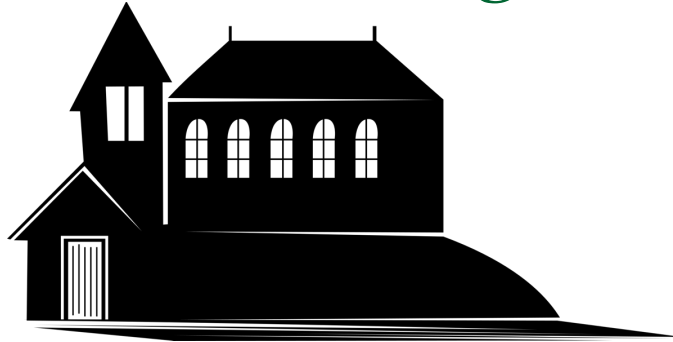




*Getting Things Done.*

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## Commercial Lending Process



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## Presented by Industrial Bank

**Rob Caro**

**Vice President, Commercial Loan Officer**

**Commercial Loan Department**

**4812 Georgia Avenue, NW**

**Washington, DC 20011**

**[rcaro@industrial-bank.com](mailto:rcaro@industrial-bank.com) (202) 526-8310 direct (202) 722-2000 main**

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# Covered in this session

- The Overall Lending Process
  - Types of Commercial Loan
  - Discuss Elements of Loan Application
  - Discuss Financial Statements
  - Point out what bankers look for in their internal decision-making processes.
  - Application Submission
-

# Reasons for borrowing

- Most common causes
  - ❑ Long-term sales growth (cyclical)
  - ❑ Short-term sales growth (seasonal)
  - ❑ Inventory expansion (job load)
  - ❑ Receivables slowdown (slow billings collection)
  - ❑ Capital expenditures (equipment, vehicles, etc.)
  - ❑ Cash flow timing differences (payables due at first of month, billings pay at end of month)
  - ❑ Commercial purchases (owner occupied & non-owner occupied)

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# Types of Loans

- Commercial Real Estate
  - Working Capital
  - Business Purchase
  - Franchise Purchase
  - Equipment Purchase
  - Partnership Buyouts
  - SBA Lending
  - Space Buildout
-

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# Loan Request

- Specific Amount
  - Specific Use of Proceeds
  - Repayment terms—maturity, amortization, term (up to 25 years for churches)
  - Conditions and covenants
  - Collateral
  - Personal Guarantee(s) may be required
-

# Banker's loan decision process

## ■ Repayment Analysis

- The Six C's of Credit
- Guarantees

## ■ Purpose

- Legal
- Ethical
- Policy-compliant

## ■ Structure: will the borrower be able to...

- Pay in full?
- Pay on time?
- Pay as agreed?

### The Six C's of Credit

- Cash Flow
- Collateral
- Cash Equity Injection
- Character
- Capacity
- Conditions

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# Credit Analysis

- Company overview
    - Line of business—products and services
    - Ownership and management
      - Experience, training, education
      - % ownership
    - Track record
      - Time in business
      - Successes and failures
      - Customers
      - Suppliers
      - Competition
      - Industry condition and trends
-

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# Credit Analysis

- Financial statements
    - HIRE AN EXPERIENCED CPA TO PREPARE FINANCIAL STATEMENTS
  
    - Completeness
      - Balance sheet
      - Income statement
      - Cash flow statement
      - Receivables aging
      - Payables aging
      - Contract Status Report
-



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# FINANCIAL STATEMENTS

- ❑ Business tax returns
- ❑ Personal tax returns
- ❑ Personal Financial Statement
- ❑ Interim Financial Statement(P&L and Balance Sheet)
- ❑ Bank Statements
- ❑ Operating Agreement or Bylaws etc.
- ❑ Debt Schedule

Statements must be less than six months old to be considered current

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# Credit Analysis

## ■ Financial analysis

- Internal trends and comparison with industry statistics
    - Profitability
    - Liquidity
    - Leverage
    - Solvency
  
  - Cash flow
    - Historic
    - Projections
      - Most likely
      - Downside—lower growth rate, higher interest rates, etc.
-

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# Credit Analysis

- **Financial analysis (continued)**
    - Collateral
      - Receivables
      - Fixed assets
      - Other?
    - Guarantees
      - Personal financial statements (PFS) must show joint owners of any personal assets
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- **SUBMIT A COMPLETE LOAN PACKAGE**

Submit all items on the checklist together instead of in pieces. This will facilitate a quicker response time from the lender and/or his assistant. If you have questions while completing the applications, contact the Bank for assistance so that you are submitting the proper information.

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