

Applying for a Business Loan – A Cardinal Bank Lender’s View

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- 1. Loan Interview Expectations – Be Prepared and Organized**
 - **Precise purpose of loan**
 - **Exact amount required**
 - **How will loan make business stronger**
 - **How loan will be repaid**
 - **Collateral offered**
 - **History and nature of business**
 - **Management experience**
 - **Basic financial performance**
 - **Understand that personal guaranties are required**
 - **Make an appointment and dress appropriate**

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2. Types of Business Loans

- **Term (or installment)**
 - a. Issued for a specific period of time, generally less than 7 years (usually 3-5 years)
 - b. Used for:
 - fixed assets
 - Equipment
 - vehicle purchases
 - permanent working capital
 - business expansion
 - Acquisition
 - build-outs
 - start-up costs
 - c. Payments of principal and interest
 - d. Generally fully amortized, meaning loan balance will be zero at end of term
 - e. Typically, interest rate is indexed to the Lender's cost of funds (COF) for the term requested – now, full rate generally 5.25% and higher

- **Line of Credit**
 - a. Usually revolving, but may be non-revolving if purpose dictates
 - b. Most often used for short term working capital needs – financing accounts receivable or inventory.
 - c. Generally, due on demand; no specific maturity, but may have an annual review
 - d. Typically payments of interest only
 - e. May have a “pay out” or “clean up” requirement – balance must be zero for a specific time period, thirty consecutive days, for example
 - f. Frequently the interest rate is indexed to Prime, plus a margin – WSJ Prime is 3.25%...most lines are 1% to 3% over Prime

- **Commercial Real Estate – Owner occupied**
 - a. Borrower occupies at least 51% of space
 - b. Payment terms may be up to 20 years; usually no more than 10 years
 - c. Amortization may be up to 25 years

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- d. Frequently, “balloon” Notes are utilized...balance is due before amortization period ends
 - e. Interest rates may be variable or fixed, and are typically indexed to COF or U.S. Treasury rates, plus a margin – now, rate generally 5.25% or higher
 - f. Generally, Lender will finance up to 80% of the lower of purchase price or appraised value
 - g. Third party expenses may include real estate appraisal, environmental assessment, survey, title insurance, flood hazard certification, recording taxes, document preparation, settlement attorney, etc.
- **Commercial Real Estate – Investment**
 - Borrower occupies less than 51% of space, or none at all
 - Amortization period is shorter than owner occupied commercial real estate (OOCRE)
 - Interest rate is higher than OOCRE – perhaps 1% or more higher
 - Loan to value is lower than OOCRE (perhaps 60%-65%)
 - Cash flow versus debt service a higher ratio than OOCRE
 - **Cardinal Bank Business Credit Cards**
 - a. May be secured or unsecured
 - b. Interest rate is indexed to Wall Street Journal Prime Rate (present interest rate 10.15%)
 - c. Minimum amount is \$1,000; maximum amount is \$25,000
 - d. Minimum payment is typically 3% of balance
 - e. Annual Fee
 - f. Cash Advances Allowed
 - **Small Business Administration (SBA)-Guaranteed Loans**
 - a. Terms generally to 7 years, but may be longer depending on purpose/collateral
 - b. Often used when the loan purpose is to start a new business
 - c. SBA guaranty is from 50% to 90% (90% Guaranty expires 12/31/10)
 - d. Guaranty fees range from 2% to 3.50% of amount guaranteed (fee waived until 12/31/10 as a part of the Small Business Act)
 - e. Interest rates up to Prime + 6.5%, variable or over 7% fixed

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- f. SBA guaranty may mitigate shortfalls in collateral or when terms need to be longer than traditional Lender limits
- g. SBA Guaranty is a credit enhancement and not justification to make a risky loan

3. Preferred Business Attributes

- Well-experienced ownership/management in applicable industry
- Business in operation for three years or more
- Business has a history of profitability
- Adequate cash flow to comfortably support debt service
- Business is well-capitalized; owner(s) have at least 25% equity (net worth)
- Business and principals demonstrate prudent use of credit and a prompt payment history
- Financial statements are well maintained, accurate, and in the correct accounting format (preferably prepared by a third party bookkeeper or CPA)
- Collateral is of high quality (Cash, Securities Cash Value Life Insurance, Real Estate, Current A/R, New Inventory/Equipment)
- Maintain principal deposit relationship with Lender
 - Most Lenders will seek loan payment via direct debit from account
 - Consider costs of deposit accounts – minimum balances, per item fees, etc.

4. Components of an Application Package

- Business loan application
- Business tax returns/financial statements
- Personal financial statement(s)
- Personal tax returns, including all schedules and K-1's
- For an SBA loan IRS Form 4506-T (request for tax transcript)
- Other potential items needed
 - a. Interim business financial statement (if financials older than 90 days of application date)
 - b. Schedule of debts
 - c. Schedule of real estate owned
 - d. Aging schedule/report of accounts receivable
 - e. Aging schedule/report of accounts payable
 - f. Written business plan
 - g. Cash flow projections

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- h. Income and expense projections for at least two years broken down on a month-by-month basis
- i. Copy of estimated opening day balance sheet
- j. Copies of bank statements
- k. Copies of merchant account statements
- l. Brief history of business and experience of management
- m. Copies of leases
- n. Copies of contracts
- o. Copies of purchase contracts
- p. Copies of invoices
- q. Detailed project costs
- r. Business acquisition details
- s. Past two years operating statements for commercial rental property
- t. Most current rent roll
- u. Property description (preferably a previously completed appraisal, if available)
- v. List of equipment indicating cost and present value
- w. Verification of equity injection
- x. Budget/Cost breakdown – construction loans
- y. AIA draw schedule – construction loans
- z. Developer's background – construction loans
- aa. General Contractor's background/copy of license – construction loans
- bb. If applicable, various SBA forms

5. Elements of a Business plan

- **General Information/Executive Summary**
 - a. **Business name and address**
 - b. **Names of principals (generally, a principal is defined as anyone who owns 20% or more of the business)**
 - c. **Purpose of loan**
 - d. **Exact amount required**
 - e. **How loan will be repaid**

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- **Business Description**
 - a. **History and nature of business – what kind of business is it?**
 - b. **Age of business**
 - c. **Number of employees**
 - d. **Ownership structure – Corporation (C or S), Partnership, LLC, Sole Owner**

- **Management Profile**
 - a. **Short statement about each principal**
 - 1. **Position and responsibilities in business**
 - 2. **Education**
 - 3. **Experience**
 - 4. **Skills**
 - 5. **Accomplishments**

 - b. **Professional and Advisory Support**
 - 1. **Board of Directors**
 - 2. **Management Advisory Board**
 - 3. **Attorney**
 - 4. **Accountant**
 - 5. **Insurance Agent**
 - 6. **Financial Advisory**
 - 7. **Consultant(s)**
 - 8. **Mentors and key advisors**

- **Market Information**
 - a. **Define products and services**
 - b. **Indicate market**
 - c. **Identify competition**
 - d. **Differentiate your business from the competition...why would customers choose your company over a competitor?**
 - e. **Promotion – how will you get the word out to your customers**

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- **Financial Information**
 - a. **Business accrual financial statements (balance sheet and income statement) for most recent three years**
 - b. **Interim business financial statement if more than three months has elapsed from your fiscal year end**
 - c. **Business tax returns for the most recent three years**
 - d. **Personal financial statement for each principal**
 - e. **Personal tax returns for most recent three years for each principal**
 - f. **Cash flow projections for at least the first twelve months of loan**
 - g. **Aging report for accounts receivable and accounts payable, if appropriate**
 - h. **Breakeven analysis**
 - i. **If business is a “start-up”, revenue and expense projections, monthly for first year of operation, and annual for years two and three**
 - j. **If business is a start-up, projected opening day balance sheet**
 - k. **Description of collateral that will be used to secure loan**

External Resource Assistance

- **Small Business Administration – www.sba.gov**
- **Virginia Department of Business Assistance - www.vdba.virginia.gov**
- **SCORE – www.score.org**
- **Mason Enterprise Center – www.masonenterprisecenter.org**
- **Small Business Development Centers (SBDCs)**
- **Enterprise Development Group (EDG) - www.entdevgroup.org**
- **Local libraries**
- **Trade associations**
- **Trade publications**
- **Chambers of Commerce**
- **Government agencies**

For more information or a consultation contact:

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