

Access To Capital:

Food, Beverage, and Agricultural Enterprises

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Traditional Sources of Capital

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Understanding what's important[®]

Agenda

- Business Loan Process
- How do you know which loan product is right for you?
- Time line – what to expect with each product

Business Loan Process

- Pre-application
 - Assemble your application package including:
 - Business plan (required for start-up businesses)
 - Personal resume(s) of the owners
 - Three years of the Borrowing entity's FYE financial statements (if existing business)
 - Personal Financial Statements and tax returns
 - Financial projections with footnotes
 - Detail equity contribution – how much and from where?
 - Detail sources and uses of equity and loan proceeds
 - What is the proposed collateral to secure the loan?
 - Know your personal credit score. There are various web sites that provide the information.

Business Loan Process

- Application stage
 - Complete written application (varies by bank)
 - Meeting with Bank Loan Officer to discuss/explain the application
 - Formal package is submitted to the bank's underwriters (the credit decision is almost never made by the Loan officer)
 - "Credit Scoring" is becoming a major component of the underwriting decision – both the Company score and personal guarantor credit score are critical
 - The bank will look first at your "ability to pay" – comparing your historical and projected cash flow to the projected debt service.
 - Loan is either approved as requested, declined, or a counter offer made requesting additional collateral, guarantors, additional equity contribution, or a lower loan amount if it is possible to scale down the project.

How do you know which product is right for you?

A major premise of lending is to match the lending need to the term of the loan.

- Lines of Credit are by definition made solely for short-term working capital requirements- i.e. less than one year. For example, to bridge seasonal expenses such as inventory purchases or Ag business that is seasonal in nature. Most Banks will require that you pay down your Line of Credit to zero annually (or close to it). If you do not, it will be considered a sign that you are using your Line improperly or that cash flow is tight.
- Term Loans and Mortgages are long-term loans by definition and are matched closer to the life expectancy of the assets financed. For example, equipment purchases may have five to seven year terms and real estate mortgages may have twenty year amortization schedules.

Time line – What to expect with each product?

- It all depends....
- Some banks and equipment leasing companies offer “Application Only” products that can be funded in days. Loan amounts are relatively small and are based solely on credit scoring.
- Most “conventional applications” that do not require real estate collateral or government guarantee programs can be approved and closed within days or weeks from the time of application. This assumes that the applicant provides all the required documentation in a timely fashion.
- Loans secured by real estate generally require appraisals, environmental assessments, legal representation, and title policies that will take one to three months to complete before a closing can be scheduled.
- Government guaranteed loans can take the longest depending on the program and structure. If the bank proposes a government guaranteed loan program, you should ask what the expected timing may be for approval and closing. It may vary by Bank and will vary significantly by the agency program.