



**THE OHIO STATE UNIVERSITY**

COLLEGE OF FOOD, AGRICULTURAL,  
AND ENVIRONMENTAL SCIENCES

# Business Financing 101

## What It Takes to Borrow Money





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## The Small Business Development Centers (SBDC)

- Who We Are...
  - A staff of trained, Certified Business Advisors, many of which currently or have previously owned and operated a small business and have an established network of partners and resources to benefit our client needs
  - Experience in Agriculture – Connection to OSU Extension
- What We Do...
  - Provide **NO COST**, confidential, in-depth, one-on-one small business counseling for business plan assistance, product development, company assessments, financial planning, access to capital, expansion planning, assistance with state and federal programs, loan package assistance, marketing assistance, supply chain assistance and development and certification assistance.

# Financing is ...

- A means to accomplish short and long term goals for the business.
- A strategic tool to facilitate taking a calculated risk to obtain a future reward.
- For most, a necessary part of doing business today.

## Financing includes ...

- Real Estate loans, construction loans, credit lines, term loans obtained from a traditional lender
- Leases
- Credit cards
- Trade accounts with suppliers
- Non-traditional sources, such as private investors

## A Good Banker/Lender is...

- A trusted advisor who is willing to LISTEN to your dreams and goals - is not just out to sell a product.
- Has your best interests at heart for the long-term, even when the answer is something you may not want to hear.
- Can customize solutions to fit your needs (within prudent lending standards).
- Willing to help clients understand what they need to do to “get to the next level.”

## A Good Customer ...

- Is honest with their banker and keeps them informed, especially when facing financial challenges.
- Provides complete and accurate information as needed on a timely basis.
- Recognizes the importance of maintaining good credit history & pays bills on time.
- Understands that the relationship must be mutually beneficial for both parties.

## ***“Where can I find a grant to start my business?”***

The answer is, you usually can't find a grant to start your business.

- Government grants are funded by tax dollars and require very stringent compliance and reporting measures.





# Financials

- Will you need a loan to start or expand the business?
- How much are you asking for? For what will you use the money for? (Be specific, include equipment quotes if applicable.)
- How much will you generate in sales?
- List what financial documents you are including in your plan
- Summarize the numbers and explain your projections
- When are you anticipating to repay the loan?
- What personal cash/collateral do you have to offer?
- What previous experience do you have for repayment assurance



## 5 Basic Components of Credit Analysis

- **C**apital
- **C**onditions
- **C**haracter
- **C**ollateral
- **C**apacity



# Capital

- Applicant's equity or net worth
- Owner's personal investment in company
- How much risk are you taking?
- Can provide a "Plan B" repayment source





# Conditions

- Local economic climate
- Other industries could affect your business
- What is the purpose of the loan
- Regulations
- Competition





# Character

- Check on your company's financial status
- Personal credit history/creatures of habit
- Experience
- Responsible company leadership
- Timeliness in fulfilling obligations



# Collateral

- Anything of use for security of repayment
- Personal Guarantees
- Hard Assets, Accounts Receivables, Inventory
- Loan to Value Ratios



## Collateral Discounts or LTV's



- “Are based upon perishability and/or liquidation value
- Allow “cushion” for potential fluctuations in value.
- Prior liens are subtracted after discounting to find net available value.

Typical discounted values for businesses -

- Inventory—40-50% (shelf life?)
- Equipment—50-75% (age, condition, market?)
- Real Estate—70-80%
- Some inventory & equipment may have little or no value because of limited resale market

## Capacity

- Repayment ability
- Ability to get repaid
- Cash Flow
- Innovation, education, knowledge, experience
- Consideration of other liabilities



# Common Sense

- What is the specific purpose?
- What amount do I need--not how much can I borrow?
- What collateral is available?
- How much cash can I put in the deal?
- Understand terms - What rate? How long?
- What is the estimated payment?



## Credit Check

- Hard inquiries
- Available balances on open accounts
- Payment history
- “Maxed Out” credit lines
- Debt to income



# Consumer Credit

- Credit history
- Employment history/ earnings potential
- Stability (residency, personal reserves etc.)



# Commercial Credit

- Commercial number years in business
- Type of business (retail, service, manufacturing etc.)
- Legal structure
- Location
- Seasonal vs. non-seasonal
- Area market, industry in general
- Management strength



# Things that make your lender happy ...

- **Down payment!**
  - 20-25% is standard for most projects
  - More may be required for riskier ventures, such as restaurants and recreational enterprises
  - At minimum, 10% actual cash is required as part of the typical 20-35% down payment for SBA loans—usually cannot be borrowed money
  - Additional down payment required may be made up with equity in other assets; long term loans will require real estate equity



# Things that make your lender happy ...

- Seller-financing does not count towards the SBA's 10% cash-down requirement
- Be prepared to use equity in your house / RE
- Collateral discounting previously discussed applies
- Creditworthiness and relationship with borrower may impact requirement
- Good credit scores (>720)
- Profit on the tax return



# Things that make your lender happy ...

- Abundant collateral
- Equity (Assets – Liabilities) > Liabilities
- Adequate insurance to mitigate risks—property, life, health, disability, business continuation?
- Estate and succession plans clearly thought out and in writing
- Business agreements with partners in writing

## Other tidbits ...

- Lenders can only base lending decisions on information you report to the IRS.
- Clients must balance the desire to pay minimal taxes against the need to obtain current and future financing, including a cushion for growth.
- For a spouse's outside income to be considered in debt service calculations, spouse must usually be a co-borrower or guarantor.
- Poor personal credit history of the spouse can hamper the business's ability to get credit or increase rates.

# Other tidbits ...

- For a spouse's outside income to be considered in debt service calculations, spouse must usually be a co-borrower or guarantor.
- Bankruptcy is at least a 7-year problem.
- Late payment of taxes, particularly payroll taxes, is a MAJOR problem.



- All lenders are not the same
- Research various lenders, ask questions
- Establish a relationship with your lender
- Different loan programs
  - SBA Small Business Administration
  - USDA
  - Micro Lenders
  - Gap Financers





# Financial Projections (cash flow)

In its simplest form, a **financial projection** is a forecast of future revenues and expenses.

Typically, the **projection** will account for internal or historical data and will include a prediction of external market factors. In general, you will need to develop a 3-year plan for **financial projections**

# Monthly Cash Flow Statement

## ABX Services, Inc.

### Projected Profit & Loss Statement - Year 1

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
<b>Sales</b>	\$400,000	\$420,000	\$441,000	\$463,050	\$486,203	\$510,513	\$536,038	\$562,840	\$590,982	\$620,531	\$651,558	\$684,136
Cost of Goods	\$256,000	\$268,800	\$282,240	\$296,352	\$311,170	\$326,728	\$343,064	\$360,218	\$378,229	\$397,140	\$416,997	\$437,847
<b>Gross Profit</b>	<b>\$144,000</b>	<b>\$151,200</b>	<b>\$158,760</b>	<b>\$166,698</b>	<b>\$175,033</b>	<b>\$183,785</b>	<b>\$192,974</b>	<b>\$202,622</b>	<b>\$212,754</b>	<b>\$223,391</b>	<b>\$234,561</b>	<b>\$246,289</b>
Staffing Expenses	\$28,400	\$29,820	\$31,311	\$32,877	\$34,520	\$36,246	\$38,059	\$39,962	\$41,960	\$44,058	\$46,261	\$48,574
Marketing Expenses	\$5,200	\$5,460	\$5,733	\$6,020	\$6,321	\$6,637	\$6,968	\$7,317	\$7,683	\$8,067	\$8,470	\$8,894
Facilities Expenses	\$30,400	\$31,920	\$33,516	\$35,192	\$36,951	\$38,799	\$40,739	\$42,776	\$44,915	\$47,160	\$49,518	\$51,994
Professional Service Expenses	\$1,200	\$1,260	\$1,323	\$1,389	\$1,459	\$1,532	\$1,608	\$1,689	\$1,773	\$1,862	\$1,955	\$2,052
Other Expenses	\$5,200	\$5,460	\$5,733	\$6,020	\$6,321	\$6,637	\$6,968	\$7,317	\$7,683	\$8,067	\$8,470	\$8,894
<b>Operating Expenses</b>	<b>\$70,400</b>	<b>\$73,920</b>	<b>\$77,616</b>	<b>\$81,497</b>	<b>\$85,572</b>	<b>\$89,850</b>	<b>\$94,343</b>	<b>\$99,060</b>	<b>\$104,013</b>	<b>\$109,214</b>	<b>\$114,674</b>	<b>\$120,408</b>
<b>Operating Profit</b>	<b>\$73,600</b>	<b>\$77,280</b>	<b>\$81,144</b>	<b>\$85,201</b>	<b>\$89,461</b>	<b>\$93,934</b>	<b>\$98,631</b>	<b>\$103,563</b>	<b>\$108,741</b>	<b>\$114,178</b>	<b>\$119,887</b>	<b>\$125,881</b>
Other Income/Expense	\$32,000	\$33,600	\$35,280	\$37,044	\$38,896	\$40,841	\$42,883	\$45,027	\$47,279	\$49,643	\$52,125	\$54,731
Interest (Income)/Expense	\$4,000	\$4,200	\$4,410	\$4,631	\$4,862	\$5,105	\$5,360	\$5,628	\$5,910	\$6,205	\$6,516	\$6,841
<b>Other Income/Expenses</b>	<b>\$36,000</b>	<b>\$37,800</b>	<b>\$39,690</b>	<b>\$41,675</b>	<b>\$43,758</b>	<b>\$45,946</b>	<b>\$48,243</b>	<b>\$50,656</b>	<b>\$53,188</b>	<b>\$55,848</b>	<b>\$58,640</b>	<b>\$61,572</b>
<b>Net Income Before Tax</b>	<b>\$109,600</b>	<b>\$115,080</b>	<b>\$120,834</b>	<b>\$126,876</b>	<b>\$133,219</b>	<b>\$139,880</b>	<b>\$146,874</b>	<b>\$154,218</b>	<b>\$161,929</b>	<b>\$170,026</b>	<b>\$178,527</b>	<b>\$187,453</b>
Taxes	\$21,920	\$23,016	\$24,167	\$25,375	\$26,644	\$27,976	\$29,375	\$30,844	\$32,386	\$34,005	\$35,705	\$37,491
<b>Net Income</b>	<b>\$87,680</b>	<b>\$92,064</b>	<b>\$96,667</b>	<b>\$101,501</b>	<b>\$106,576</b>	<b>\$111,904</b>	<b>\$117,500</b>	<b>\$123,375</b>	<b>\$129,543</b>	<b>\$136,020</b>	<b>\$142,821</b>	<b>\$149,963</b>

### Projected Balance Sheet - Year 1

<b>Assets</b>												
Current Assets	\$76,680	\$130,944	\$187,921	\$247,747	\$310,565	\$376,523	\$445,779	\$518,498	\$594,853	\$675,025	\$759,207	\$847,597
Fixed Assets	(\$4,800)	(\$9,840)	(\$15,132)	(\$20,689)	(\$26,523)	(\$32,649)	(\$39,082)	(\$45,836)	(\$52,928)	(\$60,374)	(\$68,193)	(\$76,402)
Other Assets												
<b>Total Assets</b>	<b>\$71,880</b>	<b>\$121,104</b>	<b>\$172,789</b>	<b>\$227,059</b>	<b>\$284,042</b>	<b>\$343,874</b>	<b>\$406,697</b>	<b>\$472,662</b>	<b>\$541,925</b>	<b>\$614,652</b>	<b>\$691,014</b>	<b>\$771,195</b>
<b>Liabilities and Stockholders' Equity</b>												
Current Liabilities	\$21,920	\$44,936	\$69,103	\$94,478	\$121,122	\$149,098	\$178,473	\$209,316	\$241,702	\$275,707	\$311,413	\$348,903
Long-term Liabilities												
Deferred Tax Liabilities												
<b>Total Liabilities</b>	<b>\$21,920</b>	<b>\$44,936</b>	<b>\$69,103</b>	<b>\$94,478</b>	<b>\$121,122</b>	<b>\$149,098</b>	<b>\$178,473</b>	<b>\$209,316</b>	<b>\$241,702</b>	<b>\$275,707</b>	<b>\$311,413</b>	<b>\$348,903</b>
<b>Total Stockholders' Equity</b>	<b>\$49,960</b>	<b>\$76,168</b>	<b>\$103,686</b>	<b>\$132,581</b>	<b>\$162,920</b>	<b>\$194,776</b>	<b>\$228,225</b>	<b>\$263,346</b>	<b>\$300,223</b>	<b>\$338,944</b>	<b>\$379,601</b>	<b>\$422,291</b>

# Loan Package Checklist (1)

- \_\_\_\_\_ Business Plan
- \_\_\_\_\_ Market Research (where applicable)
- \_\_\_\_\_ Resume of Owner(s) and Key Management
- \_\_\_\_\_ Sources (bank loan, owner's cash equity, etc.) / Uses (building, inventory, working capital, equipment, etc.) of Funds include Annual Debt Payment of any Loans
- \_\_\_\_\_ Copy of Partnership Agreement, Articles of Incorporation, Articles of Organization
- \_\_\_\_\_ Copies of Licenses, Permits, Trademarks, etc.
- \_\_\_\_\_ List of collateral (with serial numbers where applicable), age, cost, current market value
- \_\_\_\_\_ Personal Financial Statements for Anyone with 20% or more Interest in the Business
- \_\_\_\_\_ Personal Federal Tax Returns for the Previous Three (3) Years for Anyone with 20% or more Interest in the Business

# Loan Package Checklist (2)

- \_\_\_ Name, Address, Telephone Number of Business Attorney, Accountant, Insurance Agent, Business Consultant
- \_\_\_ Twelve (12) to Twenty-Four (24) Month Cash Flow Projection with Line Item Description
- \_\_\_ Three (3) years of Projected Annual Profit and Loss Statements
- \_\_\_ A Beginning Balance Sheet for Start-Ups or a Projected One (1) Year Balance Sheet for an Existing Business
- \_\_\_ Written Quotes on any equipment Purchases / Leases and / or Construction Costs
- \_\_\_ Copies of any Real Estate/ Other—Purchase/ Lease Agreements
- \_\_\_ Legal Description of Real Estate that is a part of the Business or to be used as Collateral
- \_\_\_ Recent Property Appraisals or Business Valuations of collateral (with serial numbers where applicable), age, cost, current market value



# Loan Package Checklist (3)

- \_\_\_ EPA Related Documents
- \_\_\_ Letters of Intent from Prospective Customers
- \_\_\_ Profit & Loss Statements and Balance Sheets for up to the Previous Three (3) Years
- \_\_\_ Interim (within the past 90 days) Profit & Loss Statement and Balance Sheet
- \_\_\_ Company's Tax Returns for up to the Previous Three (3) Years
- \_\_\_ Aging of Accounts Payable/ Receivable
- \_\_\_ Contracts with Customers
- \_\_\_ List of Customers and Percent of Business each account for
- \_\_\_ Favorable Letters form Commercial Customers



## \$\$\$ Websites of Interest

- \$ United States Dept. of Agriculture [www.usda.gov](http://www.usda.gov)
- \*USDA Farm Service Agency [www.fsa.usda.gov](http://www.fsa.usda.gov)
- \*USDA Natural Resources Conservation Service [www.nrcs.usda.gov](http://www.nrcs.usda.gov)
  
- \$ Small Business Administration (SBA) [www.sba.gov](http://www.sba.gov)
- \*SBA Microloans [www.sba.gov/funding-programs/loans/microloans](http://www.sba.gov/funding-programs/loans/microloans)
  
- \$ Regional Development Commissions  
(example: Ohio Valley Regional Development Commission)  
[www.ovrdc.org](http://www.ovrdc.org)
  
- \$ NOAA Fisheries Finance Program  
[www.fisheries.noaa.gov/national/funding-financial-services/fisheries-finance-program](http://www.fisheries.noaa.gov/national/funding-financial-services/fisheries-finance-program)

## Informative Websites of Interest

The Ohio State University South Centers	<a href="http://southcenters.osu.edu"><u>http://southcenters.osu.edu</u></a>
Business Development Network	<a href="http://southcenters.osu.edu/business"><u>http://southcenters.osu.edu/business</u></a>
Ohio Small Business Development Centers	<a href="http://www.ohiosbdc.ohio.gov"><u>www.ohiosbdc.ohio.gov</u></a>
The Ohio Secretary of State	<a href="http://www.sos.state.oh.us"><u>www.sos.state.oh.us</u></a>
Ohio Business Gateway	<a href="http://www.business.ohio.gov"><u>www.business.ohio.gov</u></a>
Ohio Department of Taxation	<a href="http://www.tax.ohio.gov"><u>www.tax.ohio.gov</u></a>
Ohio Department of Agriculture	<a href="http://www.agri.oda.gov"><u>www.agri.oda.gov</u></a>
Internal Revenue Service	<a href="http://www.irs.gov"><u>www.irs.gov</u></a>
United States Dept. of Agriculture	<a href="http://www.usda.gov"><u>www.usda.gov</u></a>
*USDA Farm Service Agency	<a href="http://www.fsa.usda.gov"><u>www.fsa.usda.gov</u></a>
*USDA Natural Resources Conservation Service	<a href="http://www.nrcs.usda.gov"><u>www.nrcs.usda.gov</u></a>

Contact Us:

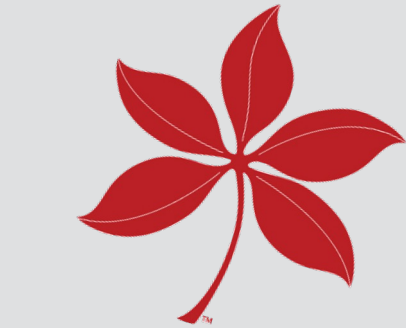
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## Questions or Comments??

