



Engaging with your Banker and Considering Alternative Sources of Funding

ACA Small Business BootCamp
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4-29-20



The Economy Impacts Lending

- **During a crisis**
 - Job losses
 - Bills still come due for businesses
 - Lenders get “tight” and this will continue for a long while
 - Cost of funds will go up, it’s all about risk
- **There are economic risks**
 - Length of time to recover
 - A global economy
 - Stock market fluctuations
 - A congress divided
 - Cyber security



What is the lending environment?

- **Bankers are:**
 - Tight in their lending practices
 - Client relationships are more important than ever!
 - Once PPPs are over, traditional lending will be more rigorous
 - Traditional underwriting will resume, SBA loans will be king again just like during the recession!
- **Lending options:**
 - Types of loans
 - Terms of loans
 - Different levels of lenders



Business Owners – Moving forward

- How are businesses going to handle cash needs?
 - They need to keep an open dialogue with their banker
 - They can work with their SBDC counselor to map out a plan that outlines when loan(s) will be needed, collateral available to secure loans, and cash flow. Bankers are traditionally “cash flow lenders”



What Bankers Want to Know

About you, your business, your financial condition, etc

- 1) You as a person with integrity, (people pay back loans)
- 2) Personal Credit Score
- 3) Profitability (in a “normal” environment) and debt service coverage
- 4) Potential collateral

When is it the right time to talk to a banker?

- a) BEFORE you need the money....
- b) Have an ongoing relationship....



How A Banker Thinks!

- **Ellen Kirton, 35 year banker, SVP Chase of Business Banking**
 - Clients come first
 - Have a relationship with your clients, not just at time of need
 - Find the right fit for the situation
 - Example - people pay you back – Cable installation company
 - STAY IN TOUCH! - equal responsibility, banker and business owner
 - Other banking relationships – deposits, cash management, merchant svcs



Building a Banker Relationship

- **What do you need to know as a business owner?**
 - **Do you know the commercial bankers at your bank?**
 - **What is a relationship with a banker?**
 - **Keep bankers informed!!!**



Types of Lenders

- Commercial Banks
- Small to mid size banks
- CDCs (Certified Development Company)
- Growth Partners – Non-Profit, small co. loan funds
- 2nd Tier Lenders, Dream Spring, Prestamos, PPEP,



Know other sources

- **When you have a specific need:**
 - **Leasing** – equipment/vehicles
 - **Specialty lenders** – ie: BDFC - ie: lower down payment/buildings, etc.
 - **Coron-19 special grants** – ie City of Tucson



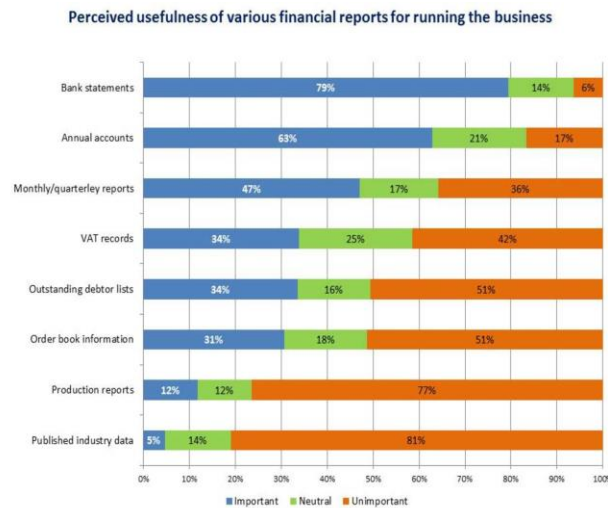
Types of Loans

- Revolving Lines of Credit
 - Uses – short term needs
 - Clear once a year
 - Generally a variable rate
- Fixed Loans
 - Used to purchase equipment
 - Consolidate debt to lower payments
 - Purchase vehicles
 - Generally 5-7 year terms
- Real Estate Loans
 - Purchase real property
 - Generally fixed rate
 - Varying amortizations/due dates

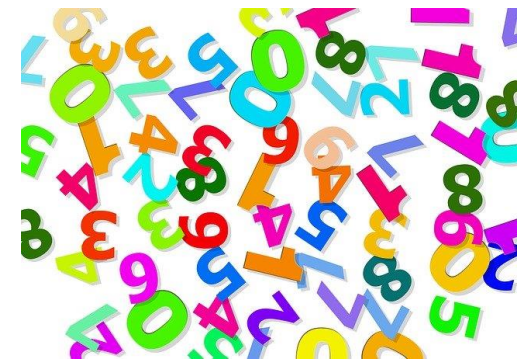


What does a banker expect you to know?

- The present condition of your company
- Financial picture (sales, profitability, next steps)
- Competitor information up to date
- Any new trends/opportunities



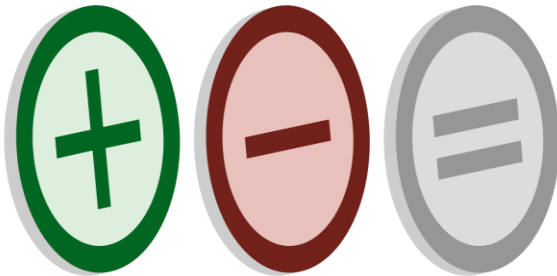
Source: Sian and Roberts (2009)



Cash Flow Coverage

- Add Backs

- Interest – otherwise will be counted twice
- Depreciation – Non-cash entry, reduces taxes
- Amortization – “ “ “ “
- Non-Recurring Items



The Balance Sheet

Net Profit from Profit & Loss Statement – minus.....

- Open Accounts Receivable
- Current Liabilities
- Long Term Liabilities

= Cash Flow

Cash Flow divided by all annual debt service needs to be at least 1.25x

ie: Cash Flow \$50,000 Debt Service is \$40,000 = 1.25 coverage

YOU WANT TO KNOW THIS TOO!

LENDER



2010		2009		Increase (decrease) from 2009 to 2010	
	Amount	Percent		Amount	Percent
Assets					
Current assets					
Cash and cash equivalents	\$11,189	\$ 9,151	\$ 2,048	22.4%	
Marketable securities	138	62	76	122.6%	
Accounts receivable (net)	4,830	3,758	1,072	28.5%	
Merchandise inventory	2,610	2,354	256	10.9%	
Other current assets	3,162	2,226	936	42.0%	
Noncurrent assets					
Long term investments	9,706	8,731	975	11.2%	
Property, plant, and equipment (net)	14,727	9,361	5,366	57.3%	
Intangible assets	35,909	12,828	23,081	180.8%	
Total assets	\$72,911	\$48,671	\$24,240	49.8%	
Liabilities and shareholder's equity					
Current liabilities					
Accounts payable and accrued liabilities	\$ 4,819	\$ 6,657	\$ (1,838)	(27.6%)	
Loans and notes payable	8,100	6,749	1,351	20.0%	
Other liabilities	1,549	315	1,234	391.7%	
Noncurrent liabilities					
Long term debt	14,041	3,059	10,982	359.3%	
Other liabilities and deferred taxes	9,055	4,545	4,510	99.2%	
Shareholder's equity					
Common stock	10,917	9,417	1,500	16.0%	
Retained earnings	49,592	42,864	6,728	15.7%	
Accumulated other income (loss)	(1,600)	(751)	(849)	12.5%	
Treasury stock	(27,762)	(25,398)	(2,364)	9.3%	
Total liabilities and shareholder's equity	\$72,911	\$48,671	\$24,240	49.8%	

Cash and cash equivalents increased 22.4%, marketable securities increased 122.6%, inventory increased 10.9%, and other current assets increased 42.0%.

Long term investments increased 11.2%, property, plant, and equipment increased 57.3%, and intangible assets increased 180.8%.

Total assets increased 49.8%.

Accounts payable and accrued liabilities increased 27.6%, loans and notes payable increased 20.0%, and other liabilities increased 391.7%.

Long term debt increased 359.3% and other liabilities and deferred taxes increased 99.2%.

Common stock and retained earnings increased. Accumulated other loss and treasury stock went further into negative territory.

Total liabilities and shareholder's equity increased 49.8%.

CASH FLOW



What is an SBA Loan?

- 2 Primary Types 7A and 504
- SBA Preferred Lenders
- SBA Guarantees
- Loan Fees specific to SBA loans
- Collateral – everything but
- Down Payments



Credit Scores and Deposits are Important!

- What scores get you the best rates?
- Is it just borrowings?
- Can you improve your score?
- What are alternatives?
- Why do deposits come into play?



Pima Community College Small Business Development Center

- **No cost one-on-one counseling**
- **Extensive banking backgrounds especially in business lending**
- **We help you assemble a loan package and determine the best avenue to follow**
- **We work with companies after the loan to help implement the plan that led to the need for funding**





QUESTIONS

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