COLLABORATION BETWEEN SPRINGFIELD COMMUNITY-BASED BUSINESS ADVISORS, CITIZENS BANK, HAMPDEN BANK, AND WESTBANK

Existing Business Team:
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MICHAEL P. BUCKMASTER, Vice President, Regional Banking Citizens Bank
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Start-up Business Team:
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NANCY D. MIRKIN, Vice President, Hampden Bank
HARRY MONTALVO, Solutions CDC
AMY SHEEHAN, Senior Vice President, CRA, Westbank
TONY TAYLOR, Director of Education and Outreach, Gasoline Alley Foundation
TRISH TRUITT, Earth & Sky Exchange

[Logos of State Street and Eugene A. Dexter Charitable Fund]
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## Section II – Established Businesses at Least Two Years Old

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This manual was prepared as part of the Urban Business Alliance (UBA)-a unique initiative of Pioneer’s Center for Urban Entrepreneurship that helps low- and moderate-income entrepreneurs by bolstering the skills of the community-based business advisors they look to for assistance.

For more information about the program, please contact:

Alla Yakovlev, Director, Pioneer’s Center for Urban Entrepreneurship, ayakovlev@pioneerinstitute.org

Elizabeth Thornton, Program Coordinator and CEO Entrepreneurship Advantage, Inc., ethornton@entrepreneurshipadvantage.com
PART I - INITIAL BUSINESS ASSESSMENT – TECHNICAL ASSISTANCE PROCESS FOR START-UP BUSINESSES IN CONCEPT PHASE TO 2 YEARS OLD

Initial Intake

Referral
Walk-ins
Workshops (Personal Banking/Finance)
Community

By phone or in

2-3 weeks

Customer
Intake/Interview

Complete Form
Assign Task – Obtain Credit Report

Sit-Down Interview

Review Credit Report & Form (up to 2 hours)

Client obtains credit

6-18 months

Client completes credit counseling

Recommend Credit Counseling to address credit

Is credit acceptable?
Minimum 650 Credit Score*

Yes

Develop Action Plan
Business Plan
Establish checking account at a bank

No

One-on-One or Consumer Credit Counseling

National Check Protection Service/Chex Systems – used to verify authenticity of SS# or TIN, account history (charge-offs, etc).

Minimum Requirements to Establish a Bank Account:
- Name
- Residential Street Address (individual) or principal place of business, local office, or other physical location (for a business)
- Date of Birth (individual)
- Identification Number (taxpayer identification number)

*for traditional bank financing

Go to Part II
Appendix I

Credit Reporting Agencies

**Equifax**
P.O. Box 740241
Atlanta, GA 30374-0241
Tel: 1-800-685-1111
Fax: 1-866-233-3777
Website: [www.equifax.com](http://www.equifax.com)
customer.care@equifax.com

**Experian**
PO Box 2002
Allen Texas 75013
Tel: 1-888-397-3742
Fax: 714-385-7349
Website: [www.experian.com](http://www.experian.com)
cncac.consumer@experian.com

**Transunion**
P.O. Box 1000
Chester PA. 19022
Tel: 1-800-916-8800
Fax: 716-626-1795
Website: [www.transunion.com](http://www.transunion.com)
PART II - PROCESS TO ASSESS EXISTING BUSINESS PLAN AND PROCESS TO ASCERTAIN LEVEL OF REQUIRED BUSINESS DEVELOPMENT ASSISTANCE

Develop Action Plan

- **Business Plan**
  - Already in Place **10%**
  - Business Plan Not Acceptable
    - Review Business Plan
      - Business Plan Not
        - Preliminary Business Assessment
          - Industry Analysis
            - Competition
              - Assessment
                - Community
          - Select Business Plan Development Approach
            - Resources
              - TAPP Grant (Springfield) or other local municipal county/state entrepreneurial grants
              - Various approved vendors
                - Legal assistance
                  - Accounting
                    - Financial
                  - MSBDC or other SBDC
                - SCORE
                - SBA
              - UMass or local higher education entrepreneurship partner
            - Workshops
              - Basic
                - 2 hour
                - 9 hour
              - Extensive
                - 10 week (30 hour)
            - Sources
              - SBA

- **No Business Plan – Just Basic Idea**
  - 90%

Refer to Lender for Financing

Go to Part III
Preliminary Business Assessment

1. Industry Analysis – An overview of market trends, growth rate, industry segmentation and strength of competitive forces dictating industry profitability

2. Competitive Assessment – An overview of key competitors, an understanding of competitors’ strengths and weaknesses and an overall assessment of the strength of and sustainability of a competitive advantage in the industry

3. Community Assessment – An overview of the community economic climate, the strength of community need, demand and support for business

4. Financial Assessment – Overview of profitability potential, assessment of revenue drivers and relative cost position

Business Plan Development Resources

1. www.sba.gov/starting_business/planning/writingplan.html

2. www.nxlevel.org
Elements of a Business Plan (www.sba.gov)

**Business**
- Description
- Marketing
- Competition
- Operating Procedures
- Personnel
- Business Insurance

**Financial Data**
- Capital Investment (supporting documentation)
- Loan applications
- Capital Equipment and supply list
- Balance Sheet
- Breakeven analysis
- Pro-forma income projections
  - 3-year summary
  - Detail by month, 1st year
  - Detail by quarters, 2nd and 3rd years
- Assumptions
- Pro-forma cash flow

**Supporting Documents**
- Tax returns of principals for last 3 years
- Personal financial statements
- Copy of franchise contract and all franchisor supporting documents (if opening a franchise)
- Copy of proposed lease or purchase agreement for building space
- Copy of licenses and other legal documents
- Copy of resumes on all principals
- Copies of letters in intent from suppliers, etc

Review Business Plan

- Are assumptions valid?
- “What if” conversation – collateral?
- Discuss different options

Business Plan not acceptable

Decline Received from Part IV

Business Plan Complete

Referral to Financial Institution for Financing
How Bankers Review Loan Requests from Start-up Businesses

Receive referral from CBA or other source

Meet Borrower Site Visit
CBA Site Visit
(1 hour)

Review Business Plan
Determine Use of Proceeds

Draft Memo/Review of Initial Meeting
Identify Enhancements (SBA, etc)
Submit Loan Request to Credit Department

Credit Department – Initial Analysis (1-2 days)
Questions
Credit Bureaus
Match to Bank Policy

Credit Department – Underwriting
Cash Flow
Collateral
Credit
Character
Conditions
Competition – Industry Analysis

Credit Approval Memo
Loan Committee Presentation

More Information Required

Information Sufficient

1-2 Weeks

Loan Closing –
Depending on the complexities of the loan request and the conditions involved, closing (funding) could be anywhere from 2-6 weeks from loan approval.

Loan Approved!!
Commitment Letter sent to Borrower with any conditions

Approved

Declined

Back to Part III

Issue Decline – back to business plan Part III

1 week
Appendix III

Decline Indicators

When a Banker declines an loan request it is an indication of the following:

- The business plan needs review and refinement

- The entrepreneur should seek alternative lenders such as community service organization, micro lenders or local economic development corporations.
Appendix I

Application Documentation – Conventional Commercial Loan

1. Credit application
2. Personal financial statement
3. 3 years business tax returns (if over 4 months, provide interim)
4. 3 years personal tax returns
5. Brief history of business
6. Pictures of property, if available
7. Detailed debt schedule for business

In Addition, for a line of credit:

1. Account receivables aging
2. Accounts payable aging
Application Documentation – Investment Property

1. Complete description of property including # of units, total square footage, age, construction, address

2. Credit application

3. Personal financial statement

4. 3 years personal tax returns

5. Picture of property, if available

6. Copy of Sales contract (purchase)

7. 3 years of Schedule E’s (if not available, a signed schedule of annual income and expenses, including taxes, insurance, utilities and repairs)

8. Current rent roll

9. Copies of leases (with Schedule E’s – one lease per apartment type, without Schedule E’s – all leases)
• Businesses need to understand that their tax returns need to show income. While it is understood that businesses strive to pay a minimum of taxes, if income is not documented then it cannot be used by a bank when underwriting a loan request.

• There is sometimes a lack of general financial statement literacy amongst business owners. Bankers, advisors need to assist businesses with this.

• Banks need to see CASH FLOW in addition to collateral. Sources of repayment for a bank loan are threefold: primary, secondary, and tertiary. The primary repayment source for a commercial bank loan is cash flow (usually calculated as EBITDA = earnings before interest, taxes, depreciation and amortization). Please note: what is important to a bank is the cash flow or EBITDA generated historically, i.e. in each of the past three years. This historic cash flow needs to be sufficient to cover existing debt payments already existing, in addition to the new loan payment being requested. What is considered sufficient varies amongst banks in accordance with each bank’s own credit policy, but a “rule of thumb” is that banks look for historic cash flow to have been able to cover existing and proposed debt repayment by 1.2 times. Banks in most cases derive less comfort from projections of cash flow than they do from historic cash flow. Projections, however, when used, should be realistic and appear to be based on reasonable assumptions.

• The secondary source of repayment for a commercial loan is collateral. This may be in the form of a piece of commercial real estate, equipment, inventory, and account receivables. Important to note here: collateral is SECONDARY to cash flow above, which means if a piece of commercial real estate has an appraised value far exceeding the loan request, this is NOT relevant if cash flow is not sufficient in the first place. Cash flow is what makes the loan payments. Collateral needs to be sufficient if ever the loan payments could not be made, and the loan became delinquent to the point that the bank needs to foreclose on the collateral, to be repaid on the loan.

• The tertiary or third source of payment is personal guarantees. These only come into play if there is not enough collateral value in the
business assets or the real estate after the foreclosure, to repay the loan.

- Commercial Mortgages: Businesses need to know the difference to a banker between owner-occupied commercial mortgages, and non-owner-occupied commercial mortgages (also known as investment real estate mortgages).

An owner-occupied mortgage is where the business owner also owns and occupies all, if not the majority, of his own building. In this case, it is the income or cash flow generated by the business that will pay the commercial mortgage, because the business is the main tenant or occupant. Therefore, cash flow of the business is important as described previously above.

On the other hand, the cash flow generated to pay the mortgage for a piece of investment real estate, such as a multi-family apartment building, are the rents generated by many tenants, and in this case, the historic cash flow of rents which cover building expenses and future loan payments determines available cash flow. Once again, according to individual bank’s credit policies, what is deemed sufficient cash flow coverage may vary, but about 1.25 times coverage is typical. Another example of a non-owner-occupied commercial mortgage (or investment real estate loan) is when an individual owns a commercial building, occupied by commercial business which the landlord has no ownership in. In this case, we are relying on payment of the commercial leases to the landlord to pay the mortgage, not upon the cash flow of one or more companies. In these cases, because there is no underlying company generating cash flow, and because we are only relying on tenant leases for cash flow, the secondary and tertiary sources of repayment, i.e. collateral and personal guarantors, become more important.

- The maximum Loan to Value (LTV) assigned to a piece of collateral varies according to individual bank policies, types of collateral, types of transaction (i.e., purchase or refinance), and the overall perceived strength of the deal to the bank. Typically, LTV guidelines may be similar to those stated bellow:
<table>
<thead>
<tr>
<th>Commercial Real Estate (purchase of refinance)</th>
<th>Multi Purpose (in good condition)</th>
<th>80% LTV*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Real Estate (purchase or refinance)</td>
<td>Single Purpose in good condition (e.g., church, bowling alley, etc.)</td>
<td>70% or less LTV</td>
</tr>
<tr>
<td>Equipment</td>
<td>New/Used</td>
<td>80% to 100% LTV</td>
</tr>
<tr>
<td>Eligible Business Account Receivables</td>
<td>Supported by A/R aging</td>
<td>80% LTV</td>
</tr>
<tr>
<td>Eligible Inventory</td>
<td>Excludes WIP (work in progress)</td>
<td>50% LTV</td>
</tr>
</tbody>
</table>

*Other LTVs may be lower dependant on real estate type, condition and industry of occupant

- When looking to provide a business with a line of credit, the distinction must be made if it is for cyclical working capital or permanent working capital. Cyclical working capital is to provide financing for month to month expenses, prior to receiving payments from customers. It is understood that businesses have monthly operating expenses, but that the sales to repayment cycle might be two or three months or longer depending on the type of business. A working capital line of credit is to support that “funding gap.” Because it is supporting a cyclical need, it assumes that at some point in the cycle cash will be generated. Banks will typically ask for a “clean-up” period of the working capital line of credit, e.g., your line of credit must be paid down to zero for 30 days once per year. This ensures that the line is being actually used for cyclical working capital, and not permanent working capital. Permanent working capital, such as for expansion costs, initial inventory, equipment, etc., should be financed by a term loan. As a rule of thumb, the size of any company’s working capital line should not be more that 15% to 25% of it total gross revenues, according to its most recent fiscal year end.

- Many of the factors described above, mean that a commercial lender is going to consider a request for a commercial loan differently than when applying for a consumer loan. Whilst personal credit score and the discipline of keeping good personal credit are important, it is only one factor, as discussed above. A consumer loan decision will often be based largely on consumer credit score, whereas with a commercial loan, cash flow and collateral strength
are just as important. Consumer credit scores are expected to be 640 or better. Time frames for commercial loans tend to take longer from application to close than consumer loans. Typically, a commercial mortgage takes 6 to 8 weeks from application to close.