FINANCING THE SMALL BUSINESS

A Complete Guide to Obtaining Bank Loans and All Other Types of Financing

Robert Sisson

Adams Media Corporation
Avon, Massachusetts
Contents

Foreword ................................................. ix

Chapter 1 Banking the Small Business ................. 1
  The Changing Banking Industry ..................... 2
  The Power of Business Credit ....................... 4

Chapter 2 Understanding Banks ......................... 11
  Popular Misconceptions About Banks ............... 11
  The Business of Banks ................................ 13
  Types of Banks ....................................... 19
  Bank Mergers ........................................ 23

Chapter 3 How Banks Approve Loans ................... 25
  Loan Policies ........................................ 27
  Credit Scoring ...................................... 27
  Lines of Business Loan Approval Systems .......... 30
  Individual Loan Officer Authority ................. 31
  Loan Committees ................................... 33
  Conclusion ......................................... 36

Chapter 4 Types of Loans ................................. 39
  Short-Term Loans ................................... 39
  Long-Term Loans ................................... 45
  Letters of Credit ................................... 49
  Other Types of Loans ................................ 51
Chapter 5 The Six C’s of Commercial Lending .......................... 57
  Character ................................................. 57
  Cash Flow .................................................. 61
  Capital .................................................... 74
  Collateral .................................................... 77
  Capacity ...................................................... 85
  Conditions .................................................... 86

Chapter 6 The Loan Proposal ................................. 89
  Identification of Borrower and Loan Request ............ 97
  Sources and Uses of Finances ............................ 100
  Cash Flow .................................................. 102
  Collateral ................................................... 104
  Summary ..................................................... 108
  Attachments ................................................ 111

Chapter 7 Target the Right Bank for Your Business ............. 121
  The Shotgun Approach .................................... 121
  The Power Referral ...................................... 122
  Personal Referrals ....................................... 123
  Business Referrals ....................................... 124
  Community Contacts ..................................... 125
  Prioritizing Targets ..................................... 126
  Prioritizing Banks ....................................... 126
  Profiling the Banker ..................................... 130
  Transaction Versus Relationship ......................... 131
  Meeting the Banker ....................................... 132

Chapter 8 If the Bank Says Yes .................................. 133
  The Commitment Letter .................................. 133
  Documentation ............................................ 137
  Due Diligence Documentation ........................... 146

Chapter 9 Your Banking Relationship ............................. 153
  Negotiating with the Bank in Good Times ................ 154
  Negotiating with the Bank in Bad Times ................. 157
  When the Going Gets Tough ................................ 158
  Loan Workout Situations ................................ 164
<table>
<thead>
<tr>
<th>Chapter 10 When the Bank Says No</th>
<th>169</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educate Yourself</td>
<td>169</td>
</tr>
<tr>
<td>Looking Outside the Box</td>
<td>173</td>
</tr>
<tr>
<td>Caveat Emptor</td>
<td>175</td>
</tr>
<tr>
<td>Chapter 11 Loan Brokers and Financial Advisors</td>
<td>177</td>
</tr>
<tr>
<td>Loan Brokers</td>
<td>177</td>
</tr>
<tr>
<td>Financial Advisors</td>
<td>180</td>
</tr>
<tr>
<td>Chapter 12 Your Own Pocket</td>
<td>183</td>
</tr>
<tr>
<td>Home Equity</td>
<td>184</td>
</tr>
<tr>
<td>Personal Savings and Investments</td>
<td>185</td>
</tr>
<tr>
<td>Insurance Policies</td>
<td>186</td>
</tr>
<tr>
<td>Other Assets</td>
<td>187</td>
</tr>
<tr>
<td>Chapter 13 Friends and Family</td>
<td>189</td>
</tr>
<tr>
<td>The No-Money Assist</td>
<td>190</td>
</tr>
<tr>
<td>Cash Investments and Loans</td>
<td>191</td>
</tr>
<tr>
<td>Investment of Assets</td>
<td>192</td>
</tr>
<tr>
<td>How to Get Money from Friends and Family</td>
<td>193</td>
</tr>
<tr>
<td>Family Matters</td>
<td>195</td>
</tr>
<tr>
<td>Chapter 14 The Government</td>
<td>197</td>
</tr>
<tr>
<td>The Federal Government</td>
<td>197</td>
</tr>
<tr>
<td>State and Local Governments</td>
<td>205</td>
</tr>
<tr>
<td>Chapter 15 Nonbank Lenders</td>
<td>209</td>
</tr>
<tr>
<td>Savings and Loans Associations</td>
<td>209</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>210</td>
</tr>
<tr>
<td>Commercial Finance Companies</td>
<td>211</td>
</tr>
<tr>
<td>Utility Companies</td>
<td>213</td>
</tr>
<tr>
<td>Where to Find Them</td>
<td>214</td>
</tr>
<tr>
<td>Chapter 16 Seller Financing</td>
<td>215</td>
</tr>
<tr>
<td>Why Seller Financing?</td>
<td>215</td>
</tr>
<tr>
<td>Seller Preferences</td>
<td>216</td>
</tr>
<tr>
<td>Buyer Beware</td>
<td>217</td>
</tr>
<tr>
<td>Chapter 17 Asset-Based Lenders</td>
<td>221</td>
</tr>
<tr>
<td>Equipment Loans</td>
<td>221</td>
</tr>
</tbody>
</table>
Leases ............................. 224
Factoring .......................... 226

Chapter 18 Venture Capital and Initial Public Offerings  ............ 227
  ACE-net .......................... 228
  Angel Investors ................. 228
  Small Business Investment Companies (SBICs) .................. 229
  Business Investment and Development Companies ............. 230
  Initial Public Offerings (IPOs) .......................... 230
  It's a Partnership ................ 231

Chapter 19 Suppliers and Customers .............................. 233
  Suppliers .......................... 233
  Customers ........................ 234

Chapter 20 Employees ........................................... 237
  Informal Arrangements .......... 237
  Formal Arrangements .......... 241

Chapter 21 Cooperatives ........................................ 243
  The Asian Model ................ 243
  The American Model .......... 247
  Forming a Cooperative .......... 249

Chapter 22 Barter ................................................ 253
  Direct Bartering ................. 253
  Indirect Bartering and Barter Exchanges ..................... 254

Chapter 23 Credit Cards ....................................... 257
  Advantages ......................... 257
  Disadvantages ................... 259
  Things to Keep in Mind .......... 260

Chapter 24 Staying out of the Box for Keeps ....................... 261
  The Future of Banking .......... 262
  Technology ......................... 263
  Economic Cycles ................. 263

Glossary of Terms .............................................. 265

Index ......................................................... 271