

Small Business Financing

VMA FINANCING FOR MANUFACTURERS

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Bank of America

- Nation's **#1** Small Business Lender for fiscal year 2003.
- We currently bank two million Small Businesses. That's **one small business out of every five** in our franchise territories.
- We are the **#1** Small Business lender to minority-based businesses
- We currently project for fiscal yr 2004 to do over **9,000** small business loans (SBA).
- Our Consumer and Commercial Banking Operations serve more than **one in four** households in the U.S.

Financing Your Small Business

Four opportunities available for Financing a Small Business:

1. Conventional Bank Funding
2. SBA
3. Alternative incl. Asset Based
4. Equity/ Venture Capital

Financing Factors

1. Status of the Business

- *Start-ups*
- *New Businesses*
- *Existing Businesses*

2. Credit: Personal & Business

3. Size & Type of Business

4. Special Situations

Conventional Lending

1. **Status:** Normally need 2-3 years of Financial history.
2. **Credit:** Established Business and personal credit history.
Credit should be good to outstanding.
3. **Size/ Type:** Varies with Lender.

Types can be Term Loans, Lines of Credit, Equipment/ Lease Financing and Real Estate Loans.

SBA FINANCING

- 1. Status:** Young, immature businesses with less than 2-3 years of financial history; Or, Existing businesses with no historical repayment trends. Or, large expansions
- 2. Credit:** Average to outstanding. Business may not have any prior business credit. Or, credit needs to be explained (Some derogatory history).
- 3. Size/ Types:** For Profit. Good Character. Show Capacity, Capital, Cash Flow, Credit, Collateral. SBA has size standards based on Industry.

Types: Term Loans, Lines of Credit, and Real Estate Loans

Alternative Financing

1. **Status:** Start-ups; Turnarounds; High Growth; Special Situations.
2. **Credit:** Poor to Outstanding
3. **Size and Type:** Can vary substantially.

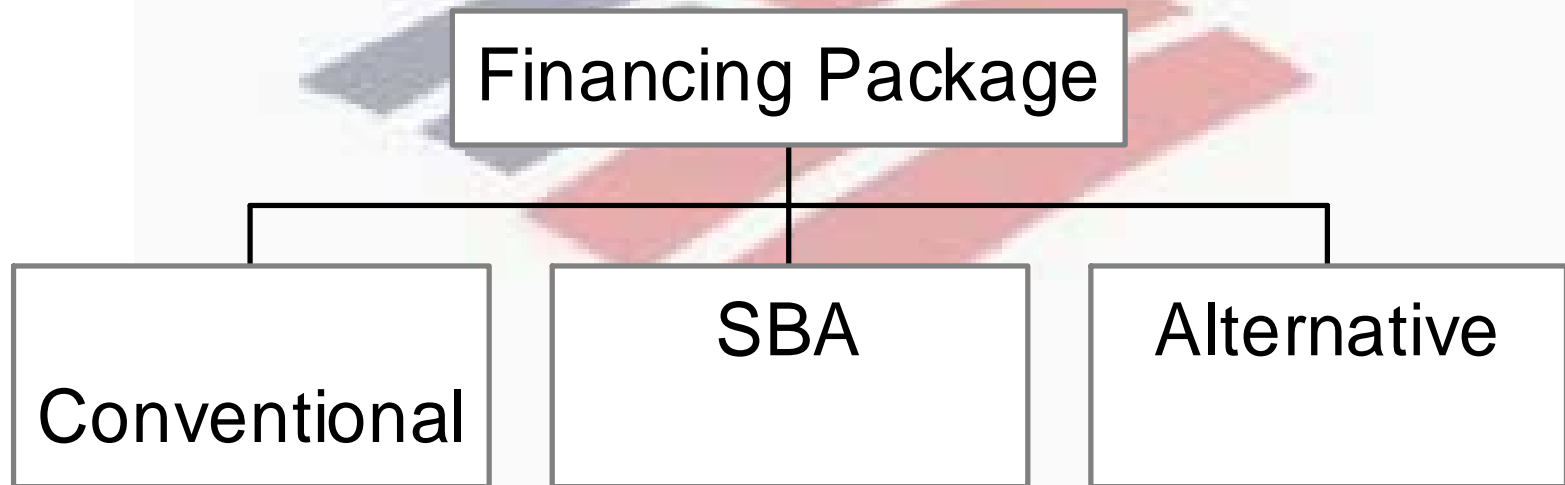
Examples are: Factoring or Inventory Financing.

Credit Criteria

Your Loan will be measured by BANKS:

1. **Cash Flow/ Capacity** to repay the loan.
 - *Historical Financials*
 - *Business Plan/ Projections + Assumptions*
2. **Status/ Experience** (Management) of Borrower.
3. **Equity/ Net Worth** (Liquidity incl.) in Business.
4. **Credit:** Both Business and Personal.
5. **Collateral:** What will secure the loan.

Submitting a Loan



What the Lender Typically Needs

For Conventional/ SBA:

- Summary of Loan. What's your Intention?
- 2 years Financials (Business Tax Returns)
- 2 Years Personal Tax Returns (plus W-2s)
- Personal Financial Statement (PFS)
- Debt Schedule for Business
- Miscellaneous: Contracts, Purchase Agreements, etc.
- Projections plus Assumptions (Business Plan may be needed)
- If SBA, you will need to provide additional information including completed application and possibly additional tax information (3 yrs.)
- Equity/ Venture Capital Packages are more exhaustive

Business Plan

Tips:

1. *Be reasonable (with estimates/goals).*
2. *Be specific about project.*
3. *Be specific about product/ service, market, location, competition.*
4. *Discuss the specifics of financial plans.*

Consumer/ Personal Loans

Home:

- Home Equity Lines of Credit
- Term Loan/ Installment Loan against home

Personal Savings:

- Checking/ Savings
- Retirement/ 401 K
- Investments/ Life Insurance

Family/ Friends:

- Gift Money
- Loans/ Investments by friends/ family members

Credit Cards:

- Revolving Cards
- Amex

Conventional/Credit Lines

- **Term Loans are used for capital asset needs, including purchase equipment, vehicles, etc.**
- **Lines of Credit used for financing inventories, receivables, payroll, seasonal turns in business.**
- **Lines can be revolving or just short term.**
- **Lines can be secured or unsecured.**
- **Lines are many times secured by receivables, inventories or blanket business assets.**

Asset Based

“Speeding Cash Flow”

Receivables/ Factoring:

- Receivables financing** is different than factoring in that lenders lend against the receivables but don't purchase the recs.
- Factoring** is where your receivables are purchased at a discount and cash is given in return.

Fixed Assets:

- Real Estate**: Done at discounts up to 65% LTV.
- **Equipment**: Done at discounts up to 50% LTV.

Inventory:

- Usually financed only in conjunction w/ receivables.
- Some finance cos. will finance separately and exclusively.
- Can be done as a revolving Line.

ASSET BASED LOANS ARE USING THE COLLATERAL TO MINIMIZE THE CREDIT RISK AND USUALLY DO NOT REQUIRE ANY COMPLETE DUE DILIGENCE IN UNDERWRITING CASH FLOW.

(They are Timely but done at Higher Rates)

SBA Loans

- Used to finance businesses with short term financial success or those that require **PROJECTIONS/ FORWARD ASSUMPTIONS**.
- Short terms financial success is usually less than 2 yrs.
- Dramatic Expansions where you are significantly increasing your Sales, Operating Costs, and also Your Profits require SBA Lending.
- SBA loans require:
 - Personal Guaranties of all 20% Owners in Business
 - All financials of any Affiliates (20% + owned entities)
 - Cash Flow requirements/ and profitability (1.25DCSR)
 - US Citizen/ Legal Permanent Status
 - For Profit Entities/ No Not For Profits
 - May have Collateral Needs
 - Have Equity Injection Needs

Real Estate

Conventional:

- Variable/ Fixed rate options.
- Second Mortgage options
- Underwritten, so cash Flow coverage expectations
- Normal LTV's are 80%
- Usually expect 2-3 yrs history.

SBA:

- Variable and Fixed Rate Options
- Longer Terms up to 25 yr Amos.
- Higher LTV's up to 90% value
- Allow for Projections
- Allow for new businesses/some start ups.

Asset Based:

- Lower LTV's up to 65%
- Higher rates
- Quicker Turnarounds
- Sometimes No cash Flow reqs.

Hard Equity:

- Very high rates 9-15%
- Up to 50% appraised value
- No cash flow reqs.
- Poor credit acceptable