

# Prepping to Talk to Lenders



ACADEMYBANK

Member FDIC

---

# Where Do I Start?

---

- **Identify the need for speaking with a bank:**
- **Potential reasons for a business loan:**
  - Business Start Up
  - Business Acquisition or Partner Buyout
  - Business Expansion
  - Debt Refinance/Debt Consolidation
  - Purchase Equipment
  - Purchase/Develop Commercial Real-Estate
  - Tenant Improvements
  - Working Capital – Short Term (Revolving Line of Credit) & Permanent Working Capital
  - Much More!!
- **Treasury Services/Cash Management**
  - Business Operating and Payroll Accounts
  - ACH (Automatic Clearing House)
  - Bill Pay
  - Checks
  - Change Orders

# How Do I Know If I Qualify?



- **A majority of banks have similar underwriting criteria.**
- **If you are seeking a SBA Loan, all banks have the SAME underwriting minimum requirements. SBA Standard Operating Procedures (SOP)**
- **Key underwriting requirements:**
  - Business Background (time in business, industry, clientele, ownership information)
  - Break-down of the loan & equity injection (Sources and uses)
  - Profit and Loss Analysis and Debt Service Coverage
  - Balance Sheet Analysis
  - Guarantor Financial Information (Global)
  - Collateral Analysis

# Develop a Business Plan



- **History of the business**
- **Industry information and competition with competitive advantage.**
- **Products/services**
- **Customers**
- **How your customers pay you (Credit card/cash, Invoice, etc)**
- **Ownership background & professional history**
- **1,3,5 (maybe 10) Year business outlook & growth strategies. This ties into your business Profit & Loss Projections.**
- **Business plans should be updated annually!**

# Sources and Uses

- **Sources and Uses break-down the total financing package.**
  - Sources – This is sources of funding. Which include cash injection, loan amount, and any additional inputs (seller carryback loans, etc.)
  - Uses – Use of the proceeds (cash injection, and loans)
  - SAMPLE:

Sources and Uses of Funds			
Sources	\$	Uses	\$
Bank Loan	\$ -	Building Purchase	\$ -
Cash Injection	\$ -	Business Acquisition	\$ -
Seller Carryback Loan	\$ -	Debt Refinance	\$ -
Equity in Land or Building	\$ -	Leasehold Improvements	\$ -
Other	\$ -	Working Capital	\$ -
<b>Total</b>	<b>\$ -</b>	<b>Total</b>	<b>\$ -</b>

# Cash Flow: Debt Service Coverage Ratio (DSCR)

- **The ability to repay the loan.**
- Banks look at last 2-3 years performance, year-to-date, and projections (if necessary)
- Banks use EBITDA (Earnings Before Interest, Taxes, Depreciation, Amortization). Plus, non-recurring expenses.
- SBA Requires minimum 1.15x DSCR
- Most Banks prefer to see 1.20-1.25x or greater
- **What does this mean?**
- **\$1,000,000 on a 10 YR Amortization at SBA Max pricing Wall Street Journal Prime + 3% or 11.5% (typical for SBA).**
  - Annual Debt Payment: \$168,715 (\$14,056/month)
  - \$194,022 Annual EBITDA = 1.15x DSCR
  - \$210,894 Annual EBITDA = 1.25x
- **\$500,000 on a 10 YR Amortization at SBA Max pricing Wall Street Journal Prime + 3% or 11.5% (typical for SBA).**
  - Annual Debt Payment: \$94,357 (\$7,030/month)
  - \$108,511 Annual EBITDA = 1.15x DSCR
  - \$117,946 Annual EBITDA = 1.25x

# Balance Sheet Analysis

- **Balance sheet breaks down a company's assets, liabilities, and equity.**
  - Assets = Liabilities + Owners Equity
  - Balance sheets must balance
- **Profit and loss shows a company's performance over a period. A balance sheet shows the overall financial health of a company.**
- **What a balance sheet shows**
  - Leverage – Amount of debt versus equity & cash flow.
    - Senior Funded Debt : EBITDA (Total Bank Debt Divided by Annual EBITDA)
    - Debt to Equity
  - Net Book Value of Equipment and Real-Estate for Collateral

- **Personal Financial Statement (Personal Balance Sheet)**
  - Lists out the guarantor's assets and liabilities
- **Outside Income**
  - Income a person/guarantor has that is not derived from the borrowing company.
- **Global – Outside sources of repayment**
  - Global combines the borrower, guarantor net worth, and outside income.
  - If the business is unable to repay. How can the loan continue to be repaid.



# Collateral

---

- **Business and personal assets securing a loan.**
- **Things this may include:**
  - Commercial Real-Estate
  - Equipment
  - Accounts Receivable
  - Inventory
  - Tenant Improvements/Furniture & Fixtures
  - Personal Assets

# Questions?



ACADEMYBANK

