

# Navigating the Borrowing Landscape

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## Objectives:

Types of lenders  
Available financing programs  
Borrowing to build business credit  
Preparing to borrow  
What to expect when you apply

# WHO IS GPAz?

- Growth Partners Arizona is a nonprofit
- Community Development Financial Institution - US Treasury certified
- Loans to small businesses and nonprofits across Arizona
- Focuses on socially & economically disadvantaged borrowers and areas
- Delivers responsible, affordable lending and free financial coaching
- Is profitable but not profit-maximizing - puts community first

# Types of Lenders

## Banks

- Range from small local community banks to large global banks
- For-profit businesses
- Focus on and specialize in many different lending areas
- Generally the most policy restrictions
- Generally the most options available
- Probably need to be a deposit customer



# Types of Lenders

## Credit unions

- Community focused
- Owned by the members
- Are usually nonprofits – some are also CDFIs
- Most offer small business loans
- Must be a member to borrow



# Types of Lenders

## SBA Lenders

- Many (but not all) banks, CDFIs, and credit unions offer SBA loans
  - GPAz does not
  - GPAz affiliate, Business Development Finance Corporation does
- 504 loans for real estate
  - In conjunction with a bank loan (2 lenders)
  - Bank lender - 50% loan (less risk for bank)
  - SBA lender - 40% loan (riskier position on collateral but SBA guarantees)
  - Borrower puts in 10%
- 7a loans for business loans – guaranteed by Small Business Administration
- Less risk for lenders
- Can be better terms than banks



# Types of Lenders

## Community Development Financial Institutions (CDFIs)

- Most are nonprofits
- Most do not take deposits
- Serve economically disadvantaged communities lacking capital access
- Varied in types of loans offered
- Examples include:
  - Growth Partners Arizona
  - Prestamos
  - Dreamspring
  - PPEP Microbusiness and Housing Development Corporation
  - Clearinghouse CDFI
  - LISC



# Types of Lenders

## Community Development Corporations (CDC)

- Non-profit organizations
- Support and revitalize mostly impoverished or struggling communities
- May work closely with local government, but not a government entity
- Focused on economic development and job creation
  - education, job training, healthcare, commercial development, other social programs
  - Many are lenders, including:
    - Business Development Finance Corporation (an affiliate of GPAz)
    - CDC Small Business Finance





# Types of Lenders

## Other Community Lenders

- Community Investment Corporation (Pima County)
- Arizona Technology Access Program
- Verde Valley Regional Economic Organization

## Online Lenders

- Disclaimer – I have a big bias against these lenders
- For-profit businesses
- Easy to apply and quick turnaround
- Focus on consumers and small businesses
- VERY expensive – but they don't usually tell you that
- Borrower beware!



# Bottom Line



# Where to Begin

Start with your bank – get to know someone there

Shop around - do a lender's programs fit your needs?

- Startup financing
- Unsecured vs. secured
- Loan size
- Industry
- Lenders' appetites can change

Go local whenever you can – local lenders know the local area

# Most Common Types of Loans

## Term loan

- Purchase long-term assets (real estate, equipment, vehicles)
- Loan term less than useful life of asset purchased but usually 3-10 years
- Down payment generally required – usually 10%-25%
- Asset purchased used as collateral
- Principal and interest payments over time (usually monthly)
- Goal - pay off loan and still have useful life left in asset (build equity)





# Most Common Types of Loans

## Working Capital loan

- Cover cash flow gaps while you collect sales
- For businesses with inventory and/or that sell on credit
- Short-term loan, generally 1 year (annually renewable)
- Interest payments (usually monthly) but balance is expected to revolve
- Usually required to have a \$0 balance for at least 30 consecutive days
- Secured by receivables and inventory





**WARNING**

**NUMBERS AHEAD!**

# What is Working Capital? (aka net working capital)

Current Assets – Current Liabilities = Working Capital

=

Cash and accounts receivable & inventory turning into cash in 12 months  
less accounts payable & business debt payments due in 12 months

=

Funds leftover if you pay all current liabilities from current assets

# What is Working Capital? (aka net working capital)

Example:

Cash	\$10,000	A/P	\$20,000
A/R	\$20,000	Term loan	<u>\$10,000</u>
Inventory	<u>\$15,000</u>		
Current Assets	\$55,000	Current Liabilities	\$30,000

Working Capital      \$25,000 (\$55,000 - \$30,000)

Working Capital Ratio = Current Assets/Current Liabilities

$$\$55,000/\$30,000 = 1.83$$



# Working Capital Considerations

Strive for 2:1 working capital ratio (most aren't there though)

Beware of numbers tricks:  
A/R not collected quickly enough  
Inventory not turning over quickly enough

Cash conversion cycle is an even better indicator

# Cash Conversion Cycle

1. How many days does it take you to collect A/R?
2. How many days does it take to sell your inventory?
3. How many days do you take to pay your suppliers and vendors?

**A/R days + inventory days – A/P days = cash conversion cycle**

A shorter cycle means you get your cash faster

Different industries have different cycles  
(think grocery store versus a high-end car dealership)

# How to Increase Working Capital (without a loan)

(In other words – how you can shorten the cash conversion cycle)

1. Increase prices – but be careful
2. Cut down on expenses
3. Give customers incentives to pay sooner
4. Implement late payment penalties – and work those A/R!
5. Take advantage of vendor/supplier payment terms – but pay on time!



# How Much Working Capital Do I Need?

<https://www.citizensbank.com/financial-calculators/working-capital-calculator.aspx>

\* indicates required.

### Working capital inputs:

Annual growth:*	<input type="text" value="20%"/>	-	+
Target current ratio:*	<input type="text" value="2"/>	-	+
Total current assets:*	<input type="text" value="\$20,000"/>	-	+
Total current liabilities:*	<input type="text" value="\$12,000"/>	-	+

### Calculated results:

Actual current ratio:	1.67
Current working capital:	<input type="text" value="\$8,000"/>
Target working capital:	\$12,000

Can indicate how much to borrow



Calculate



# Brain Numbness Ensues





# How Borrowing Can Build and Repair Credit

1. Cover financial needs not readily met with cash on-hand or current cash flow
2. Conserve cash and cash flow for regular operations
3. Build business credit and trust with your lender with good repayment history
4. Build credit and trust with vendors/suppliers – ask for terms and pay on time

But also understand....

- Your working capital position and cash conversion cycle
- How much you really need to borrow
- Why you need to borrow
- Your repayment plan
- How you'll repay if your initial repayment plan doesn't work



# Preparing to Borrow

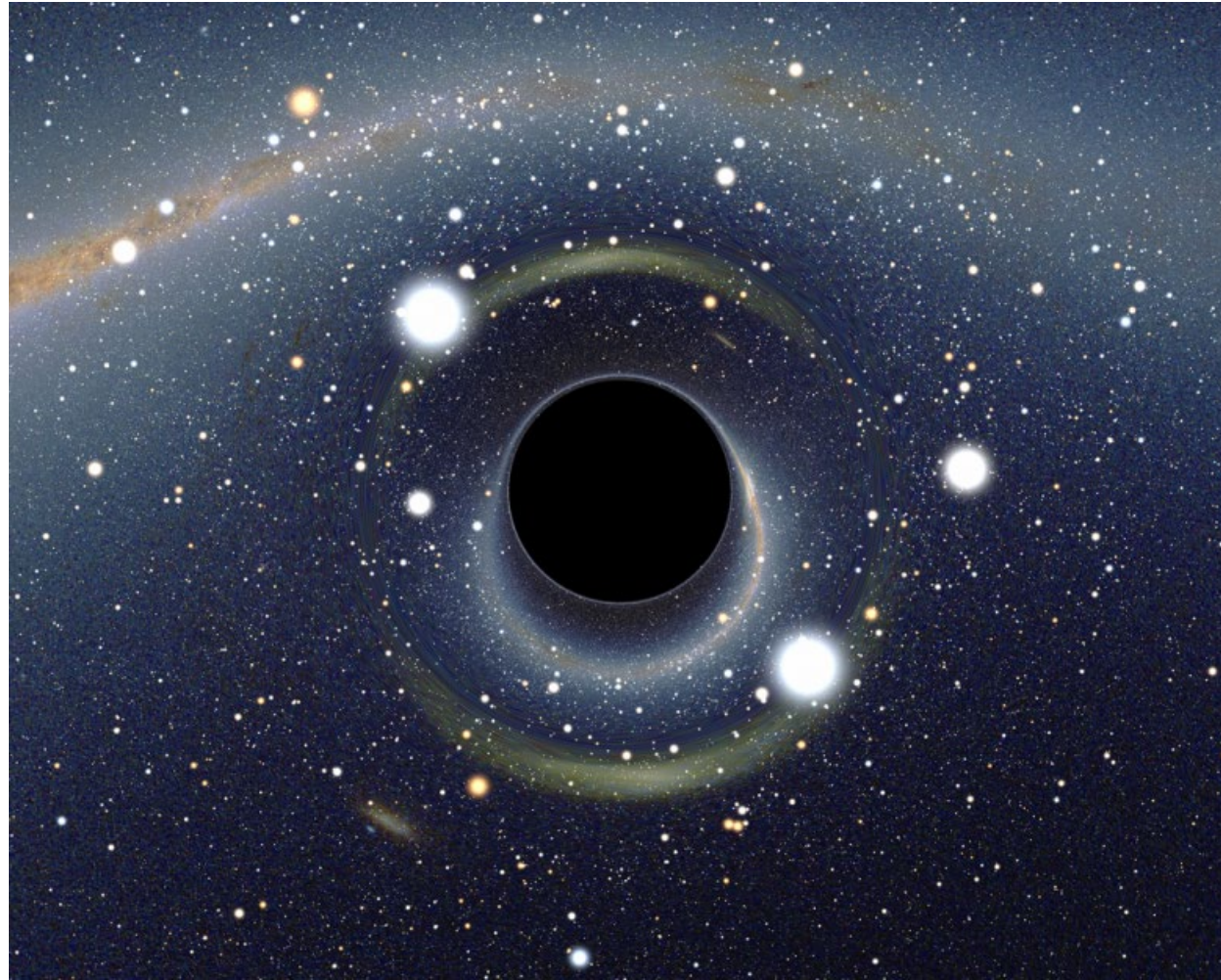
- Think long term – what will your business needs be in 1, 5, 10 years?
  - Start preparing now – and communicate your vision to a lender
- Be able to clearly explain how your business makes money
- Build relationships with trustworthy lenders and business experts now (SBDC!)
- Be open and honest about your business and your level of financial acumen
- Know what you need to borrow money for
  - provide a detailed list of how you'll use the funds
- Know how you will pay the loan back

# Preparing to Borrow

- Have financial records in order
  - business and personal tax returns
  - business profit and loss statements and balance sheets for 2-3 years
  - current budget and cash flow projections
  - business debt schedule
  - A/R and A/P agings
  - personal financial statement
  - GPAz and Yavapai SBDC have templates to share
- You and your business are intertwined
- Lenders will look to both you and your business for repayment



# Now What?



# How Lenders Think

## Five C's of Credit



**Character** *Who are you and do you know what you're doing?*



**Capacity** *Do you have the cash flow to pay back the debt?*



**Commitment** *How much cash are you putting in?*



**Collateral** *How do we get our money back if it all goes wrong?*



**Conditions** *Can the business operate in the current market?*

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# How to Get Approved

- Submit a complete application package
- Tell your personal and business stories
- Share successes, challenges, and opportunities
- Explain your current business needs and future vision
- Be succinct and to the point!
- Show you understand your business and numbers
- Respond to requests and inquiries promptly

# After You're Approved

- Loan documentation can take some time
- Respond to requests and inquiries promptly
- Have your organizational papers ready to submit (filed with the state)
- Depending on collateral, may need an appraisal or other valuation
- Get your insurance agent involved – lender will need that information
- May need to get your landlord to sign a document
- May need a corporate borrowing resolution

# After You've Gotten the Money

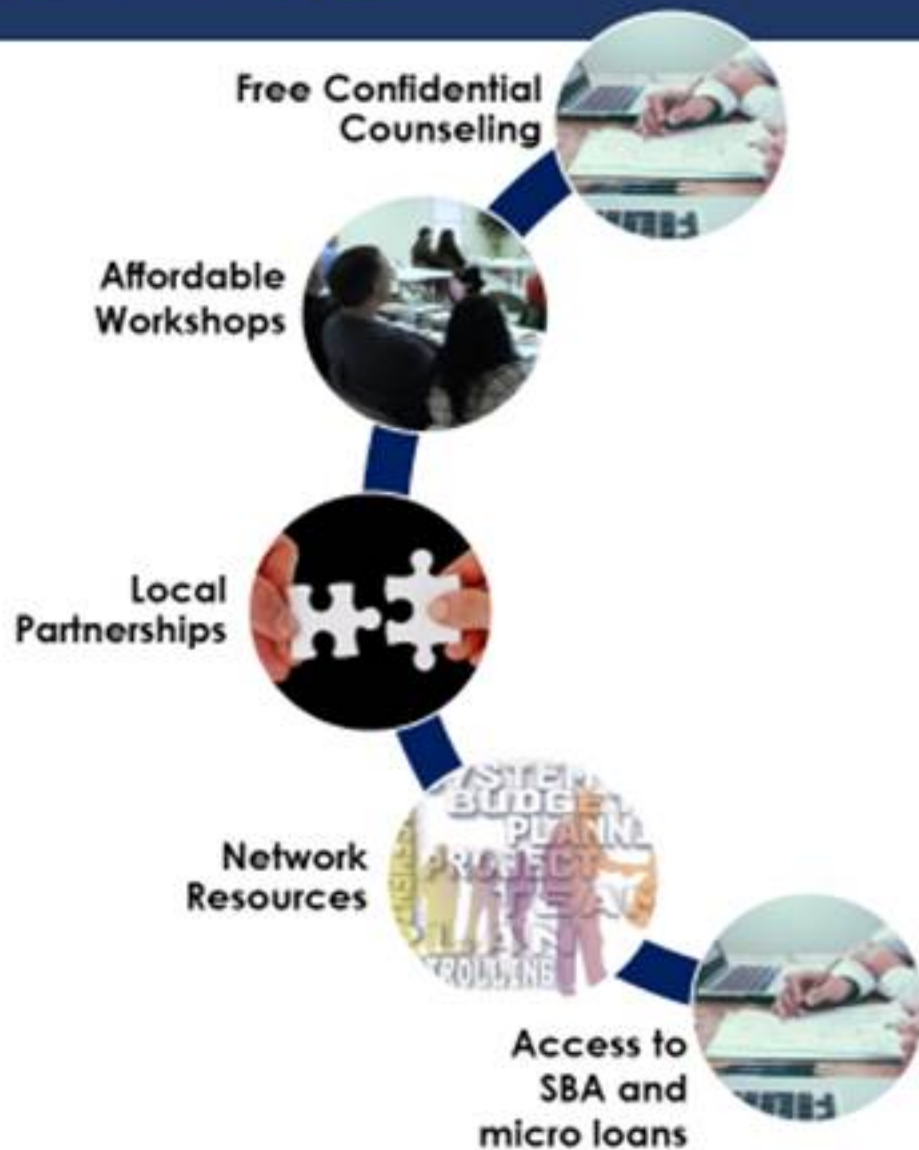
- Make your payments on time
- Keep your lender informed
  - They may contact you periodically for an update
  - Use your lender as a resource during your loan term
  - If you run into trouble, contact the lender right away
  - They've seen just about everything and can often help
  - The earlier you tell them, the more options there are
  - No lender wants you to fail and the loan to go bad
  - And no lender wants to take back collateral – it's worth more in your hands!
- Repay successfully, and getting another loan will be easier!

# Lots of Available Resources

- Small Business Development Center and GPAz!
- Arizona Commerce Authority, Chambers of Commerce, SCORE, library, etc.
- Forms/Templates we can share
  - Balance Sheet
  - P&L
  - Cash Flow Projections
  - Citizens Bank Working Capital Calculator
  - Others?
- Give us a call



# SBDC Services



YC.EDU/SBDC  
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*Yavapai*  
COLLEGE

ARIZONA  
COMMERCE AUTHORITY



# Let Us Know How We Can Help!

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