

WHAT YOUR LENDER NEEDS TO KNOW!





When you go to visit with your Lender you should answer five (5) questions within the first two minutes.

Those Questions are:

How much do you want to borrow?

How long do you want the money for?

What are you going to do with the money?

How are you going to pay the money back?

What is your secondary source of repayment- or –if something goes wrong, how are you going to repay (hint: not a good idea to say sell the collateral).

THE FIVE C'S OF CREDIT

- o CHARACTER
- o CAPITAL
- o CAPACITY
- o COLLATERAL
- o CONDITIONS

CHARACTER

- “One of the attributes or features that make up and distinguish the individual” (Webster)

Things that affect your character when applying for a loan;

Credit history—slow pay—foreclosure—repossessions (Credit Score)

Too much debt/credit cards—Bankruptcy

Failure to pay child support or IRS taxes

Criminal record (includes DUI)

Too many non-earning assets (toys) financed.

Frequent job or career changes

Several inquiries into your credit history





Bankers say that character should be given half the weight of these Five C's. If an individual does not seem to be trustworthy or leaves some question in the Banker's mind, this can weigh very heavily against the Loan.

What will the Borrower do if he gets in trouble?

Is his Integrity more important than any Legal Document?

CAPITAL

- Debt to Worth Ratio
- Total Liabilities divided by your Net Worth (NW)
- $NW = \text{Total Assets (TA)} - \text{Total Liabilities (TL)}$.
- Do you have any assets to fall back on or are you highly leveraged?
- Room for error!

Capital is important to a lender and is derived from the Borrower's Balance Sheet.

Some of the things we are

looking for are:

How much does the borrower have in assets?

How liquid are those assets?

How much debt do they have?



Why?

There are many reasons and it will vary from lender to lender but one area is how much does the borrower have invested in his business versus how much he owes his lenders or others.

When the lender has more at risk than the borrower the success of the business may be more important to the bank than the borrower!!

CAPACITY

Commonly referred to as cash flow or repayment ability.
Income available to service debt.

Capacity is determined from your income statement. In the old days we used to talk about Asset based lending, this is when a lender lends based on the value of the collateral or balance sheet.

While lenders still do Asset based lending, it is more common today to talk about “Cash Flow Lenders”, that is lending based on your ability to repay. Your historical income is generally derived from your tax returns or your historical income statements.

If you are starting a new business it is very difficult for a lender to assess your potential income since no two owners manage their business the same way and in the end Management is 90% of a business' success.



COLLATERAL

- Loan to value (LTV).
- Collateral value divided by loan amount.

Example:

BB Drift Permit=\$70,000 (Collateral)

Loan is for \$55,000

$LTV = \$70,000 \text{ divided by } \$55,000 =$

LTV of 79%

Each bank or lender has their own percentage range. Generally 70% - 80% LTV.

A lot of people put a lot of emphasis on collateral.
Remember the Lender does not want to sell a Borrower's collateral!!!



Collateral does not pay back
loans cash flow/income does.



CONDITIONS

Overall health of the Resource

Overall economic health of the Industry

Environmental concerns

Competition

Diversified market

Product price

Projected run volume

All of these, and more, can affect your ability to repay your loan!

Lenders refer to a variety of sources for this information.



The other C!!!

Whether you are applying for or have received your loan it is important to remember that Lenders don't like surprises.

Let your Lender/Banker know when there is a problem as soon as you know!!!

COMMUNICATION IS KEY!!!



OUTSIDE THE FIVE C'S

- Cash reserves
- Diversification
- Other sources of income
- Experience
- Does the fisher have a market for their product?
- Does the Vessel have RSW?



HOW DOES THE LENDER DETERMINE THESE THINGS?

- Lenders deal with PAPER, financial information, ETC. provided by the borrower/applicant.

- Such as:

Tax Returns-Credit Reports-Financial Statements-Surveys-News Periodicals-Internet-Dock Talk



WHAT DOCUMENTS WILL I NEED?

- LOAN APPLICATION (Lender Specific)
- Balance Sheet
- Profit and Loss
- Personal Information
- TAX RETURNS (# of years varies by lender)
- OUTLINE OF REQUEST
- INFORMATION ON COLLATERAL
- BANK RECORDS AND OTHER DOCUMENTS TO SUPPORT THE INFORMATION IN YOUR APPLICATION.

Are Credit Cards a good choice?

If you make a purchase for \$10,000 on a credit card with an interest rate of 12% and make the minimum \$400 per month payment it will take you 12 years and \$3,289 in interest to pay it back.

That is a total of almost 33% of the purchase price!!!!



TIME IS MONEY!

\$150,000 @ 7%	\$150,000 @ 7%	\$150,000 @ 7%
20 years	15 years	10 years
Annual Payment \$14,160	Annual Payment \$16,470	Annual Payment \$21,356
Total Interest Paid \$133,178	Total Interest Paid \$97,037	Total Interest Paid \$63,566
Savings	Savings \$36,141	Savings \$69,612

Compound Interest and Retirement

If you begin saving \$2,000 per year at age 30, and your money earns an annual rate of return of 10%. After total contributions of \$70,000 when you retire at age 65 you would have **\$596,254** in your retirement account.

If you begin saving \$4,000 per year at age 40, and your money earns an annual rate of return of 10%. After total contributions of \$100,000 when you retire at age 65 you would have **\$432,727** in your retirement account.

It is never too EARLY to begin planning for retirement!!!



Down or No Down!!!

- Purchase SE Drift Permit for \$60,000
\$12,000 down
finance \$48,000 @ 7%
for 15 years.
Annual payment of \$5,300
Total Interest paid \$31,052.
- Purchase SE Drift Permit for \$60,000
Finance \$60,000 @ 7%
for 15 years.
Annual payments of \$6,600
Total Interest paid \$38,815

SAVINGS of \$7,763
over 50% of the original
down payment



***”If your outgo exceeds your income,
your upkeep will be your downfall.“***

Nobody does you a favor making you a loan
you can not repay!



Web Sites worth visiting!

Dinkytown.net (Financial Calculators)

SBA.gov Business Plans etc.



Balance Sheet

A balance sheet is a snapshot of your financial condition at a specific moment in time.

A balance sheet is comprised of assets and liabilities.

Assets and liabilities are divided into short- and long-term obligations including cash accounts such as checking, money market, or government securities.

Short term assets are assets that can be converted to cash in twelve months or less (liquid). Short term liabilities are liabilities that are due within the next twelve months.

Long term assets are “fixed” assets such as vessels, permits, real estate etc., Long term liabilities are those liabilities due after the immediate twelve month period.

At any given time, assets must equal liabilities plus net worth.

An asset is anything you own that has monetary value.

Liabilities are the claims of creditors against the assets of the business.