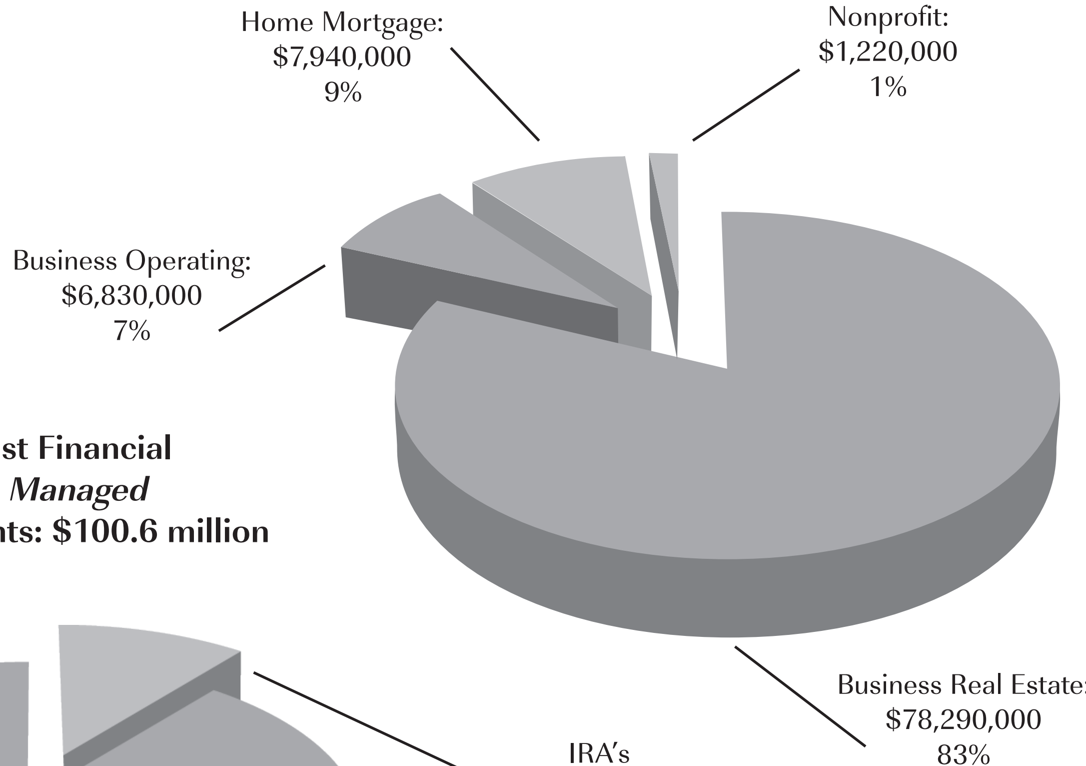
I distinctly remember the childhood moment when I realized ("caught") that our family was not "rich" as the world measures such things. I was about 7 years old, and it came as quite a shock to me. I had the vague notion that we were rich—or maybe I just wasn't conscious of the difference between rich and poor. We had chickens, cows, beagles, and even two ponies. We had a farmhouse with slick hardwood floors for sliding in your socks, a springhouse with crayfish and salamanders, a big woods with an old dump full of treasures, a cornfield with arrowheads for the finding in the spring, an old barn with black snakes, and a "terrible good" rope swing in a big walnut tree on the steep side hill. I just assumed we were quite certainly rich, until I learned differently. Listening to my parents and grandparents talk one evening, a certain uneasiness started sinking in about tight finances, the possibility of a "layoff at work," and a hard winter. I believe my parents had helped me develop a sense of contentment, but I was a little unprepared for the sudden realization that the world had a colder, financial edge as well.

In my childhood innocence, I had mistaken being content with being rich. That is certainly not the greatest mistake a child could make. I think a much bigger error is mistaking prosperity for contentment, because the world has a way of stealing our "contentment" not rooted in Christ and persuading us that contentment can only be regained by getting more stuff.

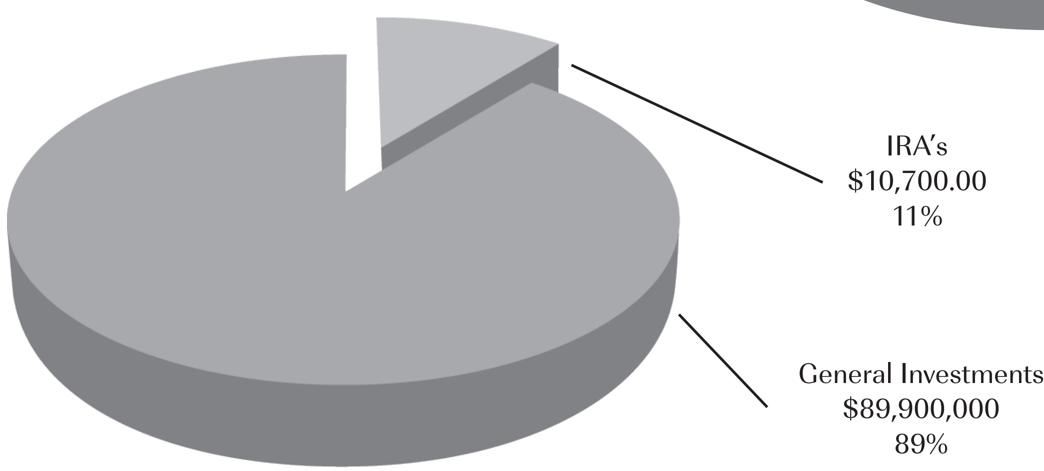
What do the children in your home hear, see, and experience? ***Do your children hear*** daily expressions of gratitude to God for His goodness? I do not think family finances are something to hide from children or to only discuss in hushed tones behind closed bedroom doors. Children can well adjust to the economic "facts of life" if you give them a proper context for absorbing new information. If your children hear you regularly talk about the family's financial situation in the context of God's sovereignty and goodness, then understanding exactly how everything will work out doesn't seem so critical. ***Do your children see*** parents who are willing to work hard and exercise thriftiness? The attitudes of parents provide children with clues as to whether work is a blessing or a chore, and whether conservation is a virtue or an unfortunate necessity. Children are natured to complain and need help to overcome that habit, and you need to ensure that you are not inadvertently passing discontentment on to them. ***Do your children experience*** the deep reward of responsibilities well learned and work well done? They need to be given responsibilities to know that they belong and matter in the family. Children who are taught how to work, and hear appreciation for their work within the family, are rich children.

There is no shame in modest family resources or times of hardship, provided your family is willing to work hard, manage to the best of your ability, and listen and learn from others. I have no regrets about growing up in a family of modest means. Your children won't regret it either (and it can even do them a lot of good) if you intentionally teach them contentment. Ω

Anabaptist Financial
Loans by Type
Total Loans: $94.3 million



Anabaptist Financial
Assests Managed
Total Investments: $100.6 million



God Needs Entrepreneurs
by Merle Herr

God needs somebody with enough internal motivation to get up at dawn, spend time in prayer, unlock the plant, work all day in production, lock up the plant, eat supper, then go to a school board meeting and make decisions until late at night. God needs entrepreneurs.

He needs somebody with arms strong enough to wrestle with an overloaded pallet cart, and yet gentle enough to cradle his own child. Somebody with enough trust and belief in employees to train them, nurture them, praise them, correct them, pay them, come home hungry, then wait for dinner until his wife is done doing tea with the ladies, then tell the ladies to be sure to come back real soon—and mean it. God needs entrepreneurs.

He needs somebody who can suffer, grieve, and lament without quitting. Somebody to sit up late at night balancing the books, only to discover he's making a loss, then dry his eyes and say, "Maybe next year." God needs somebody who, when he over-extended himself, made mistakes, experienced failure, and made some bad decisions, could look in the mirror and blink twice, swallow hard, and feel the courage to try again. God needs entrepreneurs.

God needs somebody with enough endurance to, in the occasional crisis, finish a 40-hour week by Wednesday quitting time, and then come back in Thursday

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God Needs Entrepreneurs
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morning and finish the week out with another 40 hours by Saturday noon. He needs somebody who can envision something yet unseen. God needs somebody to take a risk, to think out of the box, to start with merely an idea, to write a business plan, and then convince the stakeholders that the plan is grand. He needs someone who can invent a new product, innovate a new process, inaugurate a new role, and initiate a hard discussion, and then come home and coo with the baby, cut-up with the toddler, care for the adolescent, cope with the teenager, and cuddle with the wife. God needs entrepreneurs.

He needs somebody with enough humility to trust a partner, seek advice from an advisor, and get counsel from grandpa, and tough enough to convince the banker, question the accountant, complain about the attorney's rates, and pick up the phone and deal with the late payables, and, on the other hand, be soft enough to feel repentant about hurting someone, missing a deadline, and forgetting an appointment. Somebody who is also not too faint- hearted to lose motivation over a lost sale, a broken machine, a decline in the market, and an increase in interest rates. God needs entrepreneurs.

It has to be somebody who can cut to the quick and yet not cut corners. Somebody who could imagine, dream, discuss, plan, strategize, act, implement, collaborate, influence, convince, sell, buy, negotiate, lead, and follow. It has to be somebody who can inspire a family to work together with a generous amount of give and take; somebody who will laugh deeply and love generously, then sigh with contentment as his children learned to love work. It has to be someone who smiles and clears his throat when his family says that they are proud of what dad does. God needs entrepreneurs. Ω

Anabaptist Financial Ohio Business Seminar

Buckeye Event Center, Dalton OH
April 10, 2012

{Topics}

- Biblical Business Values
- Investment Fraud in Plain View
- Leading Crucial Conversations
- The Entrepreneurial Vision
- Getting it Right Out of the Gate - Developing a New Business
- Business Planning - Part 1
- Business Planning - Part 2
- Developing and Implementing a Marketing Plan
- Sales Management
- Effective Sales
- Telltale Signs of a Weakening Business

The Five C's...
(cont. from p. 1)

in regards to AF's loans program it is imperative. AF's loan relationships with borrowers are foundationally rooted in integrity, trust, and brotherhood accountability. As the lender, AF is committed to offering an example of strong character and integrity, and expects the same commitment from the borrower. We have been very blessed to work with many people who demonstrate strong character, commitment, and godliness.

Capital

Another important measure of creditworthiness is *Capital*. Capital can refer to many different things, but a basic aspect is the borrower's personal investment (also known as the down payment). From the perspective of a lending institution, a larger capital input (down payment) is reassuring because it indicates that the borrower is willing to commit his own funds to the purchase, therefore increasing the commitment to repayment. Another important aspect of capital is reserve cash on hand that a borrower can rely on in emergencies and unexpected periods of lower than normal income.

AF requires a minimum down payment of 15% and, in some cases, slightly more. Occasionally, a cosigner guarantee can compensate for insufficient capital, especially if the other elements of the Five C's are strong.

Collateral

Collateral is a tangible asset that creditors use to guarantee payment on a loan. Some common forms of collateral are real estate, equipment, and other business assets. When a lender files a lien on a piece of property, the lender is creating a claim on that asset, meaning that it cannot be sold or used to satisfy another purpose until the original loan obligation is fulfilled.

An honest and reputable lender will never lend solely on the basis of collateral, because liquidation of collateral is viewed only as a last resort form of payment, and is usually not mutually beneficial. Nonetheless, many banks in recent years have had to foreclose on large numbers of properties, often due to the fact that they failed to adequately evaluate the rest of the Five C's. AF views collateral as a very important part of the Five C's because it provides an important layer of security for both the lender and the borrower.

Capacity

When creditors refer to *Capacity*, they are essentially referencing the ability to earn income. A borrower may have good character, capital, and collateral, but if he lacks the cash flow to service the loan, problems will quickly surface. A hypothetical example is a person who owns a property worth $800,000, and who has debt totaling $350,000. That person's personal balance sheet would show that he has a net worth of $450,000, which may superficially suggest that the person is doing well financially. However, if that person cannot earn enough income to cover living expenses, plus make monthly loan payments which could easily be $2,500 or more per month, he will soon find himself in financial difficulty. Downsizing to another property and reducing his total debt load may be the only option for him to avoid default and foreclosure.

A good measurement of capacity to handle debt load is when a person can give generously to God's Kingdom, "render unto Caesar," cover living expenses, service his debt, and have enough cash left over to maintain an adequate savings for adversity and other capital purchases. Another element of capacity is demonstrated by the quality of financial planning provided by the borrower. A business plan is essential to demonstrate projections of income and expenses and a description of the assumptions about operations, marketing, and sales.

Conditions

The last of the Five C's is *Conditions*. This deals with aspects of a loan such as amount, purpose of the loan, and repayment terms. The amount of the loan should be aligned with the realities of the borrower's capital, collateral, and capacity. The use of funds should serve a worthwhile purpose (such as a capital asset acquisition), rather than just compensating for past or future over-consumption.

Repayment terms should ensure the debt is retired in an orderly and timely manner, and should correlate with the useful life of the asset being purchased. For example, a piece of equipment should be repaid in 10 years or less, while a piece of real estate could be repaid over 20-25 years. Lender's use covenants in the form of promissory notes, mortgage documents, and letters of agreement ensure that a borrower agrees and adheres to conditions that will create a stable and efficient loan repayment.

A Sixth C?

Banks and other lending institutions have been using the Five C's for many years as a basis to evaluate prospective borrowers. We believe they are highly relevant and useful to our loan program at AF; however, there is another element that AF embraces – the element of *Community of faith*. This

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The Five C's...

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"Sixth C" is a primary distinction that sets AF's investment and loans program apart from banks. To participate in AF's loans program, an applicant must belong to the community of Anabaptist believers. This important element of community creates faith connections and an additional level of security, both for the borrower and the lender.

In recent years, some major lending institutions have, in many ways, betrayed the trust of their stakeholders, while chasing the "dream" of high status and padded profits, spurred on by negligent borrowers with similar motives. We reject the notion of placing all blame on big, bad, dishonest banks because it removes the essential element of personal responsibility. Both lenders and borrowers bear responsibility for decisions of imprudent, unaffordable loans. Sadly, a broadening cultural rejection of personal responsibility, and fixation on the profit motive has led to the weakening (and, in some cases, the complete disappearance) of an important cultural "glue" in the area of finances – the idea of the common good of community.

One of AF's goals with our investment and loans program is to promote the strengthening of community among our conservative Anabaptist groups. The concept that one person's surplus can supply another person's need is readily evident in the New Testament church. An AF investor can be assured that his funds are being handled responsibly, and benefiting his brothers and sisters in Christ. A borrower can know that he is working with an organization that is not operating for selfish gain, but for the benefit of a connected community of faith, and that hard-earned interest money is paid to persons of "likeminded precious faith" rather than padding the profits of a secular institution.

To be clear, secular banks play an important and ongoing role in our daily lives. AF is not a bank, and will probably never offer many of the services and products that the large banking institutions can offer. However, we hope we can offer a service that is valuable to our various conservative Anabaptist groups through our investment and loans program. We strive to do this not only by offering competitive investment and loan rates, but also by fostering an environment where integrity is high, biblical stewardship is upheld, and the connections of community among God's people are strengthened.

Thank you for your part in that community. May God be glorified! Ω

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