

Accessing Capital: 5Cs of Credit

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DREAM IT. FUND IT.

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AGENDA

- Who we Are
- What We Offer
- Who We Serve
- Our Clients
- Preparing for a Business Loan: Preparing, Lender's View, and Financial Hurdles
- 5Cs of Credit
- Our Process
- Our Commitment



WHO WE ARE

Since 1994:

Number of Borrowers: 16,357

Total Dollars in Loans: **\$190 Million**

Number of Active Clients: 2,804

This Year:

Over 700 entrepreneurs totaling **\$14 Million**

Over **3,000 individuals** served with business and financial education

*A 20 year non profit that is a **CHAMPION AND SUPPORTER** of small business
by **PROVIDING** small business **LOANS** and business **EDUCATION**.*

WHAT WE OFFER

- \$500 to \$250,000 for business loans
- Terms: 6 to 120 month terms
- 7.25% to 18% fixed rates
- No pre-payment penalty
- Online business education
- Financial & business management consultations

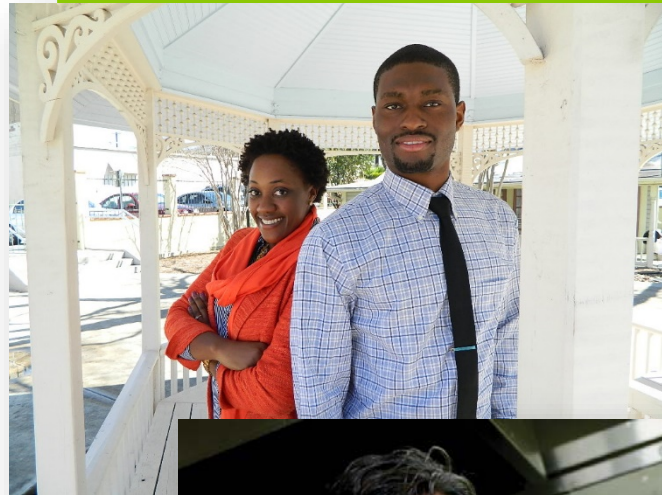


OUR VALUE

- We fund **STARTUPS**
- **LOWER RATES** than credit cards and payday lenders
- We work with **LOWER CREDIT SCORES**
- We have a 20 year **PROVEN** track record of working with small business clients
- We are **FLEXIBLE** on collateral requirements
- We connect clients to **OTHER SMALL BUSINESS RESOURCES** available in our community
- We have **ONLINE** Business Resources



OUR CLIENTS



What are LENDERS
looking for?



- We ask

- ✓ “How will the loan be paid back?”

- From the business or personal income?*

- ✓ What will secure the loan?

- Unsecured lending is practically extinct!

- ✓ What is the risk?

- ✓ Will the business succeed?

- ✓ Are you a good Borrower?

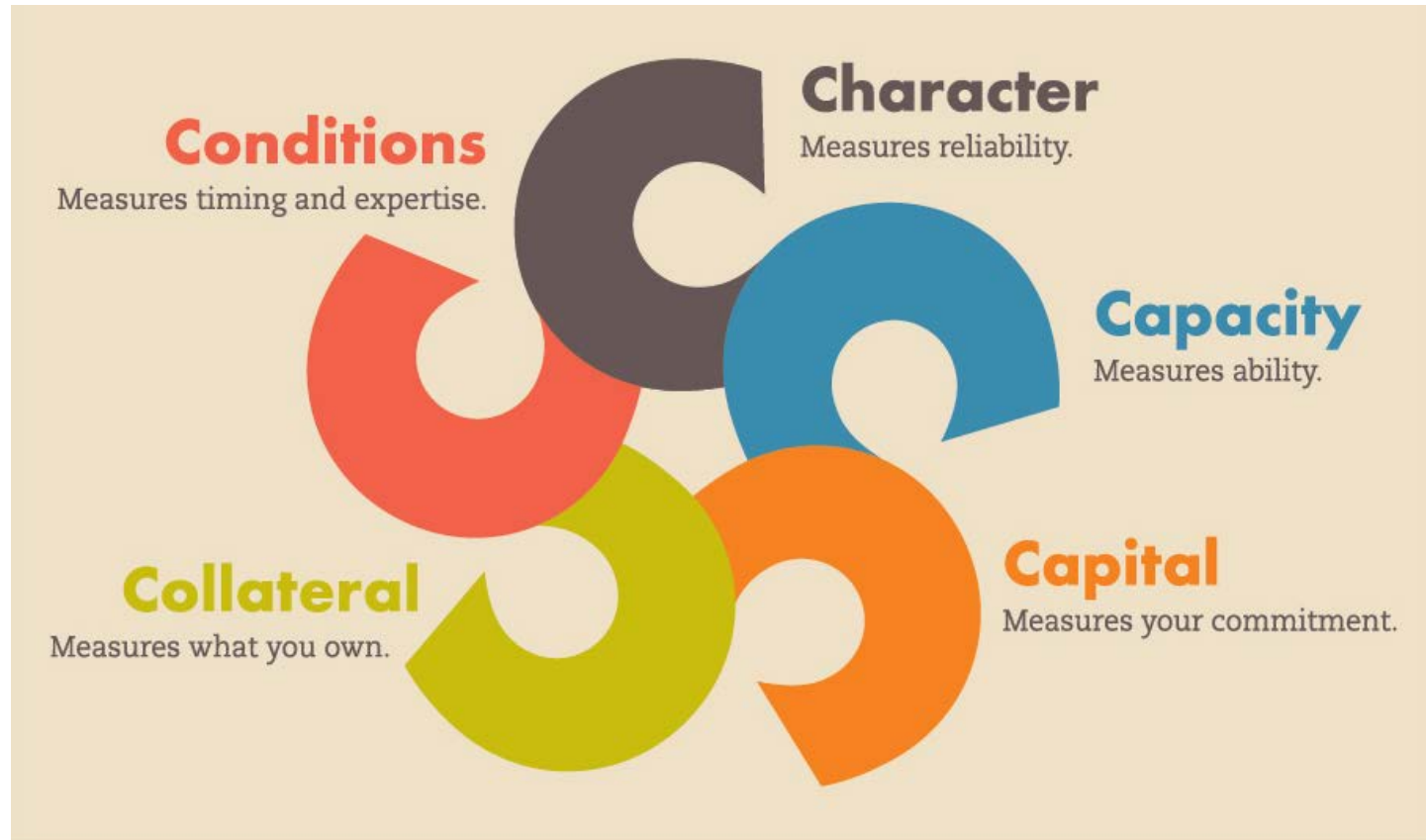
- ✓ What is your contribution?

Would you Lend to Yourself?

**Put yourself in
THEIR
shoes**



5 C'S OF CREDIT



Character: (Credit)

i.e. the likelihood of paying the loan on **Time**

The prospective lender will
evaluate your Credit Score/Report:

- *Snapshot of your personal debt repayment history at a single point in time
- *Credit Score: Determines Rate and Loan Size
- *Credit Report: Speaks on Character and Reliability in handling debt.
- *Credit Score Range: 300 – 850
- *LiftFund client average Credit Score: 580



Credit Score Factors

- Payment History
- Length of Credit History
- New Accounts That Have Been Opened
- Number of Recent Credit Checks
- How Many Accounts You Have in Use

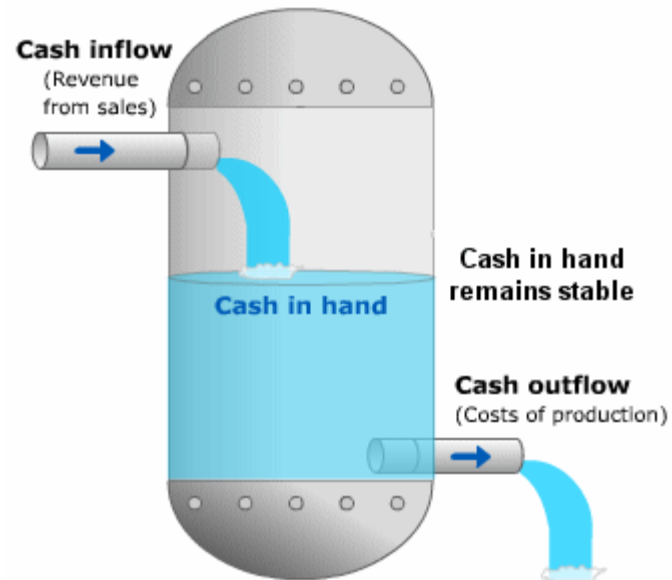
*Low Credit will not bar you from accessing capital, but it will naturally come at a higher price.

Capacity

i.e. the **Capacity** (or ability) to repay the loan

The prospective lender will evaluate:

- *the historically proven sources of repayment
- *the business trends
- *the feasibility of the business idea.
- *the projected repayment amount
- *fixed expenses



Cash Flow Indicators

Personal DTI or Debt to Income Ratio

- This is the borrower's debt divided by the borrower's income.

Global Debt Coverage Ratio

- Total Capacity (personal surplus and business surplus) divided by proposed debt

Cash Flow Trends

- Comparison of historical trends to predict future trends. Based on gross income, costs, and profit/loss.



How does a lender measure Capacity?

Start up Business

- Personal Tax Returns
- Bank Statements
- Projections
- Business Plan
- Lease agreement

Existing Business

- Tax Returns (personal and business)
- (P&B) Bank Statements
- Profit and Loss Statement
- Business/Expansion Plan

Capital

Your “Skin in the Game” for your business venture

The prospective lender will base Capital on:

- *Amount of Funds set aside for business venture
 - Retained Earnings or Personal Savings
- *Business Assets owned by the Company
- *Overall capital evaluation of existing company
 - Does owner suck out all profits?
 - Are there limited Investments?
- *Most lenders are not willing to take on 100%

Financial Risk

- *Lenders want to see on average a 20% of funds to be borrowed listed and reflected somewhere.



Collateral

Property or other assets a borrower offers a lender to secure a loan

- *Collateral acts as a back-up source if borrower cannot repay a loan
- *Lowers Lenders Risk by:
 - Ensuring Lender's loan is hedged
 - Pressure on borrower to not default
- *Collateral can be any business asset that is currently owned or to be purchased.
- *Collateral that is Free and Clear is preferred
- *100% Loan Collateralization is Optimum
- *SBA Loan Products like the 7(a) exist to mitigate collateral deficiencies



Types of Collateral

- Tangible Business Assets
- To be Purchased Business Assets (With Loan Proceeds)
- Vehicles
- Real Estate
- Contracts
- Stocks & Bonds
- Cash
- Jewelry
- Cash Value on a Life Insurance Policy

Conditions

A borrowers fundamental understanding of their business

Banks want to loan to businesses operating under favorable conditions to ensure they will be repaid, which is measured by:

*A Business Plan

- Economic, Industry, & Environmental Conditions of Industry
- How will loan proceeds be used
- Assessment of Competitive Landscape
- Seasonality of Business
- Certificates, Licenses, & Permits

*How prepared are You?



Still Need Help?



WE HAVE RESOURCES...ONLINE

- Take our Index to know where you are
- Visit our online library that has:
 - business plan templates
 - startup budget
 - our loan application budgets
 - projections
 - personal financial statement
- Visit our blog
- Visit us on Facebook for tips and articles
- Visit our website, we have live chat and a businesscenter@liftfund.org email so a team member can support you.



DETERMINE WHAT THE LOAN IS FOR

- **What Type of Funding Do You Need? Be Specific!**

- Equipment
- Working Capital
- Start Up
- Expansion
- Inventory
- Asset Purchases
- Improvements



- **What Is Your Contribution?**

- Business loans are leveraged with equity and owner's capital. Be prepared to put your own money into your business.



PREPARE YOURSELF

- ✓ Know how much you need
- ✓ Personal and business tax returns (2-3 years)
- ✓ Current business and personal financial statements
- ✓ Bank statements (3 months)
- ✓ Review your credit report
(www.annualcreditreport.com)
- ✓ DBA or Corporation Documents
- ✓ Business plan with financial projections



START-UPS ARE SPECIAL

- 10-20% Personal Investment
- Business Plan & Financial Projections
- Secondary Source of Income*

**if not, we do have special loan programs*



FINANCIAL HURDLES

- In order to better serve you, its important that you know the status of the following issues:
 - Bankruptcies
 - Write-offs and collections issues
 - Recent Slow payments
 - Civil judgments and tax liens
 - Taxes owed (state and federal)
- We may not be able to provide capital at this time due to your capacity, but we'll connect you to resources to get your financials in order.



Thank You!

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