

Top Reasons Why Businesses Fail (사업실패의 요인들)

미국 노동통계청 자료에 의하면, 창업한 비즈니스들 중 약 절반 이상이 5 년안에 문을 닫고 전체 3 분의 1 이 10 년 안에 폐업. 실제로는 2 년이내에 사업체를 접는 경우가 창업 전체의 90% 이상 즉 10 개중 9 개가 살아남지 못함.

- Lack of planning 준비 부족
- Insufficient working capital for start-up or growth 운영자금 부족
- Inexperience (Knowledge = Confidence) 경험 부족
- Bad location 장소에 대한 이해 부족
- Poor customer service (Customer = Sales) 서비스 경험 부족
- Unwillingness to seek help 판단능력 부족

Financing: Where to Begin? (융자, 어디서부터 어떻게 시작할 것인가?)

The 1st step is to understand why your business needs financing. 왜 융자가 필요한가에 대한 이해

- Seed money for Market Research (시장조사를 위한 종자돈)
- Start-up or expansion capital (창업, 확장)
- Purchase an existing business (사업체 구매)
- Equipment purchases (장비 구매)
- Real Estate purchase (부동산 구매)

The 2nd step is to understand your financing option. 어떤 자금조달 방법들이 있는가 대한 이해

- Personal Funds (개인자금): savings, investments, life insurance, credit card, personal loan
- Debt Capital or Equity Capital (타인자본 혹은 자기자본)
 - Debt Capital - Money that you borrow and must pay back no matter what happens to your business. (i.e. Bank loan with principal and interest payments)
 - Equity Capital- Money invested by the owners of the business – not a loan.
 - You give up part of your ownership in the business and share profit/losses with the investor.
 - Importance of having the right investor! Written agreement!
- Angel Money (Friends/family) (창업투자금)
 - 65% of small businesses start with personal capital or angel money
 - Can be debt financing or equity financing
 - Have a written agreement (debt or equity) strongly recommended

What is a Bank? What is a Loan?

- What is a Bank?

A bank is a financial institution licensed to receive deposits and make loans. In most countries, Banks are regulated by the national government or central bank. (i.e. FDIC, FRB)

은행이란 예금을 받아들이고 자금을 대출하며, 송금-환금 및 어음할인, 증권의 인수 등을 업무로 하는 금융 기관.

- What is a Loan?

A loan is a thing that is borrowed, especially a sum of money that is expected to be paid back with interest.

대출이란 돈이나 물건 따위를 빌려주거나 빌림.

- Business = Common Sense = Common Knowledge 상식
- Loan = Common Sense = Common Knowledge 상식

Is Commercial Financing Offered At Your Bank?

- The most common place to start is a bank when you're on the hunt for commercial lending. In the past, your local bank was the only place to get commercial loans. Now, there are many alternatives, but banks still offer the most affordable routes and have a physical presence in your community. So, there are a good place to start searching for your loan.
- If you do get approved for a commercial loan from a bank, consider yourself lucky! Although bank lending is on the upswing, only about 20% of small business owners qualify for a bank loan.
- Since the 2007 recession, banks have been slow to approve commercial loans to small businesses. The lucky few who get banks loans have excellent credit and established, profitable businesses.
- Getting a bank loan is difficult if you only need a small amount of capital. Banks prefer larger loan sizes – over \$250,000 – because commercial lending in large chunks is more profitable for them.
- Current Lending Environment
 - Significantly reduced SBA guarantees result in restrictions by SBA-backed lenders
 - Decline in business performance and reduction in credit score because of other economic factors.
 - Non-profit micro-lenders have become most viable alternative. Contact banks or your local technical assistance provider for more information.
 - U.S. – China Tariff / Trade War

Commercial Loans For Small Business

Commercial loans are defined as debt financing whose proceeds can go towards business expenses like working capital, equipment, and even real estate. Both banks and provide lenders offer commercial financing types of commercial loans, ranging from traditional term loans to SBA loans to online loans. Each form of commercial financing has different commercial loan rate, eligibility requirements, and repayment terms.

The top seven commercial loans of 2019 are:

1. Traditional term loans
2. Short-term loans
3. SBA loans
4. Equipment loans
5. Commercial real estate loans
6. Business line of credit
7. Merchant cash advances

Learn all the details about these seven best commercial loans available, and what you need to know about each before you apply for commercial financing.

Top Commercial Loan Option to Consider

- Financial Institutions: “The Bank” - Traditional commercial loans
- SBA Loans: Government Guarantee - No direct lending, but guarantees loans made to small businesses
- Alternative: Non-profit Micro-lenders - Loans for those without access to banks

Ask for Help and Ask Yourself

- | | |
|---|------------------|
| • How much money do you need? | 얼마가 필요한가? |
| • What are you going to do with the money? | 어디에 쓸 용도인가? |
| • Why you? Why this business? | 왜 내가 이 사업을 하는가? |
| • Do you have a business plan? | 어떤 사업계획이 있는가? |
| • When will you pay the loan back? | 언제 대출상환을 할 것인가? |
| • How will you pay the loan back? | 어떻게 대출상환을 할 것인가? |
| • What happens if your plans don't go as you hoped? | 어떤 대비책이 있는가? |

Before you jump in to the commercial loan application process, take a step back and ask yourself which options are right for you, given your business's financial position, stage of growth, and your immediate and future goals.

Consult banks or other business technical assistance providers can assist with you with this process.

How Much? (필요금액)

- Establish how much you'll need to get started or grow your business
 - Usually a start-up needs working capital to sustain initial slow months in operation
 - Seasonal vs. Non-Seasonal
- Preparing a good cash flow statement will provide answers on how much working capital will be needed
 - Usually MINIMUM 5 years of pro-forma (향후 최소 5 년간의 예상 재무재표)
- (Expected Income + Expected Operating Expenses)
- Research businesses like yours to determine costs

For What? (필요용도)

Purpose - What will the loan be used for?

- All funding must be used for business purposes only

Cost Breakdown & Fund Control - Breakdown how the loan proceeds will be used

- \$xxx for equipment, \$xxx for working capital, etc.
- Specify as much as possible
- Banks may monitor how funds are used

Strengths, Risks, Mitigating Factors - State the impact or benefits of the loan

- Example: Expansion will create more sales, lower costs of production, hiring employees, etc.

Business Plan (사업계획서)

- A guide during the existence of your business
- Required to obtain start-up financing
- Method of evaluating feasibility and potential
- Establish goals, objectives, and long term plans
- 4 Main Sections
 - Description of Business (what is your offering) - History
 - Management (who are you) – Resume
 - Marketing (who is your customer? competition? strategy?) – Market study
 - Financials (how will you make money?) – Financial statement & Pro Forma

You'll want to keep these in mind as you look for commercial lending and approach the loan process.

- Annual Revenue

Annual revenue is an important indicator of your eligibility of small business loan. Before approving your commercial loan, lenders want to see that you have enough cash coming into your business to cover your loan payments, on top of all your company's operating expenses.

Every small business owner knows that unexpected expenses are an unfortunate reality of running a company. Lender know this too. To make sure you can pay unexpected costs and repay your loan, lenders will typically limit your loan to 12%-13% of your business's annual revenue.

To verify your business's revenue, lenders will ask for your recent Profit & Loss Statements and your business and personal tax returns.

- Average Bank Balance

Generating revenue is just one part of running a successful company. Also important is how well you manage money. Lenders will want to be confident that you can maintain a safe cash cushion when unexpected expenses threaten your cash flow. Even if your sales numbers are stellar, a low bank balance will give lenders a reason to question your ability to repay your loan on time and in full.

To pass the underwriting process and increase your commercial lending options, aim for an average bank balance equal to at least three months of your business's operating expenses- including your loan payment.

- Time in Business

Funding a younger business is a lot riskier for a lender than lending to a more established company. A business that has been around for a couple years has shown that it can weather unexpected ups and downs, but a younger business is less likely to make it in the long haul. In fact, only half of all small business make it the first 5 years in business.

If you're looking for a term loan or SBA loan, lenders will be especially mindful of your time in business. If you've been in business for more than two years, you're considered highly fundable. Long-term lenders want to see that your doors will be opened long enough for them to get their money back.

- Personal Credit Score

In the commercial loan underwriting process, this requirement is probably the most important one for small business loans. Lenders assume that how you handle your personal finances will be a good indication of how you'll manage your business finances. That's why your personal credit score is a major factor in your funding eligibility- especially if you haven't been in business for a while.

Your personal credit score is essentially a measure of how trustworthy you are as a borrower. It's based on a host of factors: late payments, credit utilization, inquiries, bankruptcies, and more.

Applying for Commercial Financing? Get These Documents in Order (준비 서류)

- Commercial lenders vary in terms of how much paperwork they'll require from you.
- Banks and medium-term lenders typically require more paper work, sometimes all the documents we list below. Short-term lenders and merchant cash advance providers might ask for just one or two of the documents.
- Almost every lender will ask to see recent bank statements, the last couple of years of tax returns, the loan purpose, and the time in business.
- Note that lenders will also check your credit report, but that's not something you have to provide. They will be able to access it from your SSN with your authorization only.
- Here's a list of documents you might need to apply for a commercial loan:
 - Honesty
 - Personal Financial Statement (PFS)
 - Recent Bank Statements (min. 6 months)
 - Time in Business
 - Personal tax returns (minimum 3 years)
 - Basic personal information (e.g. social security number, monthly income, residential address, etc.)
 - Purpose/Use of loan
 - Balance sheet (minimum 3-5 years)
 - Profit & loss statement (minimum 3-5 years)
 - Business tax returns (minimum 3 years)
 - Basic business information (e.g. Tax ID number, address, number of employees, etc.)
 - Collateral documentation
 - Business plan

Documentation – What is on paper?

- Be Honest and Be Prepared!!!
- Loan officers will learn your story, but underwriters will only look at what is on paper
- Real numbers vs. Reported numbers vs. Taxed numbers
- If your real potential is not reflect on paper, balance that with other documentation.
- Most important challenge to application process
- Make sure all documents are up to date
- Use organized book-keeping system
- Document all aspects of the business to paint a picture of your capacity on paper by completing your business plan
- Be prepared before you start searching for commercial loans, and you'll find the entire process – searching, evaluating, applying, and qualifying – a lot easier!

Five(5) C's of Credit (대출심사의 기본 5 가지 요소)

- A framework used by many traditional lenders to evaluate potential borrowers

- Character (credit history) 신용
- Capacity (cash flow) 능력
- Capital (net worth) 자본
- Collateral (assets to secure the debt) 담보
- Conditions (of the borrower and the overall economy) 상황

Five(5) C's of Credit : Character (Credit) 신용 - Trustworthy, Reliable, & Moral Obligation To Pay

- What it is: A lender's opinion of a borrower's general trustworthiness, credibility and personality.
- Why it matters: Banks want to lend to people who are responsible and keep commitments.
- How it's assessed: From credentials, references, reputation and interaction with lenders.
- Personal and Educational Experience - Resume, length of relevant work/industry experience.
- Ability to handle personal finances - Personal debt, business debt, monthly budget.
- Confidence and Commitment.
- Credit Report - Lenders begin by looking at your credit (FICO) score
 - 3 major credit reporting agencies: Experian, Equifax, and TransUnion
- Derogatory or delinquent payments must be explained.

FICO (Credit) Score

What affects your FICO score?

35% - History of Payment | 30% - Amount of Debt | 15% - Length of Credit History (time) |

10% - Normal Use of Credit | 10% - Type of Credit

FICO Score		National FICO Score averages
801-850	Exceptional	20%
741-800	Very Good	25%
671-740	Good	21%
581-670	Fair	18%
300-580	Poor	16%

Five(5) C's of Credit: Capacity (Cash Flow) 상환능력 - Your Repayment Ability

- What it is: Your ability to repay the loan.
- Why it matters: A business must generate enough cash flow to repay the loan. Loans are a form of debt, and they must be repaid in full.
- How it's assessed: From financial metrics and benchmarks (Debt and liquidity ratios, cash flow statements), credit score, borrowing and repayment history.
 - Does your business have enough money coming in (sales) than money coming out (expenses)? Does it show positive cash flow?
 - Start-ups, when will you have a positive cash flow? Existing businesses, do you have enough cash flow to pay for the new debt?
 - The net income should be enough to cover the debt.
- Start-ups should have second source of income.

Understanding Financial Ratios

- Ratios reflect the strengths and weaknesses of your business
- Ratios are used by bankers to measure your ability to repay a loan
- Important ratios to understand:
 - Debt Coverage Ratio (DSCR) = Net Operating Income / Total Debt Service
 - Debt-to-Income Ratio (DTI)
 - Account Receivable, Account Payables, Inventory
 - Loan-To-Value and Loan-To-Cost

Five(5) C's of Credit: Capital 자본

- What it is: The amount of money invested by the business owner or management team.
 - How much are you willing to put in as equity contribution to your business? (example: a down payment)
 - The bank will not finance 100% of your business.
 - A bigger injection gives banks more confidence because they take on less risk.
- Why it matters: Banks are more willing to lend to those who have invested some of their own money into the venture. Most lenders are not willing to take on 100% of the financial risk.
- How it's assessed: From the amount of money the borrower or management team has invested in the business.

Five(5) C's of Credit: Collateral 담보- Secondary Source of Repayment

- What it is: Assets that can be pledged as security.
- Why it matters: Collateral acts a backup source if the borrower cannot repay a loan. Ideally, lenders would love all loans to be secured completely by collateral.
- How it's assessed: From hard assets such as real estate and equipment; working capital, such as accounts receivable and inventory; and a borrower's home that also can be counted as collateral.
 - Collateral can come from business assets, personal, or a combination of both
 - Personal: House, retirement fund, personal assets
 - If home owner, SBA requires placing home as collateral
 - Business: Building, Machinery & Equipment, Inventory
 - Purchases from loan proceeds can also serve as collateral

Five(5) C's of Credit: Conditions 상황, 여건

- What it is: How the business will use the loan and how that could be affected by economic or industry factors.
- Why it matters: To ensure that loans are repaid, banks want to lend to businesses operating under favorable conditions. They want to identify risks and protect themselves accordingly.
 - How it's assessed: From a review of the competitive landscape, supplier and customer relationships, and macroeconomic and industry- specific issues to ensure that risk is identified and mitigated.
 - How much? For what? How long?
 - Will also consider current conditions in your industry
 - Some banks stay away from certain industries like restaurants, gas stations, etc.
 - Some banks are more aggressive than others.

Advice on Developing a Successful Banking Relationship 은행과의 관계 유지

- Deal with local banks convenient or close to your business
- Make an appointment with the right person at the bank
- Look for a banker that you get along with personally
- Select banker that is interested in you type of business
- Ask advice from your banker about your situation
- Present a complete financial proposal
- Be honest
- Know the uses and benefits of your loan
- Be flexible and patient
- Work with one bank for all your banking needs
- Recommend your bank to your business associates (give referrals)
- Provide as much detailed information as possible
- Demonstrate to the banker that you are well informed about your business, your market and your industry

Alternative Financing Programs

- PACE BDC - www.pacelabdc.org
 - Mini Micro Loan -up to \$1,000
 - Kiva Micro Loan –up to \$10,000
 - SBA Micro Loan up to \$50,000
 - SBA 7(a) Loan \$50,000 - \$2.5 Million
 - SBA 504 Loan \$250,000 - \$2.5 Million
- Community Financial Resource Center – www.risela.org
 - Capital Partner: \$500, \$1,000, \$2,000, \$5,000 (working with peers)
- Pacific Coast Regional - www.pccrcorp.org - Micro-loans up to \$35,000
- Jewish Free Loan Association – www.jfla.org - Up to \$15,000 interest free loan / Must have 2 co-signers
- Count Me In – www.count-me-in.org - Loans for women starting at \$500
- Prosper Marketplace - www.prosper.com - People to people loans done on internet
- Online lenders
- KYCC 로 문의