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THE SACRAMENTO BLACK CHAMBER OF COMMERCE

FLASH FINANCIAL LITERACY ADVISORY SERVICE HUB

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Sacramento Black Chamber of Commerce

SACRAMENTO IEDC INCLUSIVE ECONOMIC DEVELOPMENT COLLABORATIVE

Berkeley STRATEGY ADVISORS

Sergio Gascon is the former Sr. Executive Director at the University of Southern California. He led the University's economic development small business growth initiatives.

SERGIO GASCON

He earned his Master of Leadership from USC and he was recognized by Hispanic Magazine as one of the top 100 Hispanic entrepreneurs in the USA.

A key program he led was the Los Angeles Minority Business Development Agency Business Center, a bureau within the U.S. Department of Commerce, that was administered in partnership with the Mayor's Office of Economic Development, City of Los Angeles.

He supervised the delivery of management consulting services and business education to companies owned and operated by minorities with annual sales in excess of one million dollars. The services provided enabled small businesses located nationwide to strategically grow and create thousands of jobs in their local communities.

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FINANCIAL LITERACY

There are several levels of understanding Financial Literacy, which we usually start with

A – Understanding Financial Statements AND go on to

B – Access to Capital – (and there are (C) and (D).

Due to limited time, we will start with B – Access to Capital,

as we were asked to present.

“ACCESS TO CAPITAL”

How to prepare for a Business Loan, and what you need to know.

…So, you want to borrow money?

-Some tips to help reduce the **TRAUMA** *of applying for a loan*

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General Guidelines:
The Lender's Perspective

Banks expectations and needs:

- Personal guarantee of any 20% or more owner
- 3-years of company tax returns
- If not filed in recent tax year, then internally prepared detailed financial statements
- 3-years of personal tax returns
- **CURRENT** Personal financial statement & Business Financial Statements
- 1-year of company bank statement

THESE FINANCIAL DOCUMENTS WILL MOST LIKELY REQUIRE SOME ASSISTANCE FROM YOUR ACCOUNTANT AND/OR CPA

"We are prepared to make you a loan, but first you have to prove that you really don't need it."

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AGENDA

- Universal Cash Flow
- Discretionary Personal Income
- DCR = Debt Coverage Ratio
- Collateral
- Personal Guarantee
- Financial Ratios
- Personal Credit Scores
- Financial documents Statements & Taxes returns
- Bank relationship
- US Small Business Administration
- Question & Answers

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Universal Cash Flow
What Is It & How Is It Calculated?

The Sum of Business cash Flow (EBITDA)

Earning Before Interest, Taxes, Depreciation & Amortization

Net income +

Interest expense +

Taxes +

Depreciation +

Amortization +

EBITDA =

The above is a financial ratio calculation and will most likely require assistance from your Accountant and/or CPA

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Discretionary Personal Income

Calculating your discretionary personal income

- Personal income after income taxes
- Less: home mortgage or rent, installment loan payments, credit card payments, other
- Plus: spouse's income, outside income, investment income

Universal Cash Flow &
Discretionary Personal Income – Combined = DCR

Debt Coverage Ratio (DCR)

WHAT DOES THIS TELL YOUR LENDER?

The following is a sample of a COMBINED DCR spreadsheet

Combined Cash Flow Calculation & Debt Coverage Ratio (DCR)

	Historical				Projections					
		FYE December 31		Interim 2018	Borrower's	Adj.	Borrower's	Adj.	Borrower's	Adj.
	12/31/2015	12/31/2016	12/31/2017	1/0/1900	2018	2018	2019	2019	2020	2020
Business Name (input here)										
Gross Sales	$ -	$ -	$ 2,000,000	$ 2,250,000	$2,250,000	$ -	$2,400,000	$ -	$3,000,000	$ -
EBITDA	$ -	$ -	$ 250,000	$ 285,000	$ 285,000	$ -	$ 215,000	$ -	$ 350,000	$ -
Affiliate EBITDA	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Owners Discretionary Income										
Owner 1-(input)	$ -	$ -	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000
Owner 2-(input)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Owner 3-(input)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted Cash Flow	**$ -**	**$ -**	**$ 265,000**	**$ 300,000**	**$ 300,000**	**$ 15,000**	**$ 230,000**	**$ 15,000**	**$ 365,000**	**$ 15,000**
<u>Proposed Debt Structure</u>										
New Loan	$ -	$ -	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000	$ 120,000
0	$ -	$ -	$ 40,000	$ 30,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Debt Service	**$ -**	**$ -**	**$ 160,000**	**$ 150,000**	**$ 160,000**	**$ 160,000**	**$ 160,000**	**$ 160,000**	**$ 160,000**	**$ 160,000**
Combined DCR	**0.00**	**0.00**	**1.66**	**2.00**	**1.88**	**0.09**	**1.44**	**0.09**	**2.28**	**0.09**

DCR – Debt COVERAGE RATIO
What does this tell you and your lender?

- A debt coverage ratio of less than 1.1 indicates that ***there is not enough generated cash flow to pay the company's operating expenses and still have enough remaining to pay the debt. This ratio is considered low and a high risk.***
- Most lenders require a debt coverage ratio (DCR) of between 1.25 – 1.35. This means the company's cash flow must generate cash flow between 25% - 35% more than its operating expenses to ensure cash flow sufficient to cover loan payments is available on an ongoing basis.

Collateral– A Way to Reduce a Lender's Risk

- All the assets of the company and the cash proceeds therefrom (sometimes called a "plaster lien"
- Accounts Receivable – advances made against a % of the outstanding A/R's less allowances for bad debt
- Equipment; always when financing new equipment
- Real estate – commercial, investment and residential

Personal Guarantees

- ➢Lender **may** not require spousal guarantee, however,
- ➢If spouse is a 20% or more owner of the business, personal guarantee is required
- ➢If spouse's portion of discretionary income is substantial, lender **may** require a personal guarantee; should discuss with your attorney
- ➢Guarantees today allow a lender to pursue both company assets and personal assets of guarantor(s) simultaneously, not sequentially

Personal Credit – FICA Scores

- Yes, even with great collateral, a high DCR, credit scores count
- Lenders consider credit scores as a character indicator
- Commercial bank score requirements are higher than most non-bank lenders
- Before applying for a loan, pull your credit score and check for accuracy
- Credit Karma is a good website to use

Lenders will require your business financial statements & tax returns -

- Have 3-yrs of tax returns
- You should have the most recent balance sheet and income statement ready
- Lenders want to see A/C Pay and Rec aging reports
- Internally prepared or prepared by your accountant

Two very specific financial ratios, that will determine your credit worthiness, are the following;

- **Leverage Ratio (Debt to Net Worth)**

- **Debt to Total Asset Ratio**

Leverage Ratio – (Debt to Net Worth)

Financial Ratios

1) Leverage Ratio – (Debt to Net Worth)

Your leverage ratio is calculated by dividing your total liabilities by total business equity.

The lower the ratio, the healthier you appear to a lender that is assessing your ratio. A low number suggest minimal debt. Any results over 100% reflects someone who owes more than their net worth

So how do you improve your leverage Ratio? Pay off your debts and your leverage ratio will come down.

Debt to Total Asset Ratio

Total-debt to total assets is a leverage ratio that defines the total amount of debt relative to assets. The higher the ratio, the higher the degree of leverage (DOL) and, consequently, a financial risk.

If for instance your company has a Debt to Assets ratio of 0.56, means some form of debt has supplied about 56% of every dollar of your company’s assets. A high debt to assets ratio of 1 could mean that your company will have trouble borrowing more money, or may borrow money at a higher interest rate

And now what?!?
NOW that you have assess your financial situation

- **There are several avenues you can chose to pursue future capital needs for your company – To Start with, *start with you current Bank***

Do you have a relationship with a bank?

(If not, you should?)

- Do you have a relationship with a Bank? If so, start with contacting them.
- Ask them if they have an SBA Lending Department, it can result in better interest rate. For loans such as:
  - Line of credit
  - Asset purchases – Inventory, equipment etc. as well as Real Estate loans
  - Term Loans – for those larger business needs
  - 7(A) Loan, SBA's most common loan program, for financial help for businesses.
  - 504 SBA Real Estate Loan

The following is the website for the U.S. Small Business Administration for additional information

- www.sba.gov
- www.ussmallbusinessadministration.com

QUESTIONS & ANSWERS

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THANK YOU!

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