Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

Your Business, Your Money

Business Financing Options

When your business needs financing for growth, acquiring new equipment, adding a new product or for any reason, you probably go to your local bank or credit union for a loan.

Lenders themselves are classed into tree major categories. The first is:

Institutional Lenders

These are usually "depository institutions" such as Banks, Savings & Loans, Credit Union and any government regulated monetary business. They obtain their inventory (money) through two methods. First, they obtain capital by borrowing from depositors such as you and me. Secondly, Institutional Lenders will also borrow through government agencies and/or public offerings. Since depositors who are not a party to credit extension supply their inventory, these companies are highly regulated and monitored by government agencies. They are required by the government to classify their loans a "Good", "Fair", and "Bad" and reserve capital accordingly. Therefore, they do not do all types of credit extensions and are more critical in their lending policies. Because of this, their clients may choose to seek financing from other, less restrictive sources.

Private or Commercial Lender

These are "non-depository" companies such as Insurance Companies, Leasing Companies, Commercial Finance Companies, Mortgage Banks, and lenders whose lending activity is not directly regulated by the government. However, they must abide by rules and regulations for credit granting. Most often these companies offer "niche" products or services to a specific group of borrowers. Because of this, they can make quick decisions, which will benefit the borrower.

Public Markets

These are securities dealers who provide debt and equity securities to the public and the proceeds are utilized by business for capital. They do business in large ticket items, generally $10 million and above. Most Private and Institutional lenders utilize this type of lender to raise funds to loan to the general public and other businesses. This is a very narrow marketplace.

The funding that is offered by these sources also fall into three general categories.

Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

Direct Loan

This is a credit arrangement by and between two or more parties. The proceeds of this credit extension are directly used and repaid by the borrower. This is the type of borrowing arrangement that most consumers are familiar with. Credit cards, auto loans, mortgages, business loans, and leasing are all examples of Direct Lending.

Indirect Lending

This type of credit extension occurs when the borrower does NOT directly receive a value of proceeds from the credit arrangement. Or when a third party lender does not directly fund or collect the value of the credit extension. Examples of indirect lending are letters of credit, surety bonds, some equipment leasing, and public and private securities offerings.

XYZ

This is a catch phrase that is used when the credit extension is not formalized or is not true granting of credit. Examples of this type of lending are factoring, financial guarantees and pawn broker loans. These transactions usually involve the purchase of assets at a discount from their actual value.

All of the above financing types can involve Secured and Unsecured transactions. Secured Financing, as its name indicates, is the granting of credit and collateralizing the loan with a specific asset or assets. The assets have confirmable, historical value, which will be liquidated to repay the loan should the borrower default.

The second type is unsecured. This, as its name indicates, relies on the credibility of the borrower to repay the loan. Although it does not directly rely on collateral, it does evaluate the assets of the borrower to repay the loan upon default.

Lenders evaluate credit based on the "3 Cs": Cash, Credit and Collateral. The importance of one evaluator over another is based on the type of loan and the lender's guidelines. In every credit decision the order the importance of the 3 Cs may change based on the type of credit request, however the 3 Cs are always used when evaluatin any type of financing.

CASH

What most lenders consider the most important and refers to the ability of the proposed borrower to repay the debt from their available net income. This is also known as "Cash Flow". Most lenders have a set amount of excess cash flow necessary to service a debt. The general parameter is 1.5 times the debt payment. This category is always the most

Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

important of the 3 Cs. If a proposed borrower does not have the cash flow to repay the debt, they will not be approved even if they had excellent credit and abundant collateral.

CREDIT

This is sometimes referred to as CHARACTER. This is the borrower's history indicating their willingness to repay debt. In evaluating a request for financing, lenders will use both credit reporting agencies as well as direct contact to credit granting sources to verify the borrower's track record. In consumer credit evaluation, grades are given to credit quality from A to D. These classifications are not generally used in the commercial loan arena. It is only important to distinguish "Good" from "Bad" credit. Simply put, if the proposed borrower has always paid his credit arrangement as agree, he is a good credit risk. The converse is also true. Those who have had some credit problems and managed to overcome them, are still considered risks.

COLLATERAL

This is the security a lender seeks for secondary repayment of the debt. Even unsecured loans are collateral dependent. If a request is stron in credit and cash a lender will still evaluate the borrower's assets to repay the loan. If the borrower defaults on payments, the lender will foreclose on the collateral and sell it to repay the debt. Every lender establishes Loan To Value ratios (L.T.V.) on all types of collateral. Collateral never makes a "Bad" loan turn to a "Good" loan. If a loan request is weak in credit or cash, collateral will not make it better. The only exceptions are Hard Money Lenders who rely on real estate equity as their protection. And Pawn Brokers who purchase assets for pennies on the dollar.

All lenders evaluate credit decisions on a risk and reward basis, where risk is the possibility of default and reward is the interest paid on the loan. There is a direct correlation between risk and reward. If the risk is high the reward (interest) is high and if the risk is low the reward (interest) is low.

All lenders evaluate credit decisions on a risk and reward basis, where risk is the possibility of default and reward is the interest paid on the loan. There is a direct correlation between risk and reward. If the risk is high the reward (interest) is high and if the risk is low the reward (interest) is low.

LENDING TYPES

A. Accounts Receivable Loans – Probably one of the quickest and most widely used methods of secured lending is loans against accounts receivable. This is the major source of collateral for commercial finance companies. Many banks have recently entered into accounts receivable lending.

B. Commercial Finance Companies – Commercial finance companies usually work on a 3 to 6 point spread between their cost of money and what they loan to their customers. A

Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

commercial finance company's two primary sources for money are from lines of credit through commercial banks and from long-tern loans from institutions such as insurance companies.

C. Accounts Receivable Financing - On accounts receivable lending, a separate account is established with a commercial bank, whereby remittances from your customer are deposited in that account.
The commercial finance company then has a simultaneous deposit to your regular account, less the amount of the daily interest. At no time will your customers be made aware of the fact that you have their accounts pledged for a receivables loan, but the principle of dominion under the Uniform Commercial Code requires that remittances be deposited in the control of the lender. Generally speaking, the record-keeping process for accounts receivable loans is not cumbersome and is usually based on a photocopy or carbon copy of your existing sales records.

D. Factoring - The oldest way of loaning against receivables is called factoring. Technically, it is not a loan against the receivables because the factor actually purchases the receivables and there is no further recourse for lack of payment on the receivable. The borrower is not responsible for collection of the receivables.

E. Sale-Leaseback - In lease purchase agreements, the property can be new or used. It is sold to a lease company who in turn leases it back to the original owner or the intended buyer. The lease purchase agreement can be used for the acquisition of equipment, real estate and entire businesses as part of acquisition financing. For example, if sufficient closing funds are not obtainable through normal borrowing methods, it is possible to sell the used equipment to a leasing company and then lease it back. This capital is then available to the original seller of the business.

F. Floor Planning - Perhaps the best-known use of floor planning is with automobile and truck dealers. Floor planning is available with all types of distributors such as appliance dealers, industrial machine tools, air compressors and other standard items that have a rapid turnover. With floor planning, banks and occasionally finance companies finance the goods while they are on the dealers or distributors premises. The lender also tends to provide the time financing to the end customer when the goods are sold. The latter situation being the more profitable and attractive.

Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

G. Unsecured Loans - Unsecured borrowing is usually the simplest, method of financing. Although commercial banks are not the only source of this type of financing, they tend to be the major source and prefer making unsecured loans to a going business. Unsecured loans are typically made to provide working capital to an established company or an individual through a commercial bank.

H. Working Capital Loan - Working capital loans are usually for the length of the selling season to a period of up to one year. For example, if a company needs working capital to finance merchandise being prepared for the Christmas season (i.e., a toy manufacturer) or for the summer season (i.e., a boat manufacturer), a loan would be made until the inventory is sold and the money collected.

Unsecured working capital loans also typically require that they be paid off for a period of 30 to 60 days before they are reestablished. By "resting" the loan for a period, you establish that the working capital loan is not part of the equity structure of the company. Bankers feel comfortable with this concept.

I. "Warehouse Loan" – 'Warehouse loans" are similar to other types of inventory loans, which means that a lender will advance fluids against a portion of the goods in the warehouse. The turnover of inventory is an important consideration in making loans on warehouse inventory. Goods that have a wide market and high turnover can command a higher percent loan of their market value than those goods that are seasonal in nature and have a lower demand.

When goods are placed in a public warehouse, a warehouse receipt can be obtained and this receipt can be used as collateral for inventory financing. In a similar situation, field warehousing with a warehouse lending company also can be accomplished. The lender has a warehouse and the goods are stored with them. They then loan money against the inventory that is kept in their field warehouse.

J. New and Used Equipment Loans - A non-working capital loan would be a loan on equipment. To secure the lender on an equipment loan, a lien is used. The lien used to collateralize the loan against fixed assets is called a Chattel Mortgage. A chattel is personal property, which can be moved about such as machinery and equipment as opposed to real property (land and building), which is fixed and permanent in place.

The lender uses the Uniform Commercial Code financing papers to perfect his security interest by filing a financing document at the appropriate government office.

K. Collateral Loans - A company may be able to obtain bank loans on the basis of such collateral as chattel mortgages, stocks and bonds, real estate mortgages, and life insurance (up to the cash surrender value). Even with collateral, the bank will still give great weight to the company's ability to repay. The bank may turn down the application, no matter how good the collateral, if there is no clear showing of ability to repay. The bank does not expect to liquidate the collateral unless forced to and then will probably not realize book value on a forced sale. The collateral affords the bank some security and a collateral loan is easier to obtain than a line of credit or unsecured loan for a new or risky business.

Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

L. Endorsers, Co-Makers, and Guarantors – Borrowers often get other people to sign a note in order to bolster their own credit. These endorsers are contingently liable for the note they sign. If the borrower fails to pay up, the bank expects the endorser to make the note good. Sometimes, the endorser may be asked to pledge assets or securities that he owns.

A co-maker is one who creates an obligation jointly with the borrower. In such cases, the bank can collect directly from either the maker or the co-maker.

A guarantor is one who guarantees the payment of a note by signing a guaranty commitment. Sometimes, a manufacturer will act as guarantor for one of his customers.

M. Assignment Leases - The assigned lease as security is similar to the guarantee. It is used, for example, in some franchise situations. The bank lends the money on a building and takes a mortgage. Then, the lease, which the dealer and the parent franchise company work out, is assigned so that the bank automatically receives the rent payments. In this manner, the bank is guaranteed repayment of the loan.

N. Real Estate - Real estate is another form of collateral for long-term loans. When taking a real estate mortgage, the bank establishes: (1) the location of the real estate, (2) its physical condition, (3) its f9reclosure value, and (4) the amount of insurance carried on the property. Prior liens and encumbrances on title must also be cleared. See restrictions in your stale regarding licensing of Mortgage Brokers, or contact your Loan Consultant loan officer.

0. Interim Financing – This is simply a high-interest short-term loan to tide you over until you can get permanent long-term financing. It's suited to the company that has a good competitive position and has met an opportunity to make a profitable business provided it can come up fast with a sizable sum of new money. It may also be suited where interest rates on long-term financing are high and the company expects that they will decline by the time the short-term loan matures. If you are in this position and are already using a full credit line at your bank you can get the necessary funds in one of two ways:

P. Installment Loans - Larger banks generally grant this type of loan. They are made for almost any productive purpose and may be granted for any period that the bank allows. Payments are made on a monthly basis. As the obligation is reduced, it may be refinanced at more advantageous rates. It can be tailored to seasonal requirements with hea~y repayments in peak months and smaller payments in the off season.

Q. Time-Purchase Loans - Special types of time-purchase loans are available to finance both retailer and consumer purchase of automobiles, household equipment, boats, mobile homes, industrial and farm equipment, etc., and are made for varying periods of time, depending on the product. This category also includes accounts receivable financing~ indirect collections, and factoring.

R. Inventory Loans – These are available if the merchandise or inventory can qualify as collateral. Requirements are stiff and loans are limited to certain classes of inventory.

Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

S. Assignment of Money Due Under Government Contract – A device analogous to assignment of accounts receivable (see paragraph above) is the assignment of money to be received under government contracts to secure a line of credit. The lender will agree because collection from the federal government is often more certain than from some civilian customers. In the first instance, the government has already checked the contractor's credit rating to assure delivery to fulfill the contract. The one aspect, which might delay payment, could be the borrower-manufacturer's inability to comply with government specifications, in which case a penalty would be incurred.

T. Stocks and Bonds - If you use stocks and bonds as collateral, they must be marketable. As a protection against market declines and possible expenses of liquidation, banks usually lend no more than 65% of the market value of high-grade stock. On federal government or municipal bonds, they may be willing to lend 90% or more of their market value. The bank may ask the borrower for additional security or payment whenever the market value of the stocks or bonds drops below the bank's required margin.

U. Lines of Credit - After presenting your financial statement and loan request package to the bank the bank hopefully will establish that you have an open line of credit up to a specific amount, for example up to $100,000. Generally, this means the funds are available for the company to use for a period of one year up to the credit limit. They may use as little or as much of the line of credit at any tune during the year that they desire. In taking down on a line of credit, you (if this is an individual borrowing) or the company will have to sign a note. The notes are typically for 90 days. However, where a line of credit is tied to specific assets, such as inventory financing, as in the leasing of uniforms, the repayment period under the loan could be for periods of up to two years.

V. CSBF Program- Small Business is one of the fastest growing segments of Canada's economy. Imaginative entrepreneurs with a drive and spirit are creating thousands of new jobs and new opportunities for our country's future. The Canada Small business Financing (CSBF) Program was created to help small businesses reach their potential by making it easier for them to get term business improvement loans to finance the purchase or improvement of fixed assts for new or expanded operations. Administered under the Canada Small Business Financing Act (CSBFA), the program is a joint initiative between the Government of Canada and private sector lenders.

W. Equipment Leasing – Virtually every business can benefit from leasing in one form or another. Also, just about any type of equipment can be leased nowadays, new or used. For this reason, more and more companies are opting to lease the equipment they need instead of purchasing it. In addition, many leasing companies will allow a company to lease up to $50,000 in equipment simply by filling out a one-page credit application. These deals can be completed in as little as three working days.

Leasing itself is really nothing more than an alternate form of equipment financing where the lessor (owner) purchases the equipment from a vendor on behalf of the lessee (user). The lessee maintains possession and usage of the equipment provided he insures the equipment against theft or damage, and pays the lessor a monthly user fee. At the end of the lease, the lessee can purchase the equipment (usually for $1.00) or give it back to the lessor and begin a new lease, or simply walk away.

Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

Then there is Venture Capital.

What is Venture Capital?

Venture Capital is the process by which investors fund early stage, more risk oriented business endeavors. A venture capital funding arrangement will typically entail relinquishing some level of ownership and control of the business. The investment is usually in the form of stock or an instrument, which can be converted into stock at some future date. Venture capitalists typically expect a 20% to 50% annual return on their investment at the time they are bought out. Some will invest as little as $50,000 and as much as $20 million in any one company, but typical investments range from between $500,000 and $5 million. Management experience is a major consideration in evaluating financing prospects.

How to Talk to Venture Capitalists

The process of venture funding will take several meetings. During most of the meetings, you and the venture capitalist will be dealing from the business proposal you previously sent him. It is necessary for the venture capitalist to understand your product or service. Bringing along a proto-type or the actual product will go a long way in this process. Stay focused on your business plan. Meetings can sometimes last several hours and you may become talkative. Avoid mentioning any grandiose plans you may have for the future. Also, do not mention any products that were not covered in the business plan. Such conversation could present you as a dreamer, or someone who is trying to run before learning how to walk.

The Perfect Deal

Many factors go into making a perfect deal. A recent VC survey conducted by DataMerge revealed that companies displaying a good management team, strong financials and a good story topped VC's lists of perfect deal candidates. The most sensible answer was from a Canadian venture fund, which answered the question "What make a perfect deal?" with, "One you're out of with a profit."

Typical Questions Venture Capitalists Would Ask If you really want to impress a venture capitalist, you have to be quick with smooth answers to the grueling business questions they ask. Being prepared is your best defense. There are 74 questions that are asked so be prepared to answer all of them next time you visit a venture capitalist. Armed with information as your defense, you're bound to get a better response.

So, in conclusion, there are many ways to obtain funding for your business. Consider the following:

10 Reasons for Looking Beyond the Banks

1. To Acquire More Than Money

Ph: (204) 237-9878
Fax: (204) 231-5583
money@fbibusiness.com
www.fbibusiness.com

2. To Overcome Banks' Conservatism
3. To Accommodate the Diversity of the Small Business Sector
4. To Avoid the Limitations of Money Myths and the Canadian Mentality
5. To Nourish Success
6. To Forestall Failure.
7. To Reduce Dependence on leverage.
8. To Support Innovation.
9. To improve Networking and Community Visibility.
10. To Finance Substantive Growth.

Your business depends on making the right decisions and especially decisions about finance. To explore them all requires time, effort and money. It can cost you a lot of each. If not you are not prepared to make the effort, then consider the services of a Business Finance Facilitator. They have access to all the sources of funding and can help you make the best decision for your business.

If you would like more information or would like to subscribe to our upcoming news letter, please contact Rick McCoo at:

Phone: (204)237-9878
Fax: (204)231-5583
www.fbibusiness.com
info@fbibusiness.com