Borrowing Guide for Small Businesses

Presented by Frost Bank

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Personal Credit Report

- Equifax
- Experian
- TransUnion

www.AnnualCreditReport.com

EQUIFAX®

www.Equifax.com

Equifax Credit Information Services, Inc

P.O. Box 740256, Atlanta, Georgia 30374

- 1-800-685-1111: Credit Report Inquiries
- 1-888-766-0008: Place Fraud Alert on Your Credit Report
- 1-866-493-9788: Credit Reports, Scores and Identity Theft Monitoring
- 1-888-202-4025: Business Solutions

Experian™

www.Experian.com

P.O. Box 9554, Allen, Texas 75013

- 1-888-397-3742: Credit Report / Dispute Information / Fraud & Identity Theft
- 1-877-284-7942: Triple Advantage Credit Monitoring Membership
- 1-888-243-6951: Business Credit Services

TransUnion®

www.TransUnion.com

P.O. Box 6790, Fullerton, CA 92834

- 1-800-493-2392: Credit Monitoring Service Inquires
- 1-800-888-4213: Purchase a Credit Report or Get Free Annual Report
- 1-800-916-8800: Dispute Items on Credit Report and Status Checks
- 1-800-680-7289: Fraud Alerts and Identity Theft Information
- 1-866-922-2100: Business Services Assistance

Getting Started: Sources of Capital

- Equity
- Debt

Credit Approval Process

- Loan Request
- Analysis
- Decision

5 Cs of Credit

- Capacity
- Capital
- Collateral
- Conditions
- Character

Common Types of Business Loan

- Line of Credit
- Term Loan
- Leasing
- SBA Loan

Line of Credit

- With a line of credit, you have access to a specific amount of financing, but you don't make payments or incur any interest until you access the funds.
- Lines of credit accommodate the seasonal credit demands of a business along with the ups and downs in the cash flow. They can enable a business to purchase inventory in anticipation of future sales.

Term Loan

- A term loan allows a business to borrow a lump sum of money, receive it all at once and pay it back over a specific time period. The Borrower must begin repaying the loan immediately, even if they don't use the money right away.

Leasing

- Leases vs. Loans

Leasing: Terminology

Tax Lease

- Operating Lease
- Fair Market Value Lease
- Direct Finance Lease
- Open End Lease
- Off Balance Sheet Lease
- TRAC Lease
- True Lease

Capital Lease

- Non-Tax Lease
- $1 Buy-Out Lease
- Conditional Sale
- Closed End Lease
- Equipment Loan
- Finance Lease
- Installment Sale Contract

Leasing: Comparison

Tax Lease

- Off Balance Sheet (in footnotes)
- Payments are expensed (rental)
- Equipment is not depreciated
- An end-of-term residual exists, usually Fair Market Value
- Sales tax is assessed on each payment

Capital Lease

- Listed as an Asset with Offsetting Liability
- Payments are amortized (interest & principal)
- Equipment is depreciated (e.g..MACRS)
- No further obligation at end-of-term (unless balloon established
- Sales tax is assessed up-front

SBA Loans

- 7(a) - Term loans only

  Maximum loan size $5,000,000.

  85% SBA Guaranty for loans $150,000 or less

  75% SBA Guaranty for loans over $150,000

- SBA Express Program - Term loans / lines of credit

  Maximum loan size $350,000

  SBA Guaranty 50%

  Only Program for lines of credit

- 504 Loan Program – Real Estate and equipment purchase. Can include soft and closing costs.

  The SBA/CDC loan maximum is $5,000,000 or $5,500,000.

Appropriate Loan/Need

- Matching asset life with the term of the loan

Terminology

- Equity
- Amortization
- Term Out
- Calling a Note
- Cash Value / Face Value

Terminology: Equity

- Ownership in any asset, excluding all debts associated with it

Terminology: Amortization

- When the principal of a loan is paid down over the life of the loan, typically through equal payments.
- Can be fully amortizing (maturity of loan matches amortization of loan) or can have an amortization longer than the maturity.

Terminology: Term Out

- The process of changing short-term debt to long-term debt
- Example: Taking the principal balance on a line of credit and converting it into a 5 year term loan

Terminology: Calling a Note

- When a lender requests the entire balance of a loan be paid in full prior to the scheduled loan maturity

Terminology: Cash Value / Face Value of Life Insurance

- **Face Value** - This refers to the death benefit the beneficiaries will receive upon the death of the policy holder. It is also the maximum amount payable that is written and agreed upon in the policies declarations page. It is the apparent value of the policy which is often the amount disputed in court in cases of double indemnity.
- **Cash Value** - It is referred to in most insurance contracts as cash surrender value or surrender value. It is the amount which a surety company gives a policy owner for cancellation of contracts and is normally associated with life insurance types of contract. Cash value is also the amount earned through the investments made by your insurance company through the premiums you have paid. This is a feature of permanent life insurance which is not enjoyed by owners of term life insurance.

Business Plans

- Define Direction
- Establish Expectations
- Lay Out Vision for the Future
- Provide Understanding for Potential Investors and Financiers

Projections

- Establish Goals and Targets
- Offer Feedback vs. Actual Performance
- Anticipate Future Cash Needs
- Shows the bank that the Borrower understands and has planned for all future expenses

State of the Industry

- Know what you’re getting into- be an expert in the field
- Be prepared for future changes in the industry or operating environment
- Anticipate how the changing environment might affect your specific business

Contact

Jessica Leone

Business Banking Officer

713-388-1058 Office

281-814-9872 Cell

Jessica.Leone@frostbank.com