Small Business Boot Camp: Roadmap to Success “Getting Financing”

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Herman's Financing Needs Top 10 List

10. I want to buy a company or buy out a partner
9. I want to buy or improve a building
8. I need to buy some equipment
7. I need some Working Capital (Inventory/Accounts Receivable)
6. I got a new Contract/Purchase Order
5. I Got a "Great" idea and I want to start a business
4. I can't pay my taxes or got behind on my payroll taxes
3. I can't make payroll this week
2. I can't pay the bills and my accounts payable way behind
1. a) She left me and took half my money, now what am I going to do?

   b) I left him and got half of his money, now what am I going to do?

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Five C's of Credit

1. CHARACTER
2. CAPACITY
3. CONDITIONS
4. COLLATERAL
5. CAPITAL

CHARACTER

- FIRST AND FOREMOST, lenders look at the character of a borrower. Typically that means they will look at the borrower's personal credit history. How you've repaid debt in the past is the best indicator of how you will repay debt in the future.

- SECONDLY, financial institutions extend credit based on credibility; which is another indicator of one's character. Complete applications and present information as truthfully, accurately, clearly, and conservatively as possible. Financial statements should include all liabilities, both actual and contingent.

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CAPACITY

- While a good credit report is critical to getting your foot in the door, a lender has to understand the ability of a business to produce consistent and **predictable cash flow**. The ability to produce enough cash to repay the loan is a major component of capacity.
- While the ability to produce cash flow is of major importance, a creditor also tries to get to know an applicant and gain a feel for his/her managerial skills, **business acumen**, understanding of the business, position in the community, and depth of managerial support within the company.

CONDITIONS

- Business and economic conditions are often outside a business owner's control and hard to quantify. Lenders are generally conservative, and have to be prepared for the worst case scenario. Be aware of economic, industry, and competitive conditions that might impact your business both positively and negatively.

- You should always have projections that show you have anticipated what your revenues and cash flow will be with assumptions that include possible conditions outside your control.

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COLLATERAL

- Creditors look primarily at capacity (excess cash flow) from profitable operations to repay loans. Collateral is always considered a secondary source of loan repayment. The easier it is to convert a piece of collateral to cash the more comfortable a lender will be with that collateral.

- Provide as much detail as possible to support your asset's marketability and value. Lenders may require independent appraisals to validate values. Regulators require appraisals on real estate secured loans, but lenders may require valuations for other collateral.

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CAPITAL

- Capital is the equity invested in a company. Creditors look at a company's net worth to determine if there is adequate capital to support the operations of a business. The 20% down on a real estate purchase would be considered capital (the owner's skin in the game).

- A business that requires a large investment in assets on the front-end is considered to be capital intensive. To start one of these businesses requires a lot of up-front capital. Businesses that don't require up-front capital tend to need capital on the back-end because they don't have the assets to pledge on loans.

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How Do I Get My Money?

- What should I know about Credit Scores?
- What are the basic requirements?
- What are the financial information needs?
- Subjective (centralized) vs. Objective (judgmental) Decision Making

Credit Scores
(F)air (I)saac (CO)rporation versus Vantage

FICO Scores	Consumer
Super Prime	740+
Prime	680-739
Near Prime	620-679
Non-Prime	550-619
High Risk	<550

Vantage Scores	Business
Super Prime	801-990 (A+B)
Prime	701-800 (C)
Near Prime	641-700 (D+)
Non-Prime	601-640 (D-)
High Risk	501-600 (F)

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Financial Information

- Good Quality Statements
- Two sets of numbers!!!!!
- Importance of building and reflecting personal wealth
- Make sure you have some “oops” money
- Understand both Income Statement AND Balance Sheet!

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“Other Things to Know”

- Owner guaranty of debt
- Calculation of personal DTI
- Global Cash flow calculation
- Financial Statements/Tax Returns (2-3 years)
- Asset Valuations
- Business Plan
- No Bankruptcies
- Taxes Current
- Minimum 2 years in business
- Operating accounts
- Match loan type with use of funds and source of repayment

Alternative Lenders

CRA (Community Reinvestment Act) create a need for small business loans.

- SBA Guaranty can assist bank financing by providing more liberal structure.

- CDFI (Community Development Financial Institutions)

– Pathway Lending	Travis Hughes
– Communities Unlimited	Cynthia Norwood
– Lift Fund	Jerome Gentry
– River City Capital	Anthony Young
– Tri-State Bank	Harold Shaw

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