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What to expect if you apply for a Business Loan at Endeavor Bank

Mr. Yates stressed that the approval of a loan request at his Bank is heavily weighted on a company's historical financial performance (Endeavor Bank looks for a company to have a consistent record of profitable operations) and they prefer to lend to companies that have a strong Balance Sheet (specifically they look to see how well capitalized a company is, and the quantity and quality of business assets, relative to the loan request). In addition, the personal net worth of the business owner is always taken into consideration and some loans are approved primarily on the basis of the size and composition of the owner's personal net worth.

Endeavor Statement of Strength

Endeavor offers; ideas, suggestions, strategic planning and SWOT type analysis (i.e. a report that outlines the strengths, weaknesses, opportunities, and threats of a given company. This is developed in conjunction with the client's input for those business owners that request this type of an assessment on their company).

Endeavor Bank is designed for entrepreneurs who want a relationship with a Banker that clearly understands the challenges, goals, and needs of an entrepreneur. The Bankers at Endeavor do indeed because they invested their own money to start Endeavor Bank so they relate to fellow entrepreneurs (because these bankers are themselves, entrepreneurs). As risk takers themselves, these bankers understand fellow business owners on a much deeper level compared to "career bankers" who have never taken the risk to start their own Business.

Endeavor Bank believes in offering general business advice to help entrepreneurs improve their bottom lines. This advice is drawn upon years of experience (that has evolved into knowledge) from serving thousands of closely held businesses (and their owners) from a wide array of different industries.

As a Business Bank, started by banker-entrepreneurs, Endeavor feels they set themselves apart from other banks primarily by the quality of their bankers and the advice these professionals can offer, and the vast network of contacts (these bankers have) which business owners can tap into and leverage as needed.

Endeavor does not charge a fee for their "general business advisory services" as they feel it is the quality and value of this type of advice that that serves as the glue in building and maintaining long-term mutually beneficial business relationships.

Most Banks that Endeavor competes with are hard pressed to offer this same type of advice and guidance due to the lack of skilled bankers in the industry that have the requisite skills and business experience to operate effectively in this arena.

Bankers that do have such skills and experience are few and far between and (if you should happen to meet one) you will typically find that they are assigned to usually serve only the very largest, most sophisticated businesses, with revenues in excess of $100 Million.

Hence at Endeavor, small to mid-sized businesses and their owners, have access to highly trained and skilled bankers that prefer to work with smaller businesses, while their counterparts in the industry spend their time with much larger companies.

It is also worth noting that another advantage in working with Endeavor Bank is that business owners have an opportunity to develop a personal relationship with the CEO of the Bank and thus the business owner will have direct access to the final decision making the authority of the Bank.

Q. W*hat amount would be the minimum business loan you would consider?*

A. The Bank has no minimum size loan that it will consider (in fact many of the Bank's clients do not have any need to borrow money but are nonetheless important clients for the bank as they maintain good depository accounts), but realistically $25,000 is about the smallest commercial loan request I have seen since we opened the bank, with the exception of a "business overdraft protection line of credit" or a "credit card" which could be as little as $1,000.

Endeavor Bank prefers to work with companies that have a minimum of 2 – 3 million in revenues (sales) and usually a maximum of around $50 Million to $75MM in revenues (sales).

When the Bank receives a loan request that exceeds 10 million dollars, it becomes a challenge for Endeavor Bank to handle a request of this size due to our legal lending limits (currently $6,000,000). We can usually partner up with another bank and share a 50/50 pro-rata interest in large loan participations but at some point, we can not attract a participant if we have only a small percentage of the loan.

Endeavor Bank rarely attempts to fund loans where the total loan commitment is over $10,000,000, and in fact EB prefers to make loans within its legal lending limit of $6,000,000 or less.

Q. *What kind of business owner scenario is most compatible with your banking goals?*

A. A business owner that has operated his company successfully for at least 5 years and is seeking a relationship with a banker that can offer helpful ideas and suggestions.

Q. *Could you put a dollar amount to the size of the loans you offer?*

A. Loan amounts from $100,000 to $6,000,000 are in the “zone”. Average size loan is $1,000,000

Average usage on a revolving line of credit is $500,000

Q. *Are loans at Endeavor Bank approved by the loan officer or a consortium?*

A. We only employ very experienced loan officers which are indicative of their years of experience and knowledge. All of our bankers are qualified to determine whether or not a loan request meets the Bank’s underwriting criteria and can usually give a quick reply to the business owner that stops just short of a formal loan commitment.

To actually formally approve a loan, we use a quorum system that usually requires the President, or CEO and Chief Credit Officer to approve a loan; Sometimes we might involve all 3 in a loan approval if there is a policy exception.

Q. *Does an entrepreneur need a business plan to get a loan?*

A. We prefer to see one, however, a majority of the more successful seasoned companies that have been in business for an extended period of time we deal with don’t utilize business plans. In these situations they have years of financials and history in business (i.e. the norm), the bank interviews the business owner to determine the major components of what would normally be found in a business plan.

Through our advisory style of relationship banking, we usually uncover pretty much all of the pertinent data we need to understand the strengths, weaknesses, opportunities, and threats of the businesses we are considering lending money to.

This knowledge of the business is then backed up by our review and analysis of the company's financial statements.

Because the businesses we prefer to fund have a minimum of 5 years worth of operating performance, the financial statements are critical to our analysis.

As a general rule, when we do receive business plans from established companies, Murphy's Law seems to hold that the thicker the plan is, the less likely the loan will ultimately be approved and the more likely "words" are being substituted in lieu of historical positive operating performance that would enable the company's qualifications for a loan approval, to speak for itself;

Also, long business plans often serve to highlight that the owner is struggling to clarify the key points about his business and is instead of rambling or being repetitive.

Q. ***On an existing business what kinds of qualifications are you looking for?***

A. To begin with, we look for a business track record of consistent profitability. A minor operating loss within the past three years is ok, provided that owner can 1) offer a good explanation (i.e. lesson learned, but remember the price of tuition in business is often very high and can result in bankruptcy) and 2) If there is a loss in the recent past, we want to see a demonstrated turnaround with profits restored and the business back on track.

We also want to see a strong primary source of repayment for each loan request and a good secondary source of repayment, should the primary source fail to materialize. As an example, the Primary repayment source might be the projected or historical cash flow from the business and the secondary source of repayment might be the collateral that is pledged.

We want to understand the business. It should be made clear during our loan interview, why the business is economically viable. We want to know why the company exists in the face of competition. Does the business have a unique product or niche, perhaps superior service, price advantage, etc.?

Does the business have the "right stuff" to be successful? Does it appear likely that it is going to be around for another five years or longer?

We prefer to lend to companies where we have a good grasp of what the company does, how its product(s) work, what makes its services special. If we cannot understand the business, we probably should not lend money to it.

Management strength and integrity is very important in our loan interview and decision-making process. If we note that management has certain weaknesses, we look to see if they have attempted to compensate for their weaknesses by surrounding themselves with staff that has the strengths or skills they lack.

Q. ***What is the number one concern you have when you are considering loaning money to a business?***

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A. Getting paid back

Q. *What is the number one problem entrepreneurs with a business plan face when applying for a business loan?*

A. They don't know how to communicate what and how their business does what it does, effectively, to a banker. They also don't know how to think about the act of lending money from the banker's perspective. They should focus more effort in the plan, on helping the banker see where the risk of non-performance on the loan repayment might be, and how said risks of loan default have been mitigated by the business owner, the collateral being offered, or the owner's personal liquidity or significant personal net worth. This is where a plan is very helpful, as a plan helps the Banker know all the things the banker is looking for in approving a loan and hence it prepares the banker for the loan interview when he meets with us.

Q. *Regarding the individuals who are looking for money for their business. What kind of obstacles surface?*

A. They need to have a thorough knowledge of their business that they can effectively and succinctly communicate to a banker…. better yet, bankers would prefer to see a well-written business plan that acknowledges where the holes in the business model are and how management / the business owner, intends to fill them.

The biggest obstacle is when a business owner confuses what they perceive to be a bankable credit risk for what is, in reality, an equity risk. If the risk of non-performance is high (due to an inability to repay the loan because the primary repayment source failed to materialize), then what the business owner really needs is an equity partner, not a lender. A good banker will steer the client in the right direction. If equity is needed, there may be numerous places to obtain it.

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Q. ***What are you looking for in an entrepreneur who comes to you for money for their business?***

A. We are very impressed by an entrepreneur who makes it clear that repaying the bank loan is of the highest priority and the borrower will find numerous ways to assure the banker that the risk of non-payment is nearly zero. This can be accomplished by offering personal guarantees, collateral, etc.,.

Occasionally, a banker will meet someone who has a bankruptcy in their past. This is normally the kiss of death in trying to reestablish credit and getting a loan approved.

One way to turn a negative experience (bankruptcy) into a positive is to demonstrate to the bank that you went back (after the bankruptcy was discharged) and reinstated the debts that were "forgiven" (the timing of this reinstatement would normally coincide with the time where you are once again back on your feet and doing very good financially).

If a person with a bankruptcy sets out to make restitution (because you feel strongly that all debts should be repaid even if the courts legally wipe the record clean) and accomplishes same, most bankers will overlook the B.K.

We also like to know about an entrepreneur's biggest challenge, to date in their business career, and how did they overcome it?

Q. ***What are some key problems an entrepreneur should have solutions for in their plan?***

A. How to overcome fierce competition.

Unforeseen increases in costs or dilution in gross margins
Large customer concentrations
Have a plan if the company's product niche ends
Have a plan to reinvent the company, if necessary
Business owners should openly share concerns and potential solutions

I like to read all the things that can go wrong in a business plan and want to see what the business owner indicates he can and might be able to do about these concerns if things do go wrong.

Q. ***What about the financials, what is the weight of importance in a plan?***

A. Greatest Weight

Q. ***What financial reports do you like to see in a plan?***

A. Historical Financial Statements prepared on an accrual basis going back 3 to 5 years

A Source/Use of cash funds flow statement

A monthly cash flow forecast with the cumulative borrowing need set forth at the bottom, showing how the bank loans will be drawn down (i.e. the purpose of the loan) and the estimated time period as to when the loan is repaid (i.e. reflects the anticipated primary source of repayment).

Bottom line is we want to see a Realistic financial picture not a pie in the sky projections. Be conservative. This is not the time or place to present a wishful thinking forecast.

Q. ***How far into the future should an entrepreneur project the numbers?***

A. 3 years
We look the hardest at the first 12 months

Q. *How do you feel about comparing the company to an existing company with vertical, horizontal, competitor and same size and same industry comparisons?*

A. Good to use
We compare a company applying for a loan to a similar company that may already be one of our customers

Q. *An entrepreneur might be going into the business of selling products and find out they are in the business of quick service more than quality of the product. Do you find an entrepreneur may experience a lot of changes in the first year?*

A. Absolutely – 1st 5 years
The first major wall that a company faces after they get out of the starting blocks is when the business achieves 5 million in annual sales. At this point, usually, a new layer of controls becomes necessary along with a beefed-up infrastructure, new policies, procedures, mid-level management, the addition of a CFO, etc.

The owner will usually resist delegation for fear of losing control but the business will likely require some delegation of authority if it is to grow successfully beyond $5MM. The process repeats itself and grows more complicated each time the business doubles it sales (i.e. $10MM, $20MM, etc. Growing a business past certain plateaus is like reinventing the company every couple of years.

Q. *If an entrepreneur does not understand financials do you have a*

way to help them?

A. We encourage business owners to get their business advisor involved to coach them, perhaps even suggest they take a basic financial analysis class at a community college. To most entrepreneurs, financial ratios are a foreign language. The banker's job is to educate clients on what certain financial ratios mean and we discuss the importance (to the long-term health of the business) of maintaining certain key ratios.

Q. ***What about the executive summary? How long should that be?***

A. 1 page

Q. ***How many pages are appropriate for a business plan?***

A. The historical financial statements alone can be upwards of 30 pages if you have multiple years and supporting footnotes. The actual length of the historical financial info section of the plan really depends on how long the company has been in business. In addition, the plan should include bank checking account statements and personal financial statements from the owners. Most business owners submit the above with every loan request but it is not a plan per se.

The narrative portion of the business plan should be around 10 to 20 pages.

Q. ***What section do you look at first, second, third?***

A. 1st (Historical financial info). This means the Balance sheet, Income statement, and the owner's personal net worth.

2nd: We drill down and investigate the composition of business and personal assets – real estate is not liquid so while it is good to see, the asset that gives Bank's the greatest sense of comfort is the personal liquidity of the business and or the owner (i.e. cash & marketable security). Personal assets in retirement accounts are only accessible by the owner of the retirement account. They are protected by creditors. We like to see assets that are not shielded from creditors.

3rd The narrative section of the plan.

Q. ***What is the biggest misconception entrepreneurs have when they are interviewed by a bank in connection with their loan request?***

A. They think that the banker understands their business as well as they do

They think the banker lends on collateral only and forget that positive cash flow/profits are of even greater importance.

They don't realize bankers need to see a strong primary and a secondary source of repayment.

Loan decisions are largely based on a company's historical accomplishments not on what is projected

Borrower's don't understand how quickly collateral dissipates in a bankruptcy, hence, borrowers think Bankers should lend against inventory and bankers usually discourage inventory financing.

Q. ***How does the loan process differ from how entrepreneurs think it works?***

A. Entrepreneurs seem to believe there is a faceless loan committee out there somewhere. Usually, there is one key person that calls the shots on a loan. Also, some business owners think a computer makes the decisions. At Endeavor Bank we do not use computers to final loan decisions.

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Q. ***What happens behind the scenes in the actual loan process?***

A. Historical financial statements are manually entered into a computer spreadsheet program and analyzed. References are checked. Credit reports are studied. The Internet is used to research the industry and learn more about the company. Potential credit structures are discussed along with pricing options to determine what it will take to first and foremost cover the credit risk involved in lending money, the amount needed to cover overhead and to guess what the competition might be proposing.

If a customer seeking a loan tries to "grind" the banks terms, conditions, and pricing to a point that the bank loses interest/incentive to do business with the borrower, the business owner might lose out on an otherwise good banking relationship.

Q. ***What is the typical length of time it takes to get a business loan approved and funded?***

A. If a customer comes in with a complete financial package it can take as little as 2 days, however, if the financial package is missing relevant information the loan will be on hold until all of the requested information is forwarded to the bank. The average amount of time to approve and fund a loan is about a week.

Q. ***Can you identify an ideal candidate for a loan?***

A. Profitable company
Well-capitalized
Strong reputation
Excellent character
Happy to personally guarantee
Keep a high balance in cash accounts

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(Side note: Many Customers feel if they invest their business surplus funds into a sweep account, this money is in the "bank" and hence the banker must, therefore, be enjoying a profitable depository relationship. Truth is the money is in a 3rd party mutual fund company account, and sweep accounts are not typically very beneficial to the bank. Banks can only lend out funds held in core deposit accounts so clients that keep their deposits in the bank are more valuable typically than those that sweep everything out.

Early on in my banking career, I kept calling upon an important customer advising them to invest some of their excess funds into a CD where they would earn some interest income.

This particular client was keeping nearly a million in cash in their non-interest bearing checking account. After months of encouraging the client to invest the funds in an interest-bearing account and hearing the same reply, no thanks, I was surprised when one day the customer came to me and asked me if I thought he was "stupid"

I replied no of course and the client responded that he was indeed quite savvy and had a reason for keeping these funds in an account where he knew he was making the bank a handsome profit.

I soon found out that this client was using this as a tool to make himself so valuable to the bank, that when it came time to call in a favor, the bank asked how high.

The favor came on a Friday evening, before a 3 day weekend when most bankers were ready to head out early. The client needed to borrow $3,000,000 to close a business transaction by Monday morning. Needless to say, I skipped the 3 day weekend and worked non-stop over the weekend, to assure this important client that he would have his loan come Monday. This was no stupid client, he knew exactly what that money in a checking account would buy him, a banker that would say “how high” when he said “jump”.

Anything I haven’t asked you about that you feel would be good for business owners to know?

Many entrepreneurs try to get off their personal loan guarantee. Such an effort concerns bankers and often the question in my mind is what does the business owner known, that I don’t know about their business, that would cause the business owner concern that the loan may not be repaid as expected? For it is only under that scenario that a personal guarantee would ever be drawn upon.

If anyone in your owns a manufacturing company they should consider getting the book, The Goal.

Management bios – past accomplishments are important to us. Always share them with the banker.

More people should go to FDIC.gov and check out the information on banks. They can learn how to find a bank that is most compatible with their business needs and a better fit.

For example we have made more business loans in just the 1 ½ years we’ve been in business than one of our much larger competitors has done over the last 20 years. To the public, they only know that our competitor is much larger in terms of asset size. What they don’t realize, without some due diligence, is that most of our competitor's loans are invested in real estate lending, not business lending. If a customer were to go to FDIC.gov they would find that out.

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Rather than go to the bank that specializes in real estate lending, they might find it more advantageous to deal with a bank that specializes in business lending, if that is their need.

Also, this website will confirm where a bank is headquartered, their legal lending limit, etc.

Don't forget to interview the banker as well as the bank.

Always interview the banker, not just the bank. Find out:

Does the banker have good knowledge about your business?
Does the banker seem knowledgeable?
Good companies have choices, So remember you are interviewing the bank to see if they are worthy of your business, just as much as the bank is interviewing you to see if you are qualified for the loan that is being requested.

If you were given a choice between selecting to work with an excellent banker (that was employed by a lousy bank) versus working with a lousy banker (who happened to be employed by an excellent bank), go with the excellent banker, and you will be far better off in the long run.

A good banker will overcome the headaches that come with working for a large bureaucratic organization and will work hard for you to be supportive of your banking needs.

Once you find a great banker, invest in the relationship. Stay with your banker, follow them to another bank if they move and solicit your business. Relationships are built with people remember, promises that are kept. A relationship is not with a faceless credit file or a building without a soul. Your relationship with the "banker" is priceless and a good one will take care of you if you perform as agreed.

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When interviewing a potential banker to serve you:

Ask;

1. What does your most important client look like?
2. Do I fall into that criteria?
3. If you do fall into the criteria, ask how you can make yourself more important as one of their client
4. If the answer involves leaving some money on the table as in paying more interest on a loan or keeping more deposits in a checking account (as opposed to sweeping them), ask the bankers what is in it for me, why should I allow you to make more money on our "mutually profitable relationship"? If the banker can't paint a compelling picture, move on.

If you ever have to call a bank for help, make sure you have previously made yourself into a highly valuable, profitable account so that you can be assured that the bank is loyal to you and will jump through hoops to retain your business. Like the example I spoke of previously with the business owner who left a million dollars on deposit in the bank and called in a "mark" when he needed to borrow 3 million, fast, to close a business deal.

Make sure your banker knows you could do something else with your money, you've just chosen to keep it in their bank, make sure they know you are keeping your money with them to maintain a good strong relationship.