



OPTIMA

BANK & TRUST

Commercial Lending and Business Finance

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Lending

FOR THE NORTHERN NEW ENGLAND SCHOOL OF BANKING

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TYPICAL TYPES OF COMMERCIAL LOANS

COMMERCIAL REAL ESTATE MORTGAGES

Purpose: Purchase – Refinance – Renovate

Property Types:

- Office Building
- Industrial Manufacturing
- Warehouse
- Retail
- Hospitality (Hotel, Restaurant, Pub)
- Mixed Use (Commercial and Residential)
- Multi-Family (5 or more units)
- Construction to Permanent
- Speculative Construction
- Investment Real Estate

TYPICAL TYPES OF COMMERCIAL LOANS

COMMERCIAL INDUSTRIAL TERM LOANS

**Purpose: Long Term Working Capital
Asset Acquisition or Refinance**

Term Loan Types:

- Machinery and Equipment
- Furniture and Fixtures
- Vehicles
- Construction Equipment
- Business Acquisition or Expansion
- Partner or owner Buyouts
- Leasehold Improvements
- Business Start-up
- Research and Development

TYPICAL TYPES OF COMMERCIAL LOANS

COMMERCIAL LINE OF CREDIT COMMERCIAL LETTERS OF CREDIT

Purpose: Short Term Working Capital

Uses of Lines and Letters

- Gap Funding between Payables and Receivables
- Cash flow during seasonal periods
- Product or production expansion
- Business Expansion
- Partner or owner Buyouts
- Leasehold Improvements
- Research and Development
- Securing Inventory or product from suppliers
- Guarantee of completion of work.

Evaluating a Commercial Loan

CAPACITY

- Does the business have adequate capital or access to additional capital to meet short term working capital needs.
- Does the business generate sufficient cash flow to provide an income to the owners of the company.
- Can the business generate sufficient profits or cash to pay back the debt.
- Will the business easily adapt or change to events in the market and economy.

TOOLS USED

- 3 years Business Tax Returns, Reviewed or Audited Financial Statements
- Management or Accountant prepared interim statements
- Budgets or Forecasts
- Historical Depository Account information
- Accounts Receivable and Accounts Payable Information
- Alternative sources of capital or repayment
- Strength and Depth of the Executive Management Team.

Evaluating a Commercial Loan

Capital

- *Cash in the bank, what has the company been able to save for expansion of the business.*
- *Liquidity position of the owners and/or guarantor(s) of the loan*
- *CapEx (Capital Expenditures) has the company budget or planned for improvements to fixed assets.*
- *Can the company sustain operations if revenues decrease 10%-25% in the event of an economic downturn. How would the company raise capital, equity or debt.*
- *Salaries or Distributions-how are the owner taking cash out of the company.*

Tools Used:

- *Bank Statements*
- *Personal Financial Statements*
- *Tax Returns*
- *Budgets and Forecast*
- *Access to Capital via grants, government programs or investors.*

Evaluating a Commercial Loan

Collateral

- Cash Flow is dwindling, assets that can be sold or liquidated to repay the bank loan.
- Quantifiable value of the assets determines your risk and exposure to the borrower
- Referred to by the credit analysis as a secondary source of repayment
- Business Assets pledged by the company and Personal Assets pledged by the guarantor(s)
- Types of assets include but not limited to real estate, machinery and equipment, vehicles, furniture/fixtures, cash, marketable securities, accounts receivables, inventory, purchase orders, assignment of lease/rents/contracts.

Tools Used

- Appraisals on real estate and Appraisals on equipment
- Bank and Financial Statement
- Accounts Receivable
- Contracts, Rental Agreements, Lease Agreements
- Depreciation Schedules
- Financial Statements

Evaluating a Commercial Loan

Conditions:

- Economy: Local, Regional and National
- Competition
- Research and Development.
- Industry Trends
- Changes in B2B (Business to Business) buying or service trends
- Changes in Consumer spending or buying habits
- Market Saturation

Tools Used:

- Industry Research: Vertical IQ, First Research and Dunn & Bradstreet (D&B)
- Local or Region Economic Reports and Trends
- In the News: what do you know about your borrower from News releases
- Social Media Research, LinkedIn, Facebook, Twitter
- Local market intelligence.
- References and Centers of Influence

Evaluating a Commercial Loan

CHARACTER

- HOW HAS THE BUSINESS AND THE PRINCIPALS OF THE BUSINESS PERFORMED ON THEIR PREVIOUS DEBT OBLIGATIONS
- DO THEY SEEM INTERESTED IN THE SUCCESS OF THE BUSINESS
- IS MANAGEMENT SUFFICIENT FOR SIZE OF BUSINESS AND CAPABLE AS THE COMPANY GROWS

TOOLS USED

- CREDIT REPORTS BUSINESS & PERSONAL,
- RESUME OF OWNERS
- STANDING ON LOANS WITH THE BANK CURRENTLY, PERFORMANCE OF DEPOSIT ACCOUNTS
- PERSONAL FINANCIAL STATEMENT
- WRITTEN BUSINESS PLAN WITH FINANCIAL PROJECTIONS

Case Study: Sound & Light Innovations Inc.

Sound and Light Innovations Inc., is a company that sells and distributes sound and lighting equipment for the bar, restaurant, theater and music industry. Corporate Office and Warehouse is located in Tewksbury Mass., with two retail locations. The company generates \$25.0MM in annual sales with 60% of that from internet and phone sales. They are the leading retail for several brands such as Pioneer, EV, Chavuet and QSC. The company was started in 1994 by Brian and Robert in a small retail location selling just to the local DJs., and today they are seeking capital funding to add warehouse space, additional internet/phone support and a third retail location.

Loan Request:

- Purchase a new warehouse which can also accommodate office space
- Shelving, forklift, Furniture/Fixtures and truck for the new warehouse location.
- Increase the existing line of credit from \$1.0MM to \$1.5MM for inventory purchases
- Leasehold improvements and Furniture/Fixtures for a third retail location.

Identify the tools and resources to evaluate this loan request.

Thank You!

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