



America's Most Convenient Bank®



The 5 C's of Credit & Access To Capital

TD Bank – Introductions



This workshop is intended to assist business owners identify the different type of financing options that are available and what is required to obtain financing.

Presenters:

- Richard Araluce – Store Manager



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5 C's of Credit

2017

What Do Banks Evaluate



5 C's of Credit

- Character
- Capacity
- Capital
- Collateral
- Conditions



The 5 C's of Credit



CHARACTER

- Integrity of the Borrower
- Past Credit History
- Business & Personal Credit Reports
- Analyze Trade Supplier Credit / Terms
- Aims to predict likelihood of timely loan repayment

The 5 C's of Credit



Personal Guaranty – "Tertiary Source of Repayment"

- Credit Score/History
- Personal Liquidity
- Personal "Outside" Net Worth
- Other Contingent Liabilities/Debts



The 5 C's of Credit



CAPACITY

- Ability to REPAY new and existing debt
- Primary Source of Repayment
- Test of Company's cash flow & liquidity
- Along with CHARACTER, critical factor in making credit decision
- Analysis of financial trends, historical and projected performance

The 5 C's of Credit



CAPITAL (Skin in the Game)

- Measure of Business Owners' Stake (\$\$) in the Business
- Available Sources of Alternative Assets / Liquidity
- Relationship of Debt to Equity ~ "Business Leverage"

The 5 C's of Credit



COLLATERAL

- SSOR – "Secondary Source of Repayment" in the event Business Cash Flow is insufficient
- Borrower "Pledge" of Assets to Secure Financing
- Available Business/Personal Assets Evaluated

The 5 C's of Credit



CONDITIONS-SWOT Analysis

- Macro Economic Conditions
- Borrower Industry Conditions – Historical/Current
- Customer / Supplier Concentrations
- Borrower Readiness to Adapt To Change
- Catastrophe Recovery Plan



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ACCESS TO CAPITAL



BORROWING FROM YOURSELF

Using your personal savings, credit cards, retirement investments or a loan against personal assets is a common way business owners access start-up funds or funds needed for an important investment in the business.

Pros:

- ✓ For funds that you have already paid taxes– you don't have to pay taxes again.
- ✓ If it's your money, you are in control.

Cons:

- If you have joint assets held with a partner, family member or other individual – you still need to consult them about the use of these assets for your business.
- And if by using joint assets, do they see a role for themselves in your start-up as an investor or founder?
- It's easy to commingle personal and business funds, you could be putting all of your personal assets at risk if the business doesn't work out.
- Limits on how much you can put in and for how long.



Family Friends and Investors

- Discuss if the loan will be a gift/donation, a loan or an investment.
- Be clear on terms and expectations.
- Put an agreement in writing!
- How and when it will be paid back?
- Determine the rolls and responsibilities of the lenders.



Conventional Bank Loans

You will need to fill out an application and provide business financials, tax returns and provide access to your personal and business credit info.

Pros:

- ✓ They offer a range of loan products from small business credit cards to business mortgages.
- ✓ Banks traditionally offer lower rates and fees.
- ✓ If you bring your checking account and loan relationship at the same time you could receive a rate discount on your loan request.
- ✓ Banks are easy to contact for help.

Cons:

- The application to closing process can take about 2 weeks... or more.
- You need to take time to fill out and prepare documentation.
- You may need to be prepared for an interview with the bank so that they can understand more about your business plan and yourself.
- If there are weaknesses in your credit history (personal and/or business) this may result in a loan offer with higher rates.

Types of Loan Products



- Lines of Credit (working capital)
- Commercial Mortgages
- Equipment Financing
- Business Acquisition
- Term Loans
- Healthcare practice financing
- Many more

Small Business Administration (SBA) Guaranteed Loans



The U.S. Government provides banks with a partial guarantee of small business loans so that lending institutions can more readily finance small businesses. You will need to fill out an application and provide specific financials as well some SBA forms.

Pros:

- ✓ SBA products provide options to finance projects with less money down and longer repayment terms.
- ✓ With many SBA programs available, you can put as little as 10 percent down.
- ✓ The bank is your only contact.

Cons:

- Rates and fees may be higher than a conventional bank loan.
- SBA Loans may take longer to close.



U.S. Small Business Administration

Types of loans 7(a) vs 504



SBA 7(a) Loan

This is a very flexible loan that can be used to: acquire real estate, acquire businesses, buy out partners, refinance existing debt, purchase equipment and supplement working capital. It also offers low equity requirements.

SBA 504 Loan

This loan has the benefits of long-term financing at a low rate. It can only be used to acquire or refinance real estate or equipment.

Questions to a Small Business Relationship Manager



- When should a business owner reach out to a banker? At what stage in their business?
- How should a company maintain a relationship with their banker and with who else in the organization?
- Example of a company that grew with you as a Relationship Manager.
- What was the most difficult loan/relationship and how were you able to assist the business owner?
- What is a realistic timeframe for the application process, approval and closing?
- How is TD different from other banks as it relates to small businesses and loan support?
- If I am rejected for a loan, how should I think and move forward?

TD Bank – Let's Get Digital!



Visit the **TD Bank Small Business Resource Center** for virtual workshops and more:

- Video tutorials on a variety of topics including:
 - Creating a competitive advantage
 - Preparing a balance sheet
- Download templates
- Go to tdbank.com/smallbusiness/
 - Then, click on **Resource center** to begin

Learn more about your personal finances and visit the **TD Bank Learning Center**:

- Interactive lessons in less than 10 minutes – from any device!
- Topics include credit reports and scores, identity protection, financing higher education, and more.
- Go to tdbank.com/financialeducation to get started.

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and resources designed
to help you stay ahead.

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about money management?

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See how

Q & A



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