



# Raising Capital Insights







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Presented by:

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# Introductions





# SBDC Service Overview



## Counseling



## Training



## Research

## Guidance Areas

Funding Assistance  
Business Plans  
Financial Review  
Market Research  
Marketing/Sales  
Business Operations  
Growth Strategies  
Export/International Trade  
Tech Program  
Cybersecurity



# Topics for Today

**① Lending Sources and Types of Capital**

**② Loan Evaluation Criteria**

**③ Lending Options**

**④ The Loan Request**

**Panel Questions**



# 1

## Lending Sources and Use of Funds



# Sources of Small Business Capital

## Commercial Banks

- Examples: Wells Fargo, Bank of America

## Micro Lenders

- Mission-based lenders such as Prestamos and PPEP

## SBA Community Advantage Programs

- Mission-based lenders such as BDFC, CDC Loans, LISC, ACCION, Prestamos

## CDFI – Treasury Based Program

- Multi-Bank, PPEP, Prestamos, MariSol Credit Union

**Other sources:** Accounts Receivable, Factoring, Investors



# SBA Backed Loans Defined

SBA backed-loans are a **product offering** in a lender's overall portfolio of products.

They are guarantees, not loans. **The loan is issued by the financial institution.** The SBA **guarantees** the loan.

**SBA products:**

**7A:** For Working capital

**504:** Buildings and equipment



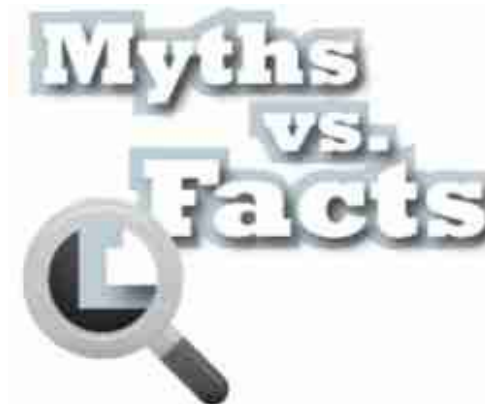
**Not all lending institutions know SBA products.  
Make sure you work with an SBA Lender.**



# Myths vs. Facts

**There is NO such thing as 100% financing.**

**There are no SBA grants to help you start a for-profit small business.**





# Use of Funds

## ✓ Working Capital

- ✓ Business Acquisitions
- ✓ Build outs
- ✓ Inventory
- ✓ Staffing
- ✓ Trade or Accounts Payable
- ✓ Debt consolidations

## ✓ Commercial Building / Equipment



**You cannot use funds for:** Owner's payroll, new luxury car, vacations, race horses, boats, etc.



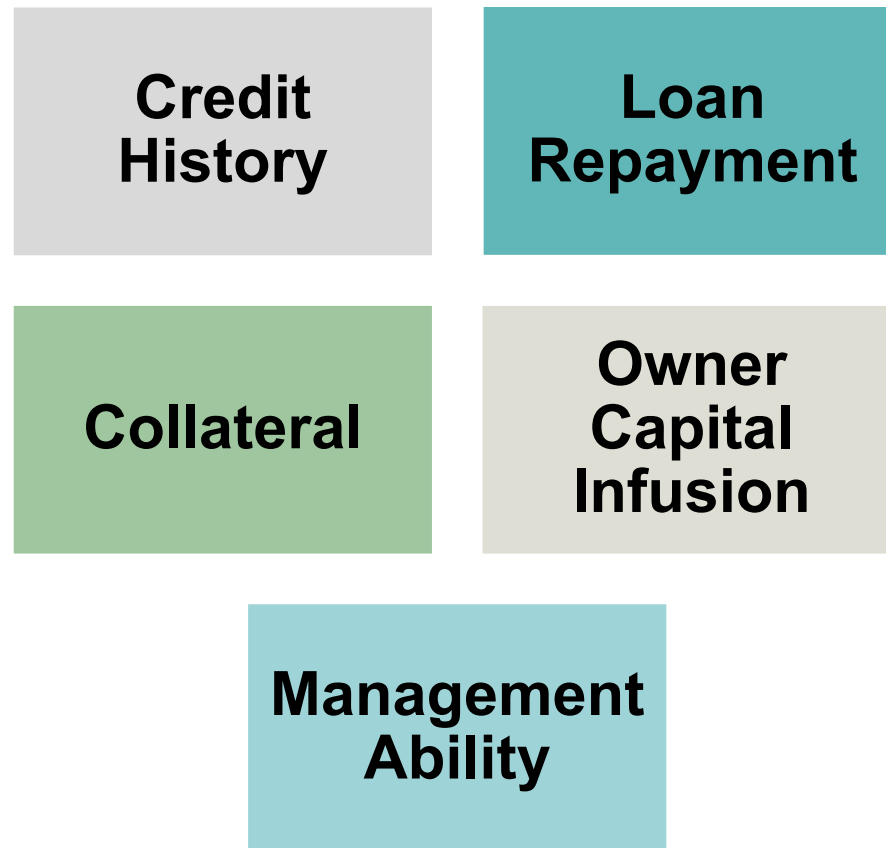
# ②

## Loan Evaluation Criteria



# Credit Factor Overview

**It is important to understand how lenders evaluate a loan proposal. This section overviews five key areas.**





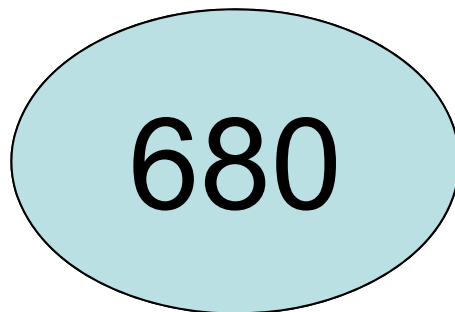
# Credit History and Credit Score



**Business owners must have reasonably good credit – not perfect credit.**

**Each lender has a different credit score requirement.**

Note: This is subjective and determined by each lender.



**This is the credit score usually required for loans from SBA lenders.**

Note: National lenders that use computer credit scored lending generally have **higher** credit score requirements.



# Remember the 5 C's of Credit

**Capacity**

Cash Flow and Profits

**Collateral**

Assets Available

**Capital**

Skin in the Game

**Conditions**

Economic Considerations

**Character**

Credit History, Trust



# Loan Repayment



**Loan repayment** is the most important credit factor.

Note: All SBA lenders are **cash flow** lenders and do not lend solely on collateral.

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## Operating Cash Flow (OCF)

**Earnings before interest, taxes, depreciation and amortization (EBITDA)**  
(Found on the Income Statement)

	Year 1	Year 2	Year 3
Sales			
Cost of Goods Sold			
Gross Profit	0	0	0
Expenses			
Salary			
Payroll Taxes			
Advertising			
Rent			
Utilities			
Office Supplies			
Insurance			
Bad Debts			
Depreciation			
Vehicles			
Accounting			
Travel/ Entertainment			
Shop Supplies			
Taxes			
Contracts expenses			
Membership expenses			
Professional Services			
Other			
Other			
Other			
Total Expenses	0	0	0
Operating Profit	0	0	0
Other Expense			
Interest			
Net Profit Before Taxes	0	0	0
Tax			
Net Profit After Tax	0	0	0



# Loan Repayment Guidelines



<b>Loans of \$350,000 or less</b>		<b>Loans of \$350,000 or more</b>
<b>Global cash flow coverage</b> equal to or exceeds <b>1:1</b>  based on historical or projected cash flow basis		<b>Debt service coverage ratio</b> (Operating Cash Flow / Debt Service)  must be <b>1.15 to 1</b>  or greater on a historical and/or projected basis



# Owner Capital Infusion

**The amount of owner capital infusion required is determined by the lender.**

**For SBA guaranteed loans, there is a minimum required.**



**Note: This can be negotiated.**



# Collateral



Lenders use **traditional business assets** to protect their loans, including **personal guarantees**.

- All collateral is appraised for **liquidation value**.
- You must maintain **insurance** to protect the collateral.

**Note:** Most lenders will require you to pledge additional collateral, such as your personal residence.



# Collateral Guidelines



Personal Residence	75 to 80%
Commercial Property	65 to 80%
Leasehold Improvements	0 to 20%
Furniture & Fixtures	25 to 50%
Machinery & Equipment	10 to 50%
Specialized Equipment	10 to 75%
Inventory, Accounts Receivable	0 to 10%
Vacant land	60 to 65%
Notes Receivable, Prototype Equipment	0%



# Management Ability

You must show the ability, **knowledge and experience to manage** the small business.

- Shown in the resumes of the management team
- Industry experience may not be enough
- Outside training can mitigate those with no experience

**Lack of management ability is the #1 reason small businesses fail.**



# 3

## Lending Options



# New Business – Sources

A **New Business** is defined as a business operating for less than 2 years.

	Commercial Banks	Micro Lenders	SBA Community Advantage	CDFI – Treasury Based
<b>Amount</b>	Based on credit policy of the bank	Up to \$50K Average: \$10K	Up to \$250K Average: \$50K	Based on credit policy of the institution
<b>Credit Score</b>	700+	620 – 640	620 – baseline for most cases	620
<b>Who</b>	Wells Fargo, Bank of America, etc.	Prestamos, PPEP	BDFC, CDC Loans, LISC, ACCION, Prestamos	Multi Bank, PPEP, Prestamos, MariSol Credit Union
<b>Notes</b>	Loans for doctors, veterinarians	Not 7A; Lender also has other loan programs	7A guaranty structure (85% to \$150K; 75% to 250K)	



# Mature Business – Sources

A **Mature Business** is defined as a business operating for greater than two years.

	Commercial Banks	SBA 7A Program	SBA 504 Program
Amount	Based on credit policy of the bank	For working capital  Up to \$5M Average: \$512K	For buildings and equipment  \$12.5M total project Average: \$857K
Credit Score	700+ baseline	680	680
Notes	They look for the “low side of risk” Collateral and credit based	Collateral and credit based	Collateral and credit based



# 4

## The Loan Request



# Preparing to Meet With a Lender

## Prepare a credible loan proposal or business plan document

- Proofread what you develop

## Prepare for your meeting with the lender

- Know exactly how much you need
- Be able to explain the use of funds
- Know your financials

## Know your options

## Learn from your mistakes



# After Receiving a Loan – Lender Review

On a regular basis, lenders review/evaluate loans for covenant adherence and changes in the following areas:

## **Clients:**

- Credit worthiness
- Growing to fast
- Competition
- Staffing
- Suppliers/Vendors

## **Lenders:**

- Government regulation changes
- Non-performing loans
- Cost of money
- Banking crisis
- Changes in credit policy



# After Receiving a Loan - Reporting

You may need to submit regular reports during the term of the loan.

- May be quarterly, but the lender sets the schedule
- Documents may be required (determined by the lender)

Available Unavailable Special Offer Updated: Dec 2, 2012

<b>December 2012</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	<b>January 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	<b>February 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28
<b>March 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	<b>April 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	<b>May 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
<b>June 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	<b>July 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	<b>August 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31
<b>September 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	<b>October 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31	<b>November 2013</b> s m t w t f s 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30



# Important Reminders

**Make sure to ask for enough money.** Many businesses fail due to lack of cash.

**Do NOT violate your loan covenants.**

- If not in compliance, a lender can change the terms and conditions.



**Areas you cannot control:**

- Economic crisis
- Personal crisis
- Lender credit policy changes






## Time for Our Lender Panel





# **Chris Flowers, Loan Officer CDC Small Business Finance**





# Sebastian Porchini, Vice President, Phoenix Metro First Bank





## **Chris Dennis, Area Manager, Business Banking Chase**





# Scott Spillman, Arizona Bank President BNC



## **Panel Question 1**

**What is your specialty as a small business lender? Describe what is unique about the products or services you offer.**



## **Panel Question 2**

**Share a client example that best highlights your ideal small business client.**



## **Panel Question 3**

**What are some common borrower mistakes that prevent the process from going smoothly?**



## **Panel Question 4**

**What would you suggest a loan applicant do to expedite the loan process?**



## **Panel Question 5**

**Give an example of a credit challenged loan and how you addressed the loan?**





**Questions?**



# SBDC Services



## Guidance Areas

**Funding Assistance**

**Business Plans**

**Financial Review**

Market Research

Marketing/Sales

Business Operations

Growth Strategies

Export/International  
Trade

Exit Strategies



# How to Request Counseling


Complete the **Request for Counseling Form**

or

Sign-up on our website: [www.maricopa-sbdc.com](http://www.maricopa-sbdc.com)







**Thank you for your  
participation.**

