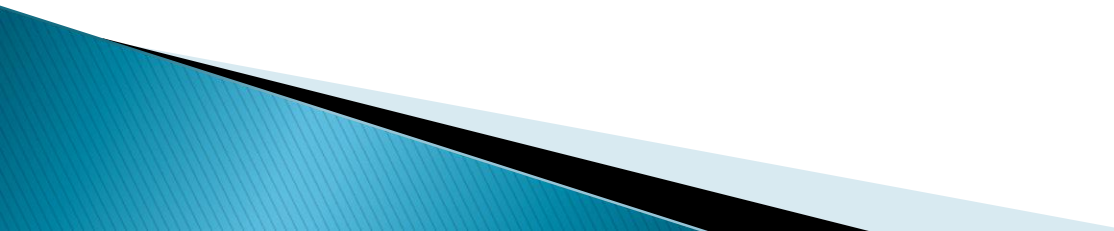


# Access to Capital

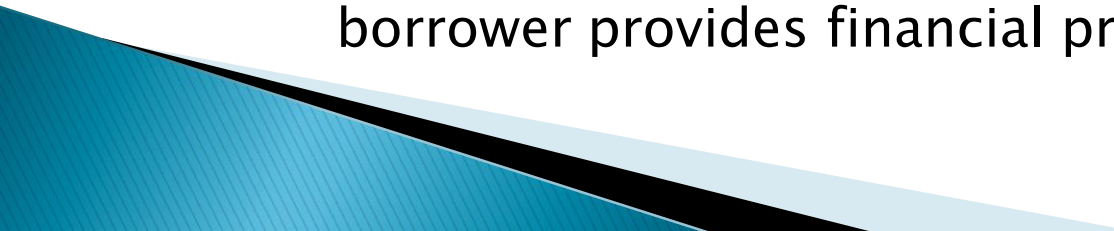
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# 5 C's of Credit


(Variables that every  
Business Lender reviews)

- ▶ Capacity
  - ▶ Character
  - ▶ Conditions
  - ▶ Collateral
  - ▶ Capital
- 


# Capacity

- ▶ Capacity is having sufficient Cash Flow at the end of the month/year to be able to meet loan payments
  - ▶ Banks and Nonprofit Lenders look at Debt Service Ratios to determine if the company/individual has the capacity to pay back the loan.
  - ▶ Most banks will require at least a 1.25 Debt Service Coverage Ratio i.e. for every \$1 in debt, the company/individual needs to have at least \$1.25 at the end of the month/year to pay their monthly payment.
  - ▶ Nonprofit Lenders are more flexible and require a 1:1 Debt Service Coverage Ratio and sometimes below that if borrower provides financial projections.
- 

# Character

- ▶ Credit History
    - Credit trends, payment history
    - Collection Accounts / Write offs
    - Bankruptcies / Tax Liens / Short Sales
  - ▶ Personal Credit – Most banks will accept FICO scores of 660+. However, some banks will not accept bankruptcies, tax liens, write offs and/or excessive collection accounts even if you have high scores. Non profit Lenders are more flexible.
  - ▶ Verifications
    - Banks may require verification of assets such as Bank statements, retirement and loan statements etc.
- 

# Conditions

- ▶ Business Lenders will sometimes review the company's Business Credit (if available) – Some agencies, such as Dunn & Bradstreet and Experian, track your company's credit history and Lenders will request your business credit report
  - ▶ Vendors and suppliers provide information to these agencies
  - ▶ Business Lenders will review your Company financials to determine sales trends, profit margin and costs/expenses trends etc.
  - ▶ Overall Economy – Industry trends, lending environment, past history with the Bank.
- 


# Collateral

- ▶ 2 Types of Loans
  - Secured – with collateral
  - Unsecured – without collateral
- ▶ Business Lenders will review available Collateral:
  - Equity in Personal Residence
  - Equity in Investment Properties
  - Equity in Commercial Properties
  - Equipment, Paid-off Vehicles
  - Business Assets – UCC Filing (Specific or Blanket)
- ▶ Loan to Value (LTV) for Commercial Real Estate purchase or refinance
  - 50–75% LTV; Property's worth \$1MM, Maximum loan for \$500–750K

# Capital

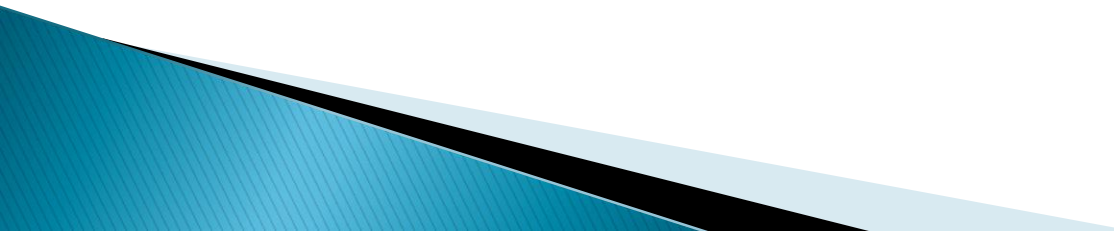
- ▶ Capital Injections/Down Payment – Some SBA programs will require capital injections of 10–30% for Start ups, Business Acquisitions and/or Expansion Projects
- ▶ Other Down Payments – If purchasing a commercial vehicle or equipment, banks may require a down payment between 10–30%
- ▶ Net Worth Requirements – Some traditional Banks require a Net Worth Coverage ratio of up to 1:2. Non profit lenders usually do not. On a 1:2 scenario, if you are requesting a \$50,000 loan, the bank will expect you to have a minimum net worth of at least \$100,000
- ▶ Liquidity Ratios – Some traditional Banks will require you to have a minimum amount of cash on hand before applying. On a .50:1 ratio scenario, if you are asking for \$50,000, the bank will want to see at least \$25,000 in your bank account (s).

# Other Areas of Concern

- ▶ Accounts Receivable concentrations – Some Lenders don't like to see that a lot of your sales are from one client only. For example: If you have a large account with Costco and they represent 80% of your sales, that is a risk for the Bank/Lender and will probably not lend you any money.
  - ▶ Single use purpose buildings – Some Lenders don't like to finance these type of properties because it is hard to sell them afterwards if they end up foreclosing. For example: Car Washes, Mix-use, Hotels etc. But some Lenders will.
  - ▶ Risky industries – Some Lenders consider some industries to be high risk: International, Restaurants, Construction, Cash & Home based businesses etc. Ask your Bank.
- 



# Other Areas of Concern

- ▶ Excessive Inventory
  - ▶ Highly leveraged – Too much debt
  - ▶ Not enough liquidity (No reserves or not enough cash in the Bank)
  - ▶ High Loan to Value in Commercial Real Estate
  - ▶ Current banking relationship status
  - ▶ Management
- 

Thank you

