WHAT YOUR LENDER NEEDS TO KNOW!
When you go to visit with your Lender you should be prepared to answer five (5) questions. Those Questions are:

How much do you want to borrow?

How long do you want to borrower the money for?

What are you going to use the money for?

How are you going to pay the money back?

Your primary source of repayment should be cashflow. What is your secondary source of repayment- or –if something goes wrong, how are you going to repay the loan
THE FIVE C’S OF CREDIT

- CHARACTER
- CAPITAL
- CAPACITY
- COLLATERAL
- CONDITIONS
“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?
Debt to Worth Ratio
Total Liabilities divided by your Net Worth (NW)
NW=Total Assets (TA) minus Total Liabilities (TL).
Do you have any reserves/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 look 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 they will vary from lender to lender but one item of concern 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!!
Commonly referred to as cash flow or repayment ability. Income available to service debt.

Capacity is determined from your income statement. Previously lenders would talk about Asset based lending, this is when a lender lends based on the value of the collateral/assets or the strength of the borrowers balance sheet.

While some 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 income/cashflow is generally derived from your tax returns or your 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.
Loan to value (LTV).

Collateral value divided by loan amount.
Example:

BB Drift Permit=$85,000 (Collateral)
Loan is for $60,000
LTV = $60,000 divided by $85,000 = LTV of 71%

Each bank or lender has their own percentage range. Typically 70% - 80% LTV.
Borrowers put a lot of emphasis on collateral.

Collateral is only a safety net. Lenders do not want to take the collateral they want to be repaid through loan payments.

Collateral does not pay back loans cash flow/income does.
Overall health of the Resource
Overall economic health of the Industry
Environmental concerns
Regulatory Issues
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.
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!

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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 to EARLY to begin planning for retirement!!!
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.

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

Purchase SE Drift Permit for $60,000 Finance $60,000 @ 7% for 15 years. Annual payments of $6,600

Total Interest paid $38,815
A word about Credit Scores!!!

What Bad Credit really costs you!!!

It is not just a number, failing to properly manage your credit could costs you hundreds or thousands of dollars on a home loan, a car loan, credit cards, insurance bills, potential jobs and believe it or not personal relationships.
“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.