

HOW TO GET THE CREDIT YOU DESERVE

Credit is the lifeblood of South Louisiana business, especially for the smaller firm. It helps the small business owner get started, obtain equipment, build inventory, develop new lines of merchandise, or expand. In brief, credit helps businesses grow.

Surveys have found that aside from personal savings, banks are **the major source of capital** for starting new firms. Even more striking, **about 85%** of loans for operating small businesses come from banks, according to a report by the National Federation of Independent Business.

This booklet describes and explains the steps a small business should take to obtain financing--beginning long before entering the bank. You will learn about selecting the right type of financing to best meet your business needs.

Included is a **detailed description of the information and business figures** the bank will most likely require to evaluate your request. By knowing what we are looking for you can speed our consideration of your application.

In addition, **several important sample forms** are included with this small business borrowing guide. All the data will help South Louisiana Bank evaluate your ability to repay the loan you are seeking.

**BY PRESENTING YOUR CASE IN THE BEST LIGHT
YOU ENHANCE YOUR CHANCES
OF GETTING THE
FINANCING YOU NEED.**

Remembering the basic rule shown above may save you time and effort when seeking bank financing for your business. By using this simple guide, Steps To Small Business Financing, you will enhance your chances of getting the loan you need, at a fair price and with manageable terms.

PLANNING FOR A LOAN

Before coming to SLB, you should ask yourself some basic questions:

1. What must I finance to support my needs?

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How much can I borrow?

2. What amount of financing will meet my needs?

3. When and for how long will I need these funds?

4. How will I generate sufficient cash flow to repay the loan?

The answers to questions such as these are central to our lending decision. The information you provide supported by your financial statements -- will help us make the decision as quickly as possible.

TYPES OF LOANS

As a business owner, you know that you may need to borrow to start-up, maintain or expand your business. But loans come in various forms and some are more appropriate than others for your needs. Try to determine how your needs match them.

SHORT TERM LOANS

Line of Credit-- This type of loan allows you to borrow repeatedly up to a certain amount. You repay and reborrow as often as you need. At the end of the year, the line of credit may be renewed. This is called a revolving line of credit because of the repeat borrowing and repayment provisions.

These loans, which usually must be secured by collateral, allow you to maintain an even cash flow with which to operate your business. They may allow you to take advantage of special discounts offered by suppliers, or to gear up for a special sales effort. They can tide you over until a customer pays a big bill.

One type of line of credit is the seasonal line of credit. Many businesses have a strong seasonal nature. There may be time when you need capital to prepare for a seasonal product. The period between income generation may be lengthy. Cash flow may be diminished, but you need to keep operating.

When applying for such a seasonal loan, determine how much you will need and, based on past experience, when you'll be able to repay it. Don't borrow more than you need. Like most other types of lines of credit, this kind of loan is expected to be repaid within a year.

INTERMEDIATE TERM LOANS

These loans may run as long as three years. Consider such a loan for business start-up, the purchase of new equipment, the expansion of a store or plant, or an increase in working capital.

The intermediate term loan is usually repaid in monthly payments from the business's profits. The loan will usually require collateral.

LONG TERM LOANS

A long term loan typically runs for more than three years, is usually secured, and may be granted for business start-ups, purchasing major equipment, moving a plant or store, or for other purposes.

The long term loan is commonly repaid on a monthly basis out of cash flow or profits. The loan agreement may contain provisions which limit your business's other debts, dividends, or principals' salaries or which require that a percentage of the firm's profits be used expressly to repay the loan.

Collateral for a long term loan may be the assets you are purchasing, supplemented by your personal guarantee, stocks, bonds, certificates of deposits, other personal assets or other business assets.

COMMERCIAL MORTGAGES

You may need a commercial mortgage if you plan to buy, build or enlarge a building, or to obtain needed land. Generally, the mortgage is made for up to 80 percent of the purchase price or appraised value of the property and is amortized over a set period of up to fifteen years. SLB will likely require an independent appraisal to be paid by you.

Should you need cash, property that your company now owns may be mortgaged. If the property -- land or buildings -- is already mortgaged, you may be able to obtain a second mortgage.

LETTERS OF CREDIT

A letter of credit is used to facilitate certain business transactions. Therefore, a request for opening a letter of credit is similar to an application for a conventional loan and is treated the same way.

In domestic use, a standby letter of credit substitutes the bank's credit for the firm's credit by providing the bank's guarantee of payment to a third party if the borrower fails to repay the loan. For example, a small firm manufacturing furniture might need to offer a standby letter of credit to a supplier of lumber to assure the supplier that the bank will provide payment for the lumber if the purchaser cannot.

In an international transaction, a commercial or import letter of credit refers to a specific transaction. It helps insure the buyer and seller, who may be separated by thousands of miles and operate under different legal, political and business practices, that they will both receive protection regarding the receipt of goods and payment for the item. For example, a small U.S. tea manufacturer may wish to purchase tea leaves from a supplier in the Orient. The letter of credit would contain provisions guaranteeing that the seller would receive payment by a specified date if the buyer received the merchandise by a certain time and if the merchandise meet pre-determined standards of quantity and quality.

A COMMENT ON LOAN COLLATERAL

South Louisiana Bank will typically require the value of the collateral to be somewhat greater than the amount of the loan. One factor to be considered when evaluating the worth of collateral is the liquidity of the collateral.

Another consideration is the expected economic life of the collateral. For example, items that rapidly lose value, such as seasonal inventory, are not normally acceptable as collateral for intermediate or long-term debt.

When making loans to businesses with multiple owners, such as partnerships or corporations, we may require a pledge of personal assets or a personal guaranty.

When pledging real estate as collateral, a SLB will generally require a current appraisal of the property.

EQUITY FINANCING

Several types of debt financing have been described. However, another way you can obtain financing for your business is to share its ownership with others. Through this equity financing, additional individuals or firms provide capital for the business but may or may not take part in its operations.

General Partners are those who normally contribute both capital and management time. They share in business responsibilities and liabilities. Limited partners are individuals who contribute capital to the business but who normally have neither management responsibilities nor liabilities. A sole proprietorship is a business where there is only one owner, and this person is responsible for all the company debts.

If you establish a corporation, you can accommodate numerous equity investors in the business. Each investor is a stockholder and owns part of the company. A privately held corporation may consist of an unlimited number of stockholders. Often they are friends, relatives, or employees. A publicly held corporation is one which seeks to offer ownership to the general public. Shares are sold by an investment banking or stock brokerage firm.

Since the objective is to raise money, the corporation can obtain equity financing through the issuance of a number of instruments:

1. Common Stock is issued to friends, relatives, and investors.
2. Preferred stock represents ownership in the business, but requires that its holders be repaid first if the business should go bankrupt.
3. Convertible debentures-- essentially loans -- are bonds which may be converted into common stock before being repaid to holders.
4. Debt warrants allow holders to buy a company's stock even after the debt has been repaid.

A business that is a corporation may enjoy certain advantages in obtaining funds. But bear in mind that corporations are more highly regulated than most other legal entities. You should consult with your attorney and CPA to determine the intitiy which best suits your needs.

A COMMENT ON EQUITY FINANCING~

Although some companies select equity financing, debt financing historically has been and currently is preferred by most small firm owners. The existing tax structure is one special reason for this. Interest paid for a loan is deductible as a valid business expense. It reduces the tax burden. It can also be very expensive to raise funds through common stock offerings because of the legal fees associated with SEC filings. Although SEC filings are not required for all public offerings, there are other costs and general solicitation costs.

Furthermore the money obtained through borrowing is controlled by the owner of the business -- control over the company is not diminished. Thus, where credit can be obtained at a favorable rate, debt financing is usually the better course for the small firm than equity financing.

APPLYING FOR A SOUTH LOUISIANA BANK LOAN

LOAN PROPOSAL -- This is a written statement which describes your business and its history, spells out how you will use the loan, and how you plan to repay the loan. One could describe the loan proposals as a document that factually makes the best case for granting the loan.

PERSONAL INFORMATION -- This information should give business background on you and/or your partners. Not only do these documents give your business background, but they include personal information, and business and personal references. In most cases personal tax returns for the past three years will be requested.

FINANCIAL STATEMENTS -- These statements should describe the condition of your business. All of this information should be presented in generally accepted financial reporting forms which allow the data to be easily understood. Your statements should include:

Balance Sheet-- from most recent fiscal year ended.

Income Statement-- statement showing profit and loss for the last three years, up to the the current fiscal year end.

Cash Flow Projections-- Projections showing how much cash will be generated in the future to repay the loan.

Accounts Receivable & Accounts Payable Aging -- These reports break out receivables and payables into 30, 60, 90 and past 90 day old categories.

NOTE: Sample forms are included in this packet. If needed, contact our bank officer for assistance. A bookkeeper or accountant may also be of assistance.

SUMMARY

In seeking a loan for your firm, you are essentially asking a bank to become your business partner. Before entering the market for a loan, make sure you have done all the ground work necessary:

- 1. How much do you need and for what?**
- 2. What terms do you need for your loan?**
- 3. What kind of business person are you?**
- 4. What shape is your business in?**

We hope this booklet will help you clarify your credit needs and make you more aware of your credit options and the procedures that most banks follow. If you are thorough in your preparation and follow the steps outlined in this guide, the processing of your credit request should be greatly facilitated.



Information in this booklet was excerpted from the American Bankers Association Steps to Small Business Financing; a joint project of National Federation of Independent Business and American Bankers Association.

GENERAL BUSINESS INFORMATION

This preliminary information may be needed by South Louisiana Bank to evaluate your loan request.

1. *Description of Business:* Describe type of business or service to be conducted. If existing business, give complete history. Describe how you will operate, what changes (if any) you will make with the loan, and how it will help you. If a proposed business, describe planned business entity (proprietorship, partnership, or corporation) and how you will operate.
2. *Management:* Complete personal resume of each principal. Add description of experience and management capabilities that will make the business a success.
3. *Equity:* How much cash will you inject, without borrowing? If you plan to borrow equity from friends or relatives, detail the terms of repayment. List any outside collateral you plan to use in the business.
4. *Collateral:* List collateral available to support loan and an estimate of its value. Attach all appraisals currently available.
5. *Financial Information:* For existing (owned) business, submit financial statements (include balance sheets and income statement) for the last three years. Submit a current financial statement for period since last fiscal year ended. Provide a projection of your sales, expenses and profit for at least one full year after you receive the loan.
6. *Written Breakdown on Use of Loan Funds:* Explain purpose of loan. Estimate funds needed for operating capital, accounts receivable buildup, equipment and machinery remodeling expense, etc. If real estate construction is involved, detail land cost, land improvements, and utilities, and get a firm written estimate from contractor, including performance bond cost.
7. *Personal Financial Statement:* of owner, each partner, or each stockholder owning 20 percent or more of business.

If you have any questions please contact one of our commercial lenders at **985-851-4561**.

GLOSSARY

Accounts Payable: A list of current business debts or liabilities of a firm which must be paid in the future (usually within one year).

Accounts Receivable: A list of the amounts a firm is owed by others for merchandise or services sold, representing current assets.

Amortization: To liquidate on an installment basis; the process of gradually paying off a liability over a period of time, e.g., a mortgage is amortized by periodically paying off part of it.

Assets: The valuable resources, or properties and property rights, owned by an individual or business enterprise.

Balance Sheet: A detailed listing of assets, liabilities, and owners' equity accounts (net worth) showing the financial position of a company at a specific point in time.

Capital: Capital funds are those funds which are needed for the base of the business. Usually they are put into the business in a fairly permanent form such as fixed assets, plant, and equipment, or are used in other ways which are not recoverable in the short run unless the entire business is sold.

Capital Equipment: Equipment used to manufacture a product, provide a service, or to sell, store, and deliver merchandise. Such equipment will not be sold in the normal course of business, but will be used and worn out or be consumed over time as business is conducted.

Cash Flow: The actual movement of cash within a business: cash inflow minus cash outflow. A term used to designate the reported net income of a corporation plus amounts charged off for depreciation, depletion, amortization, and extraordinary charges to reserves. Cash flow should include all non-cash expenses which are bookkeeping deductions and are not actually paid out in cash.

Collateral: Property pledged by a borrower to secure a loan. In the event of default, the lender has the right to use proceeds from the sale of the collateral to obtain repayment of the loan.

Compensating Balances: Cash balances kept on deposit at a bank, usually non-interest bearing, which are taken into consideration when the bank decides what interest rate it will charge for a loan.

Debenture: A bond or other debt obligation usually backed only by the integrity or general credit of the issuing borrower and not secured by a lien or any specific asset.

Debt: Debt refers to borrowed funds, whether from your own reserves or sources, from other individuals, banks, or other institutions. It is generally secured with a note, which in turn may be secured by a lien against property or other assets. Ordinarily, the note states repayment and interest provisions, which vary greatly in both amount and duration, depending upon the purpose, source and terms of the loan. Some debt is convertible, that is, it may be changed into direct ownership of a portion of a business under stated conditions.

Equity: Equity is the owners' investment in the business. Unlike capital, equity is what remains after the liabilities of the company are subtracted from the assets - thus it may be greater than or less than the capital invested in the business. Equity investment carries with it a share of ownership and usually a share in the profits, as well as some say in how the business is managed.

Fixed Assets: Those items of a permanent nature, required for the normal conduct of a business, and not converted into cash during the normal fiscal periods. Examples include building, machinery and furniture.

Fixed (long-term) Liabilities: Liabilities that will not mature during the next accounting period.

Gross Profit: Net Sales (sales minus returned merchandise, discounts, or other allowances) minus the cost of goods sold.

Guaranty: A pledge by a third party to repay a loan in the event that the borrower cannot.

Income Statement: A statement of income and expenses for a given period of time.

Inventory: The materials owned and held by a business firm, including new materials, intermediate products and parts, work in progress, and finished goods, intended either for internal consumption or for sale.

Liquidity: A term used to describe the solvency of a business, and which has special reference to the degree of readiness in which assets can be converted into cash without a loss. Also called Cash Position. If a firm's current assets cannot be converted into cash to meet current liabilities, the firm is said to be liquid.

Loan Agreement: A document which states what a business can and cannot do as long as it owes money to (usually) a bank. A loan agreement may place restrictions on the owners salary or dividends, on amount of other debt, and on working capital limits, on sales or number of added personnel.

Loans: Debt money for private business is usually in the form of bank loans. In a sense, many are personal because a private business can be hard to evaluate in terms of credit-worthiness and degree of risk. A secured loan is a loan which is backed up by a claim against some asset or assets of a business. An unsecured loan is backed by the faith the bank has in the borrower's ability to pay back the money.

Net Worth: The owner's equity in a given business represented by the excess of total assets over the total amounts owed to outside creditors (total liabilities) at a given moment in time. Also, the net worth of an individual as determined by deducting the amount of all his personal liabilities from the total value of his personal assets. Generally refers to tangible net worth, i.e., does not include goodwill, etc.

Note: The basic business loan, a note represents a loan which will be repaid, or substantially reduced 30, 60, or 90 days later at a stated interest rate. These are short-term, and unless they are made under a line of credit, a separate loan application is needed for each loan and each renewal.

Prime Rate: A benchmark interest rate which an individual bank may establish and sometimes use to compute an appropriate rate of interest for a particular loan contract. This rate is based on numerous factors including the banks supply of funds, it's administrative costs and competition from other suppliers of credit.

Pro Forma: A projection or estimate of what may result in the future from actions in the present. A proforma financial statement is one that shows how the actual operations of a business will turn if certain assumptions are realized.

Profit: The excess of the selling price over all costs and expenses incurred in making a sale. Also, the reward to the entrepreneur for the risks assumed by him or her in the establishment, operations, and management of a given enterprise or undertaking.

Rates (Variable): Variable loan rates will generally change monthly or quarterly and will be based on some index such as the bank's prime rate. Variable rates can rise or fall during the life of a loan depending on what happens to the index rate the loan is based on. A typical variable rate quote would be prime + 2 %. Variable rate will usually be quoted for short term financing such as working capital loans, accounts receivable financing or short term equipment loans.

Rates (Fixed): Fixed loan rates will be just that, fixed for the life of the loan. These type loan rates are generally associated with longer term, fixed asset financing.

Revolving Credit: A contractual agreement allowing a customer to borrow funds when needed up to a specified maximum amount for a limited period of time.

Secured Loan: A loan for which the lender's interest is protected by collateral pledged by the borrower. The collateral can be any marketable asset.

Take-over: The acquisition of one business by another business.

Term Loans: Either secured or unsecured, usually for periods of more than a year to as many as 20 years. Term loans are paid off like a mortgage: so many dollars per month for so many years. The most common uses of term loans are for equipment and other fixed asset purposes, for working capital, and for real estate.

Working Capital: The difference between current assets and current liabilities. Contrasted with capital, a permanent use of funds, working capital cycles through your business in a variety of forms: inventories, accounts and notes receivable, and cash and securities.