



We're Taking You To School

Funding Your Business

Presented by
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And
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**BANK OF
COMMERCE**



Business Plan

Key question: What is your Business?

- What do you do?
- Why are you better at it than competition?
 - Who is competition?
- How do you make money at it?



New Business

- How much money you need and why:
 - Starting payroll, rent, supplies, etc.
 - Facilities – rent v. buy
 - Equipment
 - Marketing expenses
 - Legal expenses – contracts, incorporation
 - Taxes



Existing Business

- How much money you need and why:
 - Expansion – equipment, building, employees
 - Changes in working capital
 - Repayment source



Working Capital

- Why working capital decisions impact long term cash needs
 - Receivables
 - Inventory
 - Payables



Other Sources

- Savings
- Personal assets as collateral
- Hypothecations and guarantors
- Business assets with personal guarantees (Why)
- Venture Capital and angels
- Asset based lenders



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Derek Thompson
Chief Lending Officer

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Bank Funding

What is your Banker thinking??

How does the Bank evaluate your request?



Loan Request Evaluation

What is the Purpose of the Loan
Request?

Does it make sense?



Loan Request Evaluation Cont'd

- Repayment Terms
 - Term Loan v. Line of Credit
 - Fixed Asset Purchases
 - Leasehold improvements
 - Equipment
 - Permanent Working Capital (WC)
 - Real Estate



Loan Request Evaluation Cont'd

- Lines of Credit
 - Revolving v. Non-revolving
 - Short-term WC v. Permanent WC
 - Current Assets (Receivables and Inventory)
 - Borrowing Base-Frequency, Ineligibles



Loan Request Evaluation Cont'd

- Cash Flow
 - Global v. Entity (Business) Cash Flow
 - Historical v. Pro-forma Cash Flow



Loan Request Evaluation Cont'd

- Entity (Business) Cash Flow

Net Income plus Depreciation plus Interest
Minus Distributions/Total Annualized Debt
Service = Entity Cash Flow Coverage.



Loan Request Evaluation Cont'd

- Global Cash Flow = Entity Cash Flow + Personal Cash Flow (Which includes distributions from the entity) divided by All annualized debt service (Including all personal and business debt service) = Global Cash Flow Coverage.

Personal Cash flow is net of taxes and living expenses. [Cash Flow Example](#)



Loan Request Evaluation Cont'd

- Most Community Banks look at Personal and Entity Cash flow separately then combine the two to produce the Global Cash Flow Coverage.
- Some Exceptions:
 - a. Credit Tenants e.g.: McDonalds.
 - b. Historically Profitable entities where the recourse or guarantee of the principal's are limited or nonexistent.



Loan Request Evaluation Cont'd

- Historical vs.: Pro-forma Cash Flow
(hypothetical financial figures)
 - If pro-forma/Mitigants?
 - Start-Up?
 - Small Business Administration (SBA)



Loan Request Evaluation Cont'd

- Financial Information
 - Quality
 - Self-prepared
 - Accountant prepared
 - Reviewed
 - Audited
 - Disclosure Personal Financial Statement
 - Full Disclosure



Loan Request Evaluation Cont'd

- Experience/Expertise
 - Core Business
 - Real Estate
- Operating Trends
- Balance Sheet Stability



Loan Request Evaluation Cont'd

- Relationships v. Transactions
 - Deposit
 - Personal



Loan Request Evaluation Cont'd

- Guarantor Analysis
 - Historical credit worthiness
 - Secondary and Tertiary sources of repayment



Collateral Evaluation

- Loan to Values v. Loan to Cost
- Appraisal Considerations
- Environmental Considerations
- Liquidation Issues (special use, single purpose)



Loan Request

- Documents needed by Bank
- Ongoing communication with the Bank

RELATIONSHIP