

Financing Options and Resources for Your Business

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Agenda

- Financing Options Overview
- Bank Financing
 - How Do Banks Evaluate Loan Applications?
 - Conventional Financing
- Government-Backed Program
- Non-Bank Lending Options
- Technical Assistance Providers
- Q & A



Financing Options Overview

- Conventional Bank Financing
- Government-backed loan programs – established as credit enhancements for banks to mitigate many of the identified risks.
- External resources and non-government-backed loan program . . .
 - Personal Equity/Family and Friends – owner’s cash contribution
 - Not-for-profit loan pools – administered through community organizations and have more flexible underwriting criteria.
 - Asset based lenders (e.g., Presidential) – lenders that advance funds based solely on asset value;
 - Leasing - when use is more important than ownership;
 - Equity Providers (e.g., Angel Investors, VC Funds) - models are based on eventual profit from sale of ownership; looking for high growth and high return

What Do Banks Look For?

Five “Cs” of Credit

- **Capacity/Cash Flow** – can your business repay the loan you are requesting?
- **Capital** – what are your company’s financial reserves?
 - Equity Contribution
 - Earnings reinvestment
- **Collateral** – assets available to secure loan
- **Credit** – how have you handled personal obligations?
- **Conditions** – general conditions related to your business.



Conventional Bank Financing

- ***Lines of Credit – Short Term Needs***
 - Receivables Financing
 - Inventory Financing

- ***Term Loans – Long Term Needs***
 - Purchase Equipment
 - Leasehold Improvements
 - Permanent Working Capital

- ***Commercial Mortgages***



Government Backed Loans

How do these programs help?

- These programs help support deficiencies in the “Five Cs”. They...
 - Bolster collateral shortfalls;
 - Enable extended payments to ease tight cash flow;
 - Add support to principals with low or moderate net worth;
 - Support lending to businesses with limited financing history; and
 - Provide additional support in weak economic conditions.

Government Backed Loans

What's Available

- ***Small Business Administration – (SBA)***
 - Administered by the Federal Government
 - Guarantees up to \$1.5 million
 - Term Loans/Lines of Credit
 - Export/Trade Financing
 - Loan Participation on Owner-Occupied Real Estate Loans
- ***State/City of Chicago***
 - Capital Access Program
 - Loan Participation Programs

Alternative (Non-Bank) Lending Options

- Generally offer greater lending flexibility
- ***Microloan Programs***
 - Loans up to \$25,000 (some have a maximum of \$50,000)
 - Generally have more flexible underwriting criteria
 - Provider such as ACCION Chicago
- ***Local Development Programs***
 - Offered by community development organizations, cities and villages and can range from direct lending to loan participations.
 - Non-profit loan and equity funds designed for specific communities or census tracts (e.g. Chicago Community Ventures, CEDA)
- ***Finance specific assets***
 - Receivables Financing
 - Provides working capital lines of credit
 - Based on commercial receivables
 - Generally an interim financing step
 - Leasing
 - Finance equipment and related costs
 - Obsolescence protection
 - Tax Benefits
 - Preserves cash flow - 100% financing available

Technical Assistance Providers

- These groups provide business counseling, workshops and loan packaging assistance.
 - ***SCORE***[®]
 - Counselors have significant industry/management expertise
 - Provides individual counseling
 - Offers training workshops
 - Can serve as informal business advisors
 - ***Small Business Development Centers***
 - Offers Entrepreneurial Training
 - Provides Loan Packaging Assistance
 - Offers Procurement Technical Assistance – help obtaining new business contracts
 - International Trade/Export Assistance

Tips for Getting Financing For Your Business

- ***Be Prepared***
 - Have a business plan
 - Keep good financial records
- ***Keep your company financially sound***
 - Have personal funds to contribute
 - Reinvest profits
- ***Be responsible with your personal/business credit***
 - Explain any issues
 - Show corrective action if history is imperfect
 - Develop a good payment history for your business
- ***Find good advisors***
 - Accountant/Attorney
 - Industry Experts
 - SBDCs, SCORE[®]
- ***Be open to financing options***

