
Week 6



Investment & Funding Pt. 1

Agenda

01 Choosing a Bank

02 Credit

03 The 5 Cs

04 Loan Applications

01

Choosing a Bank

Types of Banks

Traditional Banks

Each bank differs in what exact services they offer, but most provide brick and mortar locations, ATM services, and some sort of online banking. These may be convenient if you prefer banking in-person

Online Banks

May have lower fees because of less overhead costs, but customer service may not be as accessible as with an in-person bank

Credit Unions

These are not-for-profit and member owned, so they may have lower rates and fees. Not all credit unions may offer business banking, but most do and offer the same services as traditional banks

Typical Bank Fees

Stop
Payment
Fees

Out-of-
network
ATM fees

Certified
Check
Fees

Statement
Fees

Monthly
Maintenance
Fees

Returned
Check
Fees

Cashier's
Check
Fees

Wire
Transfer
Fees

Overdraft
Fees

Other Features to Consider

1

Online/App based features
and accessibility

2

Local branches/
ATMs

3

Security



Type of bank



Fees and
interest rates



Discounts



Security

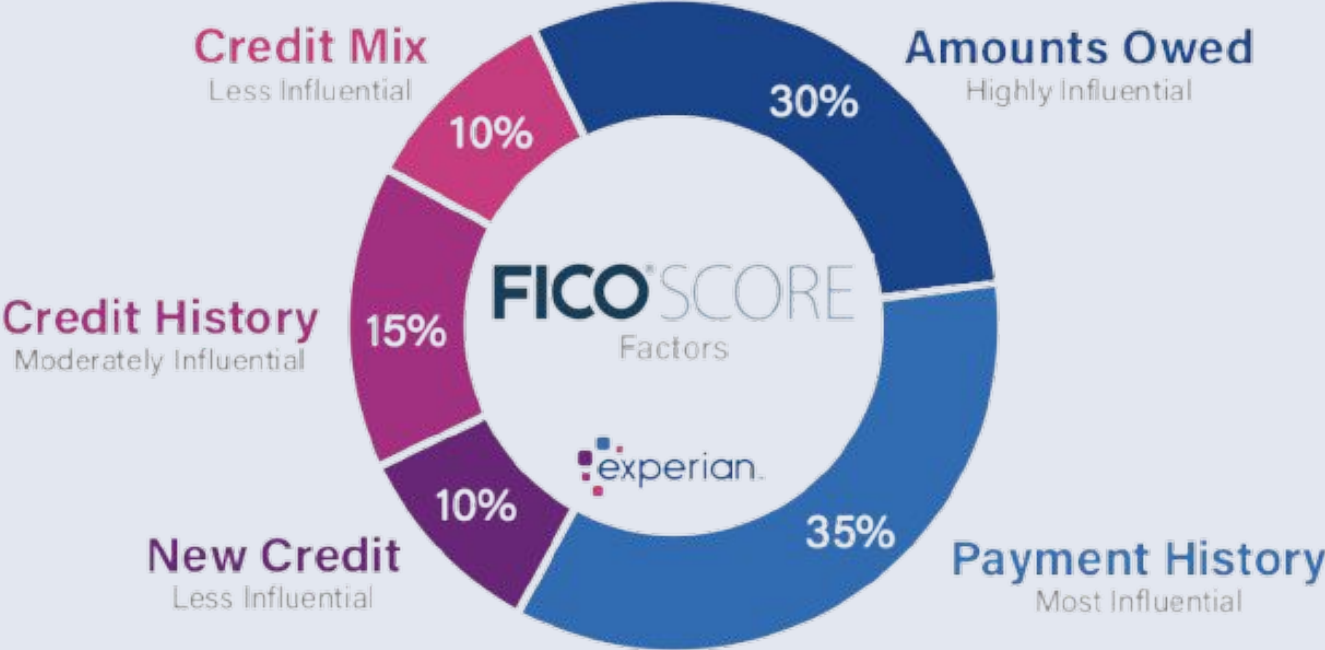


Apps

02

Credit

What determines your credit score?



DeNicola, L. (2023, March 20). *How is your credit score determined?* Experian. Retrieved April 13, 2023, from <https://www.experian.com/blogs/ask-experian/how-is-your-credit-score-determined/>



BUSINESS

CREDIT REPORTS

- Equifax, Experian, and Dun & Bradstreet
- Connected to you by your Employer Identification Number (EIN) or your Tax ID number
- Scores have many different ranges

VS



PERSONAL

CREDIT REPORTS

- Equifax, TransUnion, and Experian
- Connected to you by your Social Security number
- Scores range from 300 to 850



Personal vs. Business Credit

BUSINESS

- Necessary for most loans and large purchases
- Dependent on industry, bill repayment, and debt

PERSONAL

- Kept separate from business credit with some exceptions- leasing property, guarantee for business loans

Business Credit Helps in:

Obtaining financing- loans, lines of credit, lower interest rates

Accessing better credit/repayment terms with vendors and suppliers

Protecting your personal credit score

Ways to build business credit



OPEN A BANK ACCOUNT



UTILIZE A BUSINESS CREDIT CARD



MAKE PAYMENTS ON TIME/EARLY



MONITOR CREDIT SCORE REGULARLY

West Coast Franchise Law. (n.d.). *Business Credit Reports. A Brief Guide To Business Credit Reports*. Retrieved from <https://www.westcoastfranchiselaw.com/blog/brief-guide-to-business-credit-reports>.

CREDIT SCORE

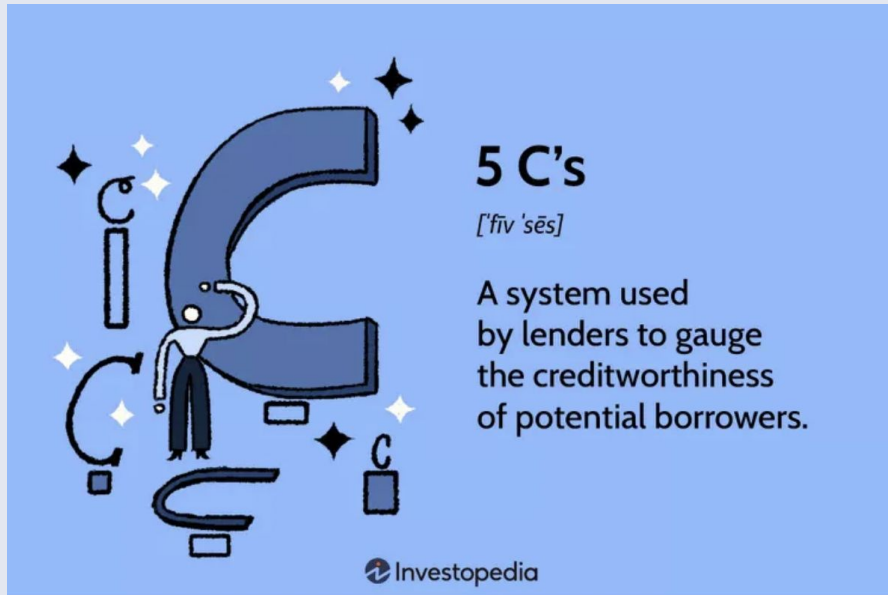




02

The 5 Cs

What are the 5 Cs?



The 5 Cs are an easy way to remember what lenders are looking for and will assess when looking at loan applications and credit

1

CAPACITY

- Your ability to repay a loan
- Lenders consider revenue, expenses, cash flow and repayment timing in your business plan, business and personal credit reports, as well as credit scores from credit bureaus
- They also consider Debt-to-income ratio, or DTI, which describes your outstanding debt compared to how much you earn

Navy Federal Credit Union. (2022, May 17). *The 5 cs of credit*. Navy Federal Credit Union. Retrieved April 11, 2023, from: <https://www.navyfederal.org/makingcents/business/the-5-cs-of-credit.html#:~:text=When%20you%20apply%20for%20a%20business%20loan%2C%20consider%20the%205,ability%20to%20repay%20the%20loan.>

2

CAPITAL

- Some of your own money or money from partners/investors for down payments
- Used for start-up/acquisition costs
- Demonstrates your commitment and capability

Navy Federal Credit Union. (2022, May 17). *The 5 cs of credit*. Navy Federal Credit Union. Retrieved April 11, 2023, from:<https://www.navyfederal.org/makingcents/business/the-5-cs-of-credit.html#:~:text=When%20you%20apply%20for%20a%20business%20loan%2C%20consider%20the%205,ability%20to%20repay%20the%20loan.>

3

COLLATERAL

- Another source of repayment for your loan
- Real estate, or other things that can be sold if you default on the loan

Navy Federal Credit Union. (2022, May 17). *The 5 cs of credit*. Navy Federal Credit Union. Retrieved April 11, 2023, from: <https://www.navyfederal.org/makingcents/business/the-5-cs-of-credit.html#:~:text=When%20you%20apply%20for%20a%20business%20loan%2C%20consider%20the%205,ability%20to%20repay%20the%20loan.>

4

CONDITIONS

- Dependent on your business plan
- Shows that you'll be successful based on economic conditions, competition, industry type, and prior history

5

C H A R A C T E R

- Should be part of your business plan
- Education, history, business background, personal credit
- References

Navy Federal Credit Union. (2022, May 17). *The 5 cs of credit*. Navy Federal Credit Union. Retrieved April 11, 2023, from: <https://www.navyfederal.org/makingcents/business/the-5-cs-of-credit.html#:~:text=When%20you%20apply%20for%20a%20business%20loan%2C%20consider%20the%205,ability%20to%20repay%20the%20loan.>

5 Cs Checklist



Did I follow all federal/state/local regulations?



Have I analyzed trends within my competition and the industry?



Is there demand for my product or service?



Have I demonstrated commitment to long-term success?

03

Loan Requirements &
Considerations

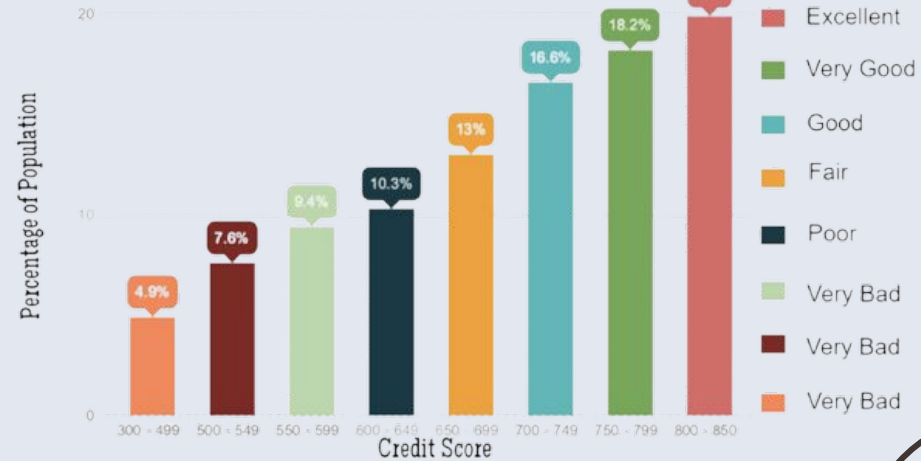
BUSINESS AND PERSONAL CREDIT SCORES

Since both are considered, make sure you check both and resolve any discrepancies before submitting applications

Birrell, G. (2023, June 29). *Your credit score: 6 things you need to know*. Taxhub. <https://www.gettaxhub.com/your-credit-score-6-things-you-need-to-know/>

Credit Score Chart

FICO Credit Score Range: 300 - 850



Nicastro, S. (2022, November 29). *Business loan requirements: 7 things you'll need to qualify*. NerdWallet. Retrieved April 12, 2023, from <https://www.nerdwallet.com/article/small-business/how-to-qualify-for-small-business-loans>

ANNUAL REVENUE

2

Lenders want to see what cash flow looks like on an annual or monthly basis. Make sure you can explain how you arrived at projections and why they are realistic

Rathore, I. (2021, July 23). *Twitter annual revenue by region: FY 2010 - 2020*. Dazeinfo. <https://dazeinfo.com/2020/07/30/twitter-annual-revenue-by-region-graphfarm/>

Twitter Annual Revenue by Region



© Dazeinfo / Source: Twitter

Nicastro, S. (2022, November 29). *Business loan requirements: 7 things you'll need to qualify*. NerdWallet. Retrieved April 12, 2023, from <https://www.nerdwallet.com/article/small-business/how-to-qualify-for-small-business-loans>

INDUSTRY AND SIZE

3

If you intend to request loans from the Small Business Administration, ensure you meet the requirements, definitions, and prerequisites.



U.S. Small Business
Administration

Homepage. Small Business Administration.
(n.d.). <https://www.sba.gov/>



BUSINESS PLAN

ID 140684814 © Artrosestudio | Dreamstime.com

BUSINESS PLAN/LOAN PROPOSAL

4

This will demonstrate the details of your business, show lenders how you will successfully repay them, and how you will continue to operate for years to come

COLLATERAL OR PERSONAL GUARANTEE

5

Collateral can include any assets like equipment, real estate, inventory, or anything with value that can be resold if you default on payment. A personal guarantee requires you to pay the bank with personal assets if your business cannot

Connolly, E. R. (2021, December 20). *What is a personal guarantee on a business loan?: Fast capital 360®*. Fast Capital 360. <https://www.fastcapital360.com/blog/about-business-loan-personal-guarantees/>

EXAMPLES OF ASSETS FOR A PERSONAL GUARANTEE



Personal Savings



Vehicles



House



Retirement Fund

Nicastro, S. (2022, November 29). *Business loan requirements: 7 things you'll need to qualify*. NerdWallet. Retrieved April 12, 2023, from <https://www.nerdwallet.com/article/small-business/how-to-qualify-for-small-business-loans>



Financial statement for bank loan, Sending financial data to bank for extension of credit concept, archery arrow hit on bank with financial statement document. Pro Vector

BUSINESS AND FINANCIAL DOCUMENTATION

6

- Personal and business income tax returns.
- Balance sheet and income statement.
- Personal and business bank statements.
- A photo of your driver's license.
- Commercial leases.

BUSINESS AND FINANCIAL DOCUMENTATION CONT.

7

- Business licenses.
- Articles of incorporation.
- A resume that shows relevant management or business experience.
- Financial projections if you have a limited operating history.



Alscher, D. (n.d.). *Creating the perfect graphic design resume (+ examples)*. Learn Hub.
<https://learn.g2.com/graphic-design-resume>

Due Next Week

- Read -Acquiring a Small Business Loan, Business vs. Personal Credit, Best Banks for Small Businesses, Sample Checklist for SBA Loan Program
- Complete- Check your Credit Score Worksheet, Understanding Credit Impacts

Agenda For Next Week

- Collateralization/Debt Service
- Loan To Value (LTV)
- Sources of Alternative Income
- Intro to Proformas
- Appraisals and Studies