Chamber Chat:

Growing & Maintaining Your Business the Right Way

11:00 – 12:00 Noon

July 12, 2020

Zoom webinar

“Get the Right Financing For Your Business ”

Venture Center
September 14, 21, 28 &
October 5, 2020

Produced by

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Four Sessions with Certificate of Completion

Participants will:

- Be introduced to how lenders decide to approve or deny a loan, how they calculate your loan risk rating.
- Understand the value of knowing how your daily business decisions create your business cash flow. Improves your success when negotiating with lenders.
- Lenders focus on five critical ratios: Leverage, Debt Coverage, and working capital turnover ratios and liquidity.
- Appreciate the value of annual projections supported by written assumptions.
- Be able to create the right debt structure for your business, including strategies to consolidate loans.
- Practice presenting your loan request to real lenders.

Week 1:

- Lender/Borrower roles and what they expect from your business.
- Start-up vs existing business.
- Work through a budget.
- Debt consolidation – two different ways. Determine what is best.
- 360/365-day interest rate calculations. Makes a difference!!
- Credit Bureau review.
- Collateral calculations.
- Strategies to use when choosing a financial institution.

Week 2:

- Cash vs Accrual Accounting and why.
- Exercise using leverage, debt coverage, working capital turnover ratios.
- Break-even analysis

Week 3:

- Lender Underwriting, loan risk rating, loan documentation.
- Red flags lenders look for in a loan relationship.
- SBA loan programs and how they can make the difference.
- Strategies and techniques to build and maintain an mutually beneficial banking relationship.

Week 4:

- Actually present your loan request to a real lender in front of your fellow class participants.
- Lenders will provide feed-back.
- Summary of how the workshop helped you.

1. *Survival is priority one!*

Thoroughly review budgets and revise them

- Need ***SALES***. Pay attention to customer retention. Market.
- ***Communicate*** with customers, suppliers & vendors.
- Review Break-even: Variable and Fixed costs. Details
- Prepare cash flow projections/supporting assumptions
- Review debt structures/payments. Lenders are partners!!
- We are all in this together, open cooperation is critical

2. *Opportunities will abound – new opportunities*

- Customers habits will be adjusted in new ways. Learn them
- Competitors may be out of business – be the new provider
- Suppliers/vendors may go out of business-find replacement

Whatever the future holds – the answer is:

BUDGET – CASH FLOW – SALES – MEASURE MONTHLY

Quality assets

Sufficient quality, as measured by prudent lending practices, means the asset will remain above the red line. Standards by lender will vary, but all lenders standards are consistently the same.

Criteria lenders use to "measure" the quality of their assets (loans) includes the leverage ratio; the debt service coverage ratio; the liquidity as measured by A/R, A/P and Inventory turnover ratios, and the cash flow performance of the borrower.

Deterioration results in being below the red line. If problems persist, the lender will ask the borrower to leave.

Borrowers need to understand how their daily business decisions impact the ratios they and lenders use to measure the quality of their loan relationship. The best way for the borrower to apply these principles is to prepare an effective cash flow budget and manage it at least monthly.

The higher above the red line the better the relationship for both the borrower and the lender because the risk associated with that asset is less. And the more options the borrower will have from lenders. Competition among lenders for the business increases.

As cash flows between the P & L and Balance Sheet

Income Statement

Sales

Expenses

Net Profit

(1)

(2)

(3)

Owner Draw

Balance Sheet

Current Assets

Long Term Assets
TOTAL ASSETS

Liabilities

Net worth
TOTAL LIABILITIES &
NET WORTH

MAINTAIN EFFICIENCY & BALANCE

Start-ups vs Existing Business

Lending to startups vs established businesses:

Both must have a factual, persuasive and accurate business plan. Be confident when requesting loan!!

Your job: *Demonstrate the loan/s can be repaid without unacceptable risk of loss to the lender?*

Startups: *challenging*

Startups have no history to substantiate their projections/plan. ***Riskier***!

- Lenders looking for ***minimal*** risk of not being repaid. No history is a handicap. Overcome with:
  - More equity
  - More collateral
  - Strong guarantor
  - SBA guaranteed loan program (7a)
  - Strong management with experience in that line of business & managing a business
  - Consider personal funding strategies as opposed to business loans to get experience. Home equity.
  - Educate your lender about your business. Provide detailed monthly projection for first year
  - Know how much you need to borrow, for what purpose, and then defend it.

Existing Businesses:

- History helps, but it must be understood & explained to lender and defended to lender
- More lenders drawn to established businesses than startups.
- Projections still required. Historical financial data adds credibility.
- Know how much you need to borrow, for what purpose, and then defend it.
- Usually better positioned to negotiate more successfully.

The Business Plan: **Every company needs one!!**

It is your plan to move forward to success. Don't write it for the lender. Understand what makes a good business plan and *decide how you use it*. Share it with lenders.

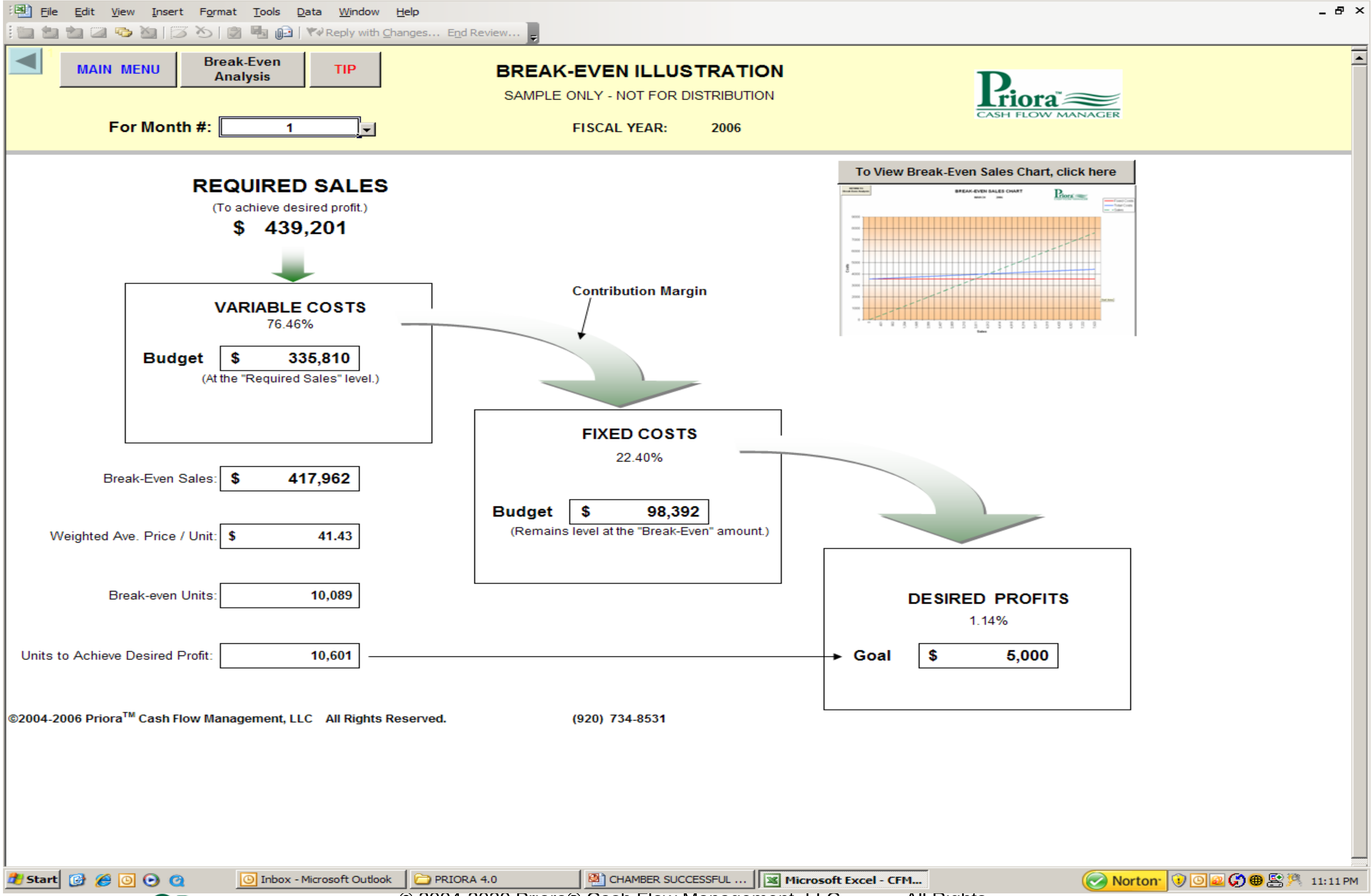
For start-ups and existing businesses:

Lenders focus on the financial facts of a loan request. Prepare a completely thorough business plan. Ask others for input and suggestions. Be open-minded.

Lenders also assess the owner; realistic, accurate, thoughtful, listens

Several key sections to an efficient business plan format:

1. 80% - the financial data.
2. 5% - Description of the management/ownership of the business.
3. 5% - Description of the business.
4. 5% - Description of the marketing plan.
5. 5% - Executive Summary


File Edit View Insert Format Tools Data Window Help
Reply with Changes... End Review...
MAIN MENU
Break-Even Analysis
TIP
BREAK-EVEN ILLUSTRATION
SAMPLE ONLY - NOT FOR DISTRIBUTION
Priora CASH FLOW MANAGER
For Month #: 1
FISCAL YEAR: 2006
To View Break-Even Sales Chart, click here
REQUIRED SALES
(To achieve desired profit.)
$ 439,201
VARIABLE COSTS
76.46%
Budget $ 335,810
(At the "Required Sales" level.)
Contribution Margin
FIXED COSTS
22.40%
Budget $ 98,392
(Remains level at the "Break-Even" amount.)
Break-Even Sales: $ 417,962
Weighted Ave. Price / Unit: $ 41.43
Break-even Units: 10,089
Units to Achieve Desired Profit: 10,601
DESIRED PROFITS
1.14%
Goal $ 5,000
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(920) 734-8531
Start
Inbox - Microsoft Outlook
PRIORA 4.0
CHAMBER SUCCESSFUL ...
Microsoft Excel - CFM...
Norton
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Debt Mgt. Summary

DEBT CONSOLIDATION CALCULATOR

DEMO ONLY NOT FOR USE

Complete the shaded boxes below to determine a new Consolidated Loan for up to 8 current loans.

Loan	Lender/Loan #	Purpose	Original Amount	Remaining Principal	Rate	Monthly Payment	Remaining Number of Payments	Total of Remain. Payments		
1		Equipment	48,933	12,808	6.13%	$950.29	14	13,304	Import	Delete
2		Partitions/Walls	59,740	58,167	6.39%	$1,119.31	61	68,278	Import	Delete
3		Tables	13,563	11,518	13.68%	$312.90	48	15,019	Import	Delete
4		Desks/Chairs	37,333	37,333	10.14%	$1,103.83	40	44,153	Import	Delete
5								-	Import	Delete
6								-	Import	Delete
7								-	Import	Delete
8								-	Import	Delete
		Totals =	159,569	119,826		3,486.33		140,754		

New Loan - Option 1	Weighted Interest Rate Only	119,826	8.23%	$ 3,486.33	39.0	135,967
New Loan - Option 2	Weighted Interest Rate & Term	119,826	8.23%	$ 2,938.33	48.0	141,040

Savings Option 1 = $ 4,788

Savings Option 2 = $ (285)

Calculations based on: **365 Day Year**

Save even more if your lender can beat this rate!

Personal Credit Scores

How you manage your personal credit is a strong indication to lender of how you will manage your business.

Three credit bureaus:

1. Experian
2. Trans Union
3. Equifax

Best site for reliable credit reports and score:

www.annualcreditreport.com

Federal law entitles you to one free copy of your credit report annually. Credit score may cost a few $.

Difference between Cash and Accrual Accounting

Cash Accounting:

Revenues and expenses are recorded when the cash changes hands.

No accounts payable or accounts receivable.

Does not record amounts of cash yet to come or must yet be disbursed

Accrual Accounting:

Revenues and expenses are recorded when incurred.

Cash has not yet exchanged hands.

Matches the amount of cash to be received against cash needed to be spent.

Can better estimate the amount or timing of uncertain financial events.

Businesses with inventory required to use accrual method.

IRS requires a business to use accrual method:

1. Income from long-term contracts (construction & manufacturing), may need to use percentage-of-completion method.
2. Businesses with inventories.
3. Businesses with average annual gross receipts for the previous 3 years exceeds $5 million.
4. A qualified personal service corporation, e.g. law, accounting, consulting, engineering, architecture firms, and certain other service providers whose stock is substantially owned by current or retired employees or their estates.

Selecting a Lending Institution

Present the completed business plan to 5 – 10 lenders.

Each time you present you will learn what another lender expects, how they communicate, and how they respond to your presentation.

You are looking for a relationship lender, not a transaction lender.

If it is too easy, it probably is not the right lender.

Choose your lender based on how you "feel" about that lender's interest in your success as well as the terms they offer.

Expect the Lender to commit to a timeline to give you a response to your loan request. Hold them to that timeline. The **<u>W</u>**ho **<u>W</u>**hat **<u>W</u>**hen rule.

Small Business Administration

Benefits of SBA guarantied loans to business:

1. Longer amortizations
2. Cannot be turned down for lack of collateral
3. Bank makes the loan; SBA guaranties up to 80%
4. Bank can be more flexible with guaranty on loan
5. Especially helpful for start-up businesses
6. Funds for working capital and fixed assets
7. Lender able to sell guaranteed portion of loan to fix the interest rate on that portion for term.
8. Limited to $5 million in total amount, unlimited number of notes.

Lender Risk Rating Matrix

Lenders will evaluate data from borrowers and will generate a Risk Rating Score. There are many variations of such a process. Here is one.

Components considered in Risk Rating Score:

1. Debt Service Coverage Ratio
2. Profitability
3. Financial Condition
4. Repayment Source
5. Payment History
6. Management Ability
7. Gross Collateral Coverage
8. Character
9. Relationship with lender

Five basic business loan documents you need to understand:

1. Business Note – your "promise to pay"
2. General Business Security Agreement – collateral
3. Mortgage – Collateral
4. Personal Guaranty – your personal promise to repay if business fails.
5. UCC – 1
6. Personal Financial Statement

Sample forms provided by:

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"Get the Right Financing For Your Business "

Venture Center
September 14, 21, 28 &
October 5, 2020

Registration for the Bridge workshop

Cost: $399 Time: 5:30 – 8:30

Dates: September 14, 21, 28, and October 4, Presented digitally on FVTC Blackboard

Required: ***A completed business plan. Will need projections for next 12 months***

What you will learn:

- Be exposed to the lender concept, use of a risk rating and the why one rating is better than another.
- Understand how your daily business decisions create your cash flow.
- Learn effective strategies to negotiate successfully with your lender.
- Understand the value of projections supported by written assumptions.
- Register at: www.fvtc.edu/seminarsearch

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