

# How To Prep & Pitch Your Loan



# Who We Are & What We Do



Helping local businesses start, grow and prosper through street-smart business education and assistance.



# Larimer SBDC Services

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Loveland Business  
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Hosted by The Warehouse

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NETWORKING

INNOVATION

PROJECTIONS

SUSTAINABILITY

GROWTH

CONSULTING

MENTORING

BUSINESS

FINANCING

SUCCESS

# Preparing to Approach Your Lender

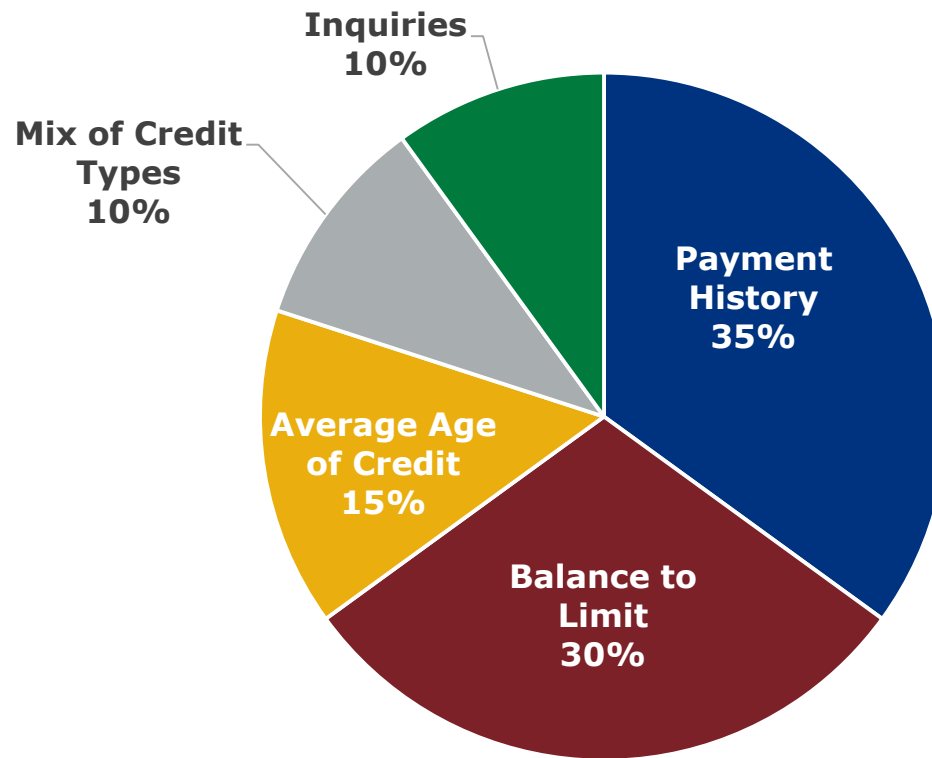
# How is Your Credit?

## **FICO vs Credit Monitoring Websites**

- Lending institutions use FICO
- Score difference around 50 points
- [Annualcreditreport.com](http://Annualcreditreport.com)

# How is Your Credit?

## What Makes Up Your FICO Score?



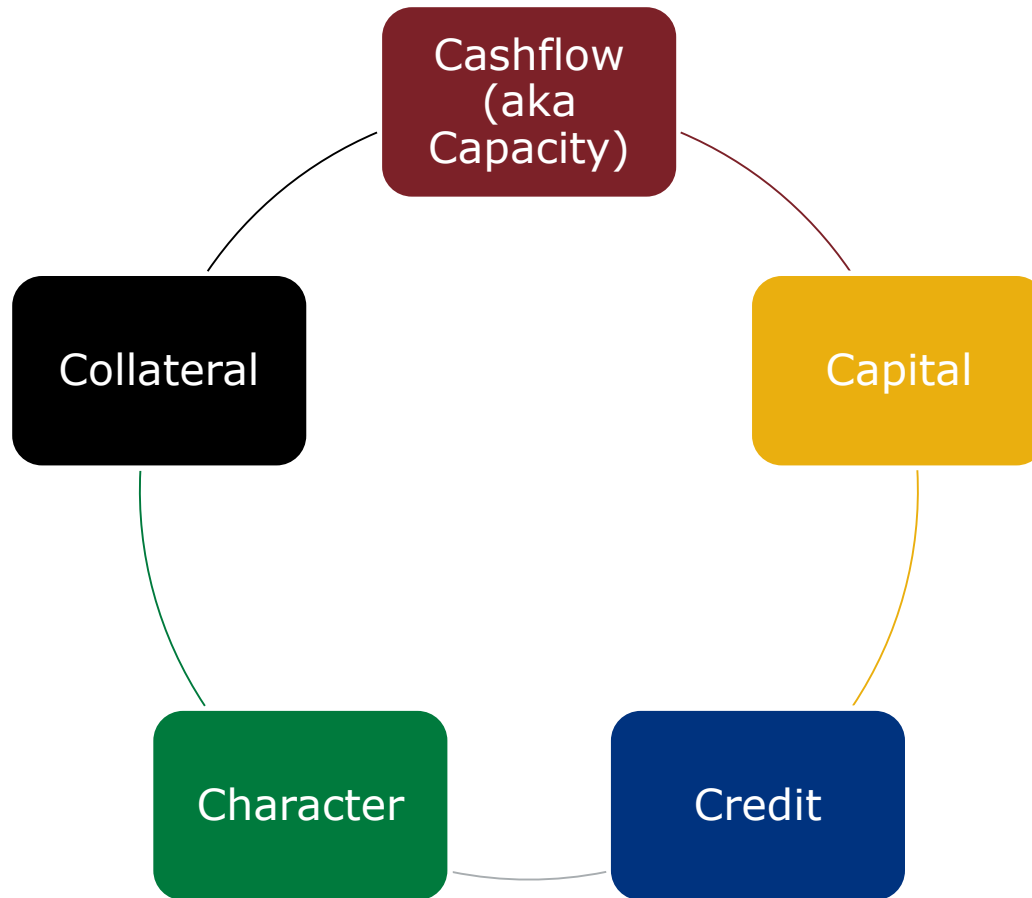
# How to Improve Your Credit

- No slow pays (30+ days past due)
- Keep balance to limit at 0-10%
- If payoff credit card each month, must do it prior to statement cycle when reported
- Work with CERTIFIED Credit Experts

# Understand Your Financials

- Balance Sheet-Snapshot of Assets, Liabilities and Owner's Equity
- Income Statement (P&L)-Company's revenues less their costs and expenses over a given period
- Be able to answer questions about trends reflected in the financials

# The 5 C's of Credit



# The 5 C's of Credit

## **Cashflow/Capacity**

For every \$1 in expenses, the business needs to have at least \$1.20 of income to meet minimum cashflow requirements.

# The 5 C's of Credit

## **Capital**

The injection (down payment) made by the business. For example, if you are looking to purchase a building you would need 20-25% down.

# The 5 C's of Credit

## **Credit**

Any individual with  $\geq 20\%$  ownership required to sign as guarantor on loan. Typically want to see score mid-700s or higher. Case by case depending on strength in other 4 areas.

# The 5 C's of Credit

## **Character**

Based on your educational background and experience in your business and industry.

# The 5 C's of Credit

## **Collateral**

Pledging an asset you own as security.  
There are unsecured loans available depending on the amount and situation.

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**What Are Your  
Choices??**

# What Are Your Choices?

- Microloan
- SBA (Small Business Administration)
- Conventional Bank Loan

# Microloans



- Nonprofit lending source for small businesses that are unable to obtain traditional bank financing
- Loans from \$1000-\$500,000
- Startup and existing businesses are eligible
- Rates and terms vary
- Work in conjunction with banks to fill credit request gaps

# Microloans



- Nonprofit lending source for small businesses that are unable to obtain traditional bank financing
- Loans from \$1000-\$500,000
- Startup and existing businesses are eligible
- Rates and terms vary
- Work in conjunction with banks to fill credit request gaps
- Can work with lower credit scores

# Common Misconceptions of the

**U.S. Small Business Administration**



***Your Small Business Resource***

# SBA

## **Myth #1**

The SBA will give me a grant to start my business.

## **Fact**

The SBA does not provide grants to start a small business.

# SBA

## **Myth #2**

The SBA lends money to a small business owner.

## **Fact**

The lender actually lends the money and the SBA guarantees a portion of the loan.

# SBA

## Myth #3

I can start a business and get a loan with no money down.

## Fact

Lending institutions will require that you have some “skin in the game”. The percentage varies, but typically 25%.

# SBA

## **Myth #4**

SBA loans are grants from the government that I won't have to pay back.

## **Fact**

Remember, the SBA does not provide grants. Both the lender and SBA will expect the loan be repaid.

# SBA

## **Myth #5**

I can get an SBA loan anywhere.

## **Fact:**

SBA loans are a complex process. Banks that are part of the Preferred Lender Program can help you save time and reduce complications.

# SBA – Eligibility Basics

- Located in the US
- For Profit
- Has Experienced Owners/Managers+
- Demonstrates an Ability to Repay
- Not a Lender, Money Service Business, Life Insurance Company or Investment Brokerage

# SBA – Eligibility Basics

## Small by SBA Size Standards

- NAICS for Service Businesses based on Revenue
  - Typically < \$7.5MM
- NAICS for Wholesalers / Distributors based on Employees
  - Typically < 100 Employees (at application)
- NAICS for Manufacturers based on Employees
  - Typically < 500 Employees

# SBA – Eligibility Basics

## The Owners Must:

- Be US Citizen or Legal Permanent Resident (Green Card)
- Be of Good Character

SBA: Not on Probation, Parole or Pretrial Diversion

SBA: NEVER convicted of a felony for a crime of “moral turpitude”

Bank: Should have an acceptable credit score

- Not Be Affiliated with Lender

Share household with Employee, Officer, Director

# SBA – Loan Programs

## 504

- Used to purchase major fixed assets such as equipment or owner-occupied real estate

# SBA – Loan Programs

## 7(a)

- Used to establish a new business or to assist in the acquisition, operation, or expansion of an existing business

# SBA Benefits

- Longer Terms
- Lower Down Payments
- Increased Cashflow
- Alternative when collateral does not meet conventional lending standards

# Conventional Loan Programs

## Fixed Term Loans

- Long term financial needs for renovations and equipment and vehicle purchases

# Conventional Loan Programs

## Lines of Credit

- Short term cash needs, managing business expenses and purchasing inventory

# Conventional Loan Programs

## Real Estate Loans

- Ready to purchase property, expanding to new location or refinancing existing real estate loan

# Conventional Loan Benefits

- Lower rates than SBA and Microlender
- No SBA guarantee or packaging fees
- Shorter turnaround times
- Less paperwork

# Q & A