

Friday Fundamentals Webinar #5

Financing Operational Expansion



Business Engagement and Compliance Office

Welcome!

We recommend you use the “Telephone” option.
Dial +1 (312) 878-3081. Access code: 911-776-794#.

Password is friday5.

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BLACKERBY



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Your Host



Phillip Blackerby

BLACKERBY ASSOCIATES, INC.

Consultant with ADOT
Business Engagement and
Compliance Office, 4 years

DBEs: Financial management,
strategic planning, marketing

Trained over 800 entrepreneurs

Master's Degree: **Univ. of Texas**

Bachelor's Degree: **Brown Univ.**



Financial Panelists



Roberto Valdez-Beltran, Market Manager,
Acción Arizona-New Mexico

- B.A. Monterrey Inst. of Tech.; MPA UA Eller
- FINCA International, *Grupo Reforma*, News
- Dual citizen: U.S./Mexico; fluent Spanish



Frank Bashore, President, *CAFI*

- B.A. UTEP; MBA SMU
- 16 years banking; VP Lending, InterFirst TX
- 1995: *CAFI Capital Active Funding, Inc.*



Wells Fargo, Small Business Lending

- #1 SBA lender Q1-14: 859 loans, \$267MM
- #1 in market capital; #4 in assets
- Full service for small businesses



What if...



- You knew what kind of financing would be best for you?
- You knew what kind of lender could meet your needs?
- You knew what kinds of loans are available?
- You could get help filling out applications?
- You could manage your credit-worthiness?

Would that be valuable to you?

Financial Services Handbook



- Financing: Lenders and Borrowing
- Insurance: Liability, Errors & Omissions, Workers Compensation, Health
- Bonding: License Bonds, Performance Bonds, Bid Bonds
- English & Spanish: FREE!

<http://www.adotdbe.com/adot-dbes-provides-financial-handbook-free-to-dbes-sbcs/>

<http://bit.ly/FinSvcs>

Reasons to Finance



- Working capital
- Cash flow
- Business expansion:
 - Economies of scale
 - New markets
 - New products, services
 - New locations
- Real estate
- Capital outlay

Types of Financing



- Line of Credit: pay interest only; pay off annually
- Government-guaranteed loans
- Conventional bank loans
- Accounts receivable (factors)
- Equipment, vehicle leases
- Joint checks

About Banks



- In it for the interest, not for the risk
- Three layers ensure repayment of principal and interest:
 1. Sound business purpose
 2. Collateral
 3. Personal guarantee
 4. Maybe: partial government guarantee

About Collateral



- Saleable value equal to loan amount
- Real estate and equipment are their own collateral
- Accounts receivable can be collateral
- Inventory can be collateral
- Lender puts lien on collateral
- City of Phoenix *Expand* program

More About Banks



- “Big 4:” Bank of America, Chase, Citibank, Wells Fargo – Lots of loans
- “Community Banks:” Close to local markets; competitive; service
- “Community Advantage” lenders:
not for profit, economic development:
 - Community Development Corp. (CDC)
 - Microloan Intermediaries
 - Community Development Financial Institution (CDFI)

SBA Guaranteed Loans



7a Program

- Sound business reason
- Bank loan
- Gov't guarantee 85%
- \$5 million max
- Term tied to purpose:
7, 10 years
- Fully collateralized
- Personal guarantee
- Fee: 2% to 3.75%
- Cash flow, assets, FICO

504 Program

- Real estate, equipment
- Two loans:
 - Bank: 40%, gte. 85%
 - CDC: 50%, gte. 100%
- Economic Dev. Goals
- 10, 20 yr. mortgage
- Secured by purchase
- Personal guarantee
- Fee: ≈3%
- Cash flow, assets, FICO

SBA-Guaranteed 7(a)



- *Eligibility:* For-profit small business
- *Allowed uses:* Sound business purpose
- *Collateral:* Yes
- *Guarantee:* 85% to \$150K; 75% more
- *Guarantee fee:* 2% to 3.75% of guar.
- *Interest rate:* Base + 2.25% to 4.75%
- *Loan amount:* to \$5M; avg. \$300-400K
- *Maturities:* 7 years; equipment 10 yrs.; real estate 25 yrs.
- *Payments:* Monthly P&I

Other 7(a) Loan Types



- *CAPLines*
 - Contract Loan
 - Builder's Line
 - Seasonal Line of Credit
 - Working Capital Line of Credit
- *Small/Rural Lender Advantage: Rural*
- *SBAExpress: to \$350K, 50% guarantee*
- *Patriot Express: Military & Veterans*
- *Microloans: to \$50K; thru microlenders*
- *Export Working Capital: Exporters*

SBA CDC 504



- *Loan:* 50% Bank; 40% CDC; 10% down
- *Eligibility:* For-profit, worth <\$15M, income <\$5M
- *Allowed uses:* Equipment, real estate
- *Guarantee:* 85% of bank; 100% of CDC
- *Guarantee fee:* ≈3% of guarantee
- *Interest rate:* Base + spread
- *Maturity:* 10-20 years

SBA CDC 504 (Cont.)



- 1 job per \$65K borrowed
- Small manufacturers: 1 job per \$100K
- Max \$5M except: small manufacturing, energy reduction, alt fuels to \$5.5 M
- Public policy goals:
 - Business district revitalization
 - Export expansion
 - Minority business, rural development
 - Productivity & competitiveness
 - Federal standards, policy, budget cuts
 - Businesses owned by women, veterans

Other Gov't Guarantees



- *USDOT*: Short Term Lending Program – to \$750K line of credit
 - Sec. 8(a) DBEs – minorities and women
 - HUBZONE businesses
 - Service-disabled veterans

- *USDA*: Business & Industrial Loans
 - Rural communities
 - Real estate, machinery, working capital to \$10 million
 - Loan-to-value ceilings
 - 60-80% guar.; 2% fee, 0.25% renewal

More Gov't Guarantees



- *BIA*: Loan Guarantee
 - 51%+ Native American owned
 - To \$5M, guaranteed 90%, 2% fee
 - To 90% guarantee
 - Interest: prime + 1.5-2.75%; subsidy

Application Checklist



- SBA Form 4 Application
- SBA Form 912 Personal History
- SBA Form 413 Personal Financials
- Business P&L YTD
- Business P&L 3 years
- Business P&L projections
- Written explanation
- Ownerships & affiliations
- Business licenses
- Loan appl. History
- Tax returns `3 years
 - Personal
 - Business
- Résumés, all owners
- Business overview, history
- Business lease

Overwhelmed? Get Help



- ADOT Business Engagement and Compliance Office – DBE Support Svcs.
 - 3 hours free consulting
email: klane@azdot.gov
- City of Phoenix, Community and Economic Development Department, Management Technical Assistance (MTA) Program
- Small Business Development Centers (SBDCs) & affiliated SCORE programs
- Microbusiness Advancement Center (Tucson)

Business Credit Rating



- Performance on past loans
- Borrowing compared to income
- Equity
- Standard & Poor rating agency

“Clean” Financials



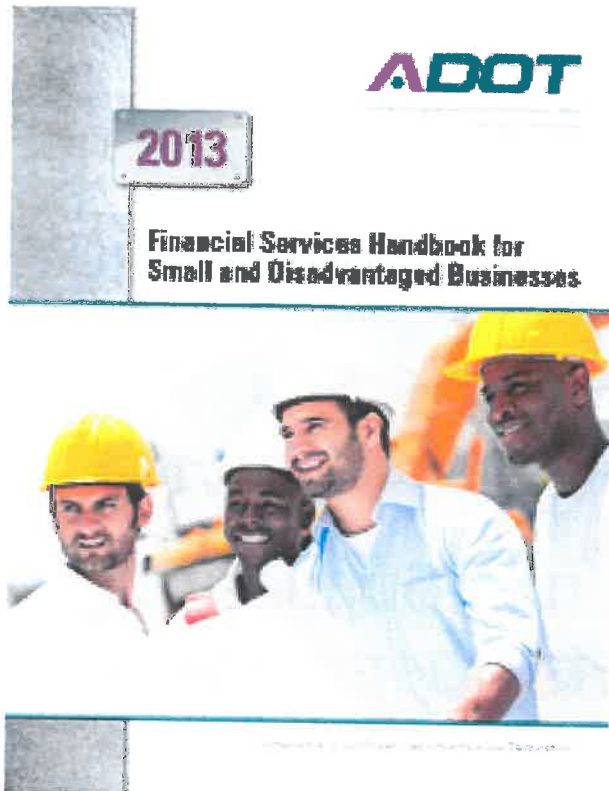
- CIK DROOM
- Manage accounts payable
- Manage accounts receivable
- Minimize overhead
- Allocate direct costs to contracts
- Include all costs in equipment rates
- Professional svcs.: audited overhead rates
- Manage projects for faster finish

Personal Credit Score



- FICO®: 300 to 850 range
- Need 640 score or higher to borrow
- Elements:
 - Payment history 35%
 - Amounts owed 30%
 - Length of credit history 15%
 - New credit 10%
 - Types of credit 10%
- Check and fix free credit report:
www.annualcreditreport.com every 4 mos.
[Equifax](#), [Experian](#) or [TransUnion](#)

Financial Services Handbook



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<http://bit.ly/FinSvcS>

What's Next?



- *Evaluation survey*: Look for an email directing you to the survey.
- *Video* of today's session will be posted on ADOT's website soon!
- *Next webinar*: August 8, 9:00-10:00 a.m.
"Operational Measures that Tie It Together"
<http://friday-fundamentals.eventbrite.com>
- *One-on-one consulting*: 3 hours free to DBEs! Email request to: Kent Lane,
klane@azdot.gov.