

# UNC-P Entrepreneurial Summit

“Financing for Entrepreneurs and Small Businesses”

“The Process and The Practice”

Presented by

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# General Economic Conditions

- Deepest recession since World War II and will likely continue through 4Q09
- The number of lenders who have tightened their underwriting is at an all-time high
- Borrowers in limbo for debt needed to buy property, refinance loans, etc.

# General Economic Conditions

- **Banks Still Tightening Lending Standards**

The percentage of banks tightening lending standards during the past three months rose across the various loan categories, according to the Federal Reserve's October survey of senior loan officers. About 85% of U.S. banks -- up substantially from 60% in the July survey -- reported tightening lending standards on commercial and industrial loans to large and middle-market firms. A larger percentage -- 95% -- said they tightened such standards for lines of credit to large and medium-sized businesses. Nearly 60% of banks also said they tightened standards on credit card debt, while 65% said they had done the same for other types of consumer loans.

# General Economic Conditions

- **Banks Still Tightening Credit Standards**

The percentage of banks tightening lending standards on both consumer and commercial loans fell somewhat during the past three months, but still “stayed very elevated,” according to the Federal Reserve’s January survey of senior loan officers. About 6% of the 53 domestic banks surveyed said that they tightened lending standards on commercial and industrial loans, down from 85% in October’s survey. About 80% of the banks -- down from 85% in the previous survey -- tightened such standards on commercial real estate. On credit card and other consumer loans, about 60% tightened standards -- about the same as in October.

# General Economic Conditions



# General Economic Conditions

*"Our loans grew \$110 million for the year. Banks are in the business to lend money. Regardless of economic conditions, we believe that we are doing our part. We will continue to lend money to credit-worthy businesses and individuals."*

President & CEO of a NC community bank

# The Five “C’s” of Credit

- CAPACITY
- CAPITAL
- COLLATERAL
- CONDITIONS
- CHARACTER

Banks are getting “back to the basics” of lending.

# CAPACITY

- This factor is the most critical.
- How do you intend to repay the loan?
- Liquidity
  - Having cash or the ability to generate cash
- Cash flow repays loans.
  - Source
    - Net Profits
    - Collection of A/R
    - Sale of an Asset
  - Timing
    - Should match repayment schedule of loan
  - Probability that cash flows will continue

# CAPACITY

- Banks use ratios to analyze a prospective Borrower's capacity.
  - Debt Service Coverage Ratio (DSCR)
    - Benchmark is 1.25x
  - Profit Margin
  - Current Ratio
  - A/R Days
  - Inventory Days

# CAPITAL

- What you have financially invested in the business, project, etc.
- Banks want to see that you have undertaken personal financial risk to establish the business before committing to funding a loan
- “Skin in the game”

# COLLATERAL

- Merely a secondary source of repayment
  - Real Estate
  - Titled motor vehicles
  - Equipment
- The Bank will determine the value and marketability of the collateral.
- May be assets of the business or personal assets
- Personal guaranties are typically required as well.

# CONDITIONS

- Purpose of the loan
- State of the economy (local, market area, national, global)
- Target market
- Competition

# CHARACTER

- Can be the most subjective of the 5 criteria
- Credit history
  - Willingness/ability to pay your bills
- The general impression you make on the lender
- Background/experience
- References

# THE APPLICATION PROCESS

- What do I need to apply for a business loan?
  - Historical financial information (existing)
    - Three years' tax returns or financial statements
    - Interim Profit & Loss Statement for current year
    - Current Balance Sheet
  - Projections
    - Preferably prepared by your CPA

# THE APPLICATION PROCESS

- What do I need to apply for a business loan?
  - Personal financial information
    - Personal Financial Statement
    - Three years' tax returns
  - Collateral
    - What you could potentially offer
    - Value

# THE APPLICATION PROCESS

## – Business Plan

- Simple and easy to read
- Concise
- Strengths/weaknesses
- Competition
- Utilize the SBTDC!

# THE APPLICATION PROCESS

- Be prepared
  - Know your company / plan
- Be straightforward
  - Strengths/weaknesses
  - Any past problems
- Be confident
  - Believe in your idea
- Be patient
  - Everyone doesn't get a loan the first time around.

**“Good bankers, like good tea,  
can only be appreciated  
when they are in hot water.”**

**Anonymous**

