

# **SMALL BUSINESS LENDING COURSE**

## **National Community Development Lending School**

March 30 - April 2, 2008  
San Francisco, California

### **INSTRUCTOR**

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ARIZONA MULTIBANK  
Community Development Corporation  
[www.multibank.org](http://www.multibank.org)

# SMALL BUSINESS LENDING COURSE

## Quick Survey:

- Bank CRA Compliance?
- Bank Community Development Group?
- Small Business?
- Community Development Corporation?
- Financial Intermediary?
- Proposing loans or investments?
- Approving loans or investments?
- Providing technical assistance?
- Other?



# SMALL BUSINESS LENDING COURSE

- I'm a small business person.
- I'm here today to request a loan from you.
- *What questions would you ask me?*



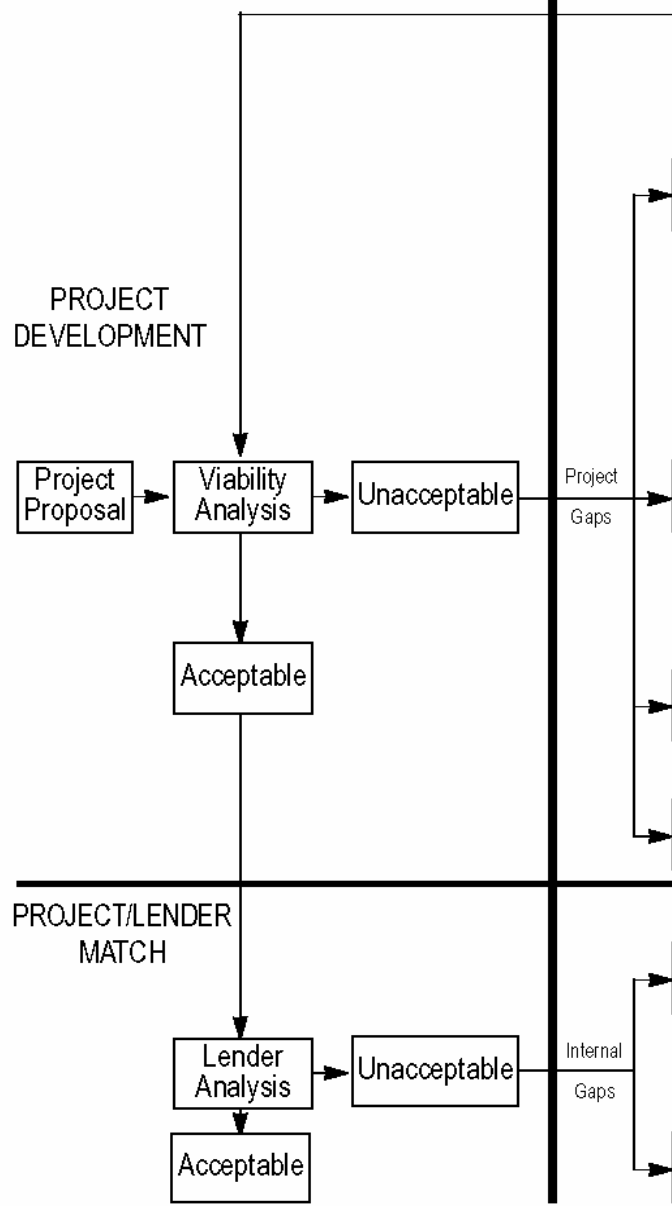
## SMALL BUSINESS LENDING COURSE

- **Take the mystery out of small business analysis.**
- **Your job, and what you do in it, is important.**
- **Increase your comfort level in what you do.**
- **Knowing and asking key questions can make you an expert.**
- **Expert at identifying gaps and making enhancement matches.**
- **And ... there's a model for this (*pp. 21-22, FRB*).**

# Project Analysis

## Project / Lender Analysis

## Gap Analysis



PROJECT DEVELOPMENT

PROJECT/LENDER MATCH

Project Gaps

Internal Gaps

Enhancements identified by all capital letters refer to government sponsored programs.  
Enhancements with lower case letters denotes private sector initiatives.

# SMALL BUSINESS LENDING COURSE

Help me match answers to your questions.



The 5 C's of Credit (pp. 4-5, References p. 34)

- **Character**
- **Capacity**
- **Capital**
- **Conditions**
- **Collateral**

# SMALL BUSINESS LENDING COURSE

## The Initial Loan Interview Criteria (pp. 6-9, RMA)

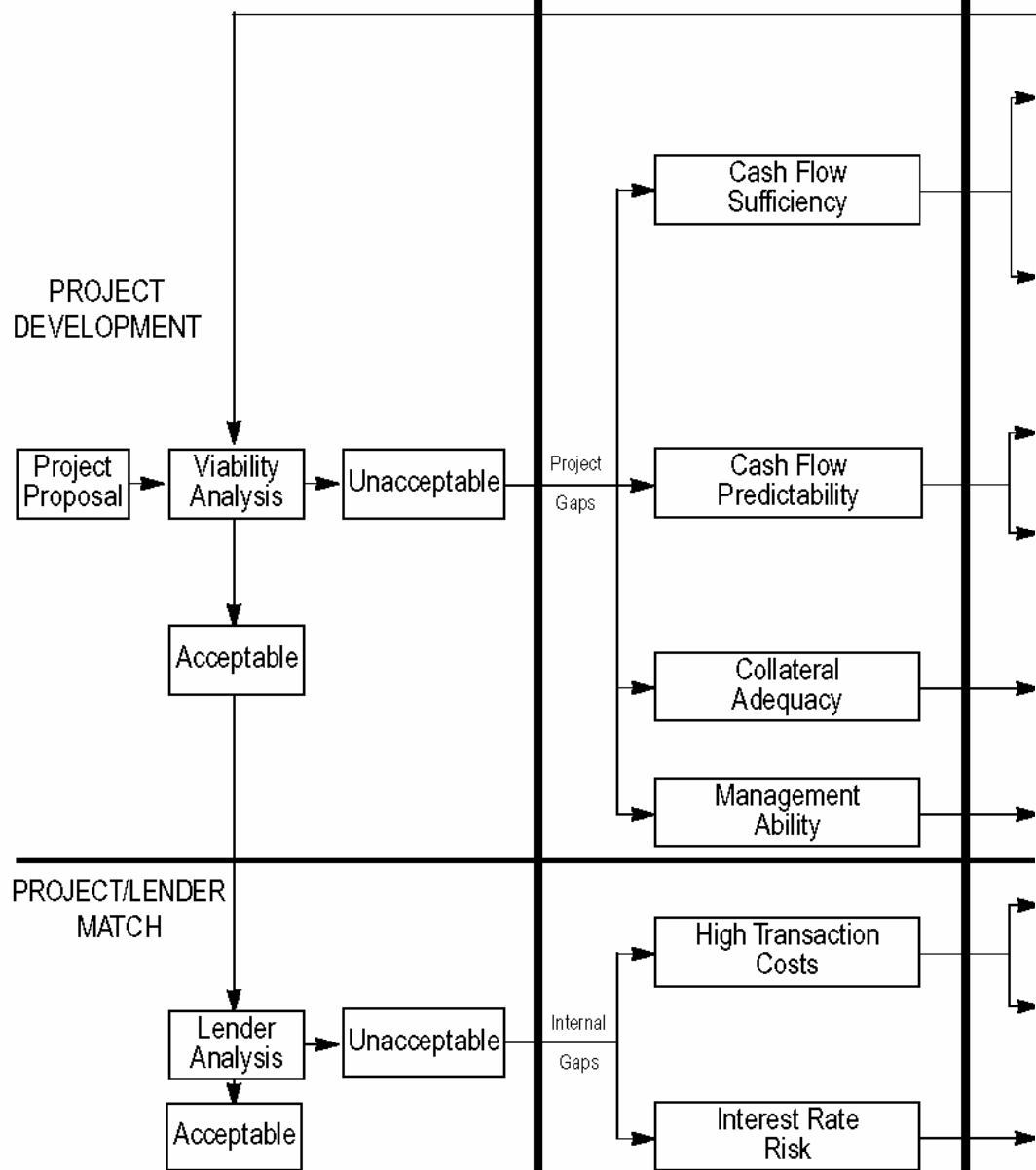
- Amount and Purpose of Loan.
- Primary and Secondary Sources of Repayment and Financing.
- Customer's payment history and reputation.
- Conditions
- Collateral

# Project Analysis

## Project / Lender Analysis

## Gap Analysis

## Enhancement Analysis



*Enhancements identified by all capital letters refer to government sponsored programs.  
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# SMALL BUSINESS LENDING COURSE

## Financial Statements

- **Preparation – Degree of Assurance** (*p. 10*)

*Glossary of Financial Terminology* (*Appendix A, pp. 23–25, FRB*)

- **Balance Sheet**

**Asset Accounts** (*p. 11*)

**Liability Accounts** (*p. 12*)

- **Income Statement Accounts** (*p. 13*)

- ***Financial Statement Overview*** (*Appendix B, pp. 26–30, SBA*)

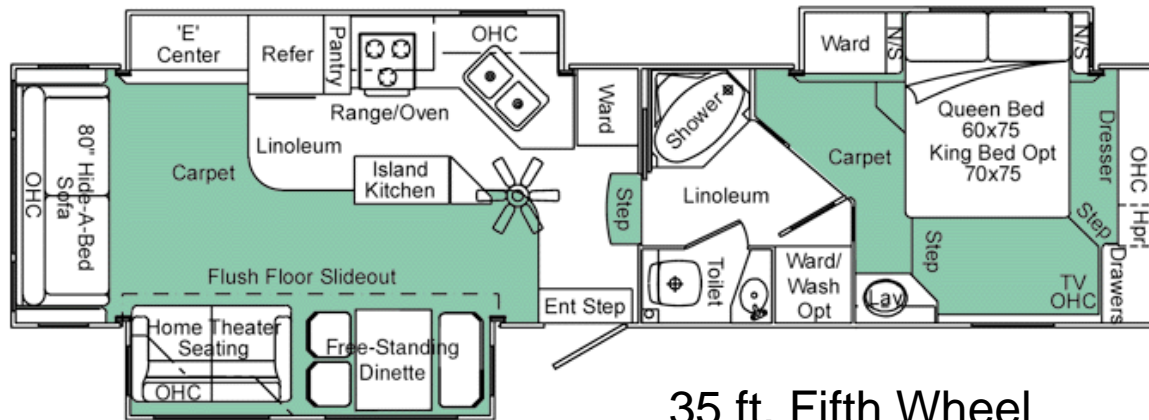
- **Personal Financial Statement** (*Appendix C, pp. 31–33*)

# CASE STUDY: ROADRUNNER CUSTOM TRAILERS, INC. (p. 14-16)

(Note: This is a fictitious company and pictures were randomly selected off internet for discussion purposes only. )



12 ft. Overnighter



35 ft. Fifth Wheel

1	ROADRUNNER CUSTOMER TRAILERS, INC.	TAX RET		TAX RET		REVIEW		REVIEW	
2		Dec 31		Dec 31		Dec 31		Dec 31	
3		2004		2005		2006		2007	
4	Amounts in Thousands of Dollars	12 Months		12 Months		12 Months		12 Months	
5	<b>ASSETS</b>	\$	%	\$	%	\$	%	\$	%
6	Cash	114	8.3	139	8.1	44	2.3	28	1.4
7	Accounts Receivable	0	0.0	0	0.0	0	0.0	0	0.0
8	Inventory	599	43.7	953	55.2	0	0.0	0	0.0
9	Raw Materials	0	0.0	0	0.0	590	30.3	1,061	53.9
10	Work in Process	0	0.0	0	0.0	304	15.6	271	13.8
11	Finished Goods	0	0.0	0	0.0	330	17.0	0	0.0
12	Total Inventory	599	43.7	953	55.2	1,224	63.0	1,332	67.6
13	TOTAL CURRENT ASSETS	713	52.0	1,092	63.3	1,268	65.2	1,360	69.1
14	Other Depreciable Fixed Assets	842	61.5	924	53.5	713	36.7	828	42.1
15	Leasehold Improvements	0	0.0	0	0.0	322	16.6	322	16.4
16	Gross Fixed Assets	842	61.5	924	53.5	1,035	53.2	1,150	58.4
17	less: Accumulated Depreciation	189	13.8	290	16.8	359	18.5	541	27.5
18	Total Fixed Assets - Net	653	47.7	634	36.7	676	34.8	609	30.9
19	Deferred Income Tax Benefit	4	0.3	0	0.0	0	0.0	0	0.0
20	Intangibles	1	0.1	0	0.0	0	0.0	0	0.0
21	less: Accumulated Amortization	1	0.1	0	0.0	0	0.0	0	0.0
22	TOTAL NON-CURRENT ASSETS	657	48.0	634	36.7	676	34.8	609	30.9
23	TOTAL ASSETS	1,370	100.0	1,726	100.0	1,944	100.0	1,969	100.0

Balance Sheet – Asset Accounts (p. 15)

24	<b>LIABILITIES</b>	\$	%	\$	%	\$	%	\$	%
25	Notes Payable S/T	200	14.6	283	16.4	431	22.2	380	19.3
26	Notes Payable Other-Credit Cards	0	0.0	0	0.0	0	0.0	88	4.5
27	Current Maturities LTD-Financial Institutions	0	0.0	0	0.0	27	1.4	4	0.2
28	Accounts Payable - Trade	82	6.0	281	16.3	358	18.4	364	18.5
29	Accounts Payable - Other	3	0.2	21	1.2	0	0.0	0	0.0
30	Accrued Liabilities	0	0.0	0	0.0	0	0.0	11	0.6
31	Interest Payable	2	0.1	0	0.0	0	0.0	0	0.0
32	Customer Deposits	250	18.2	193	11.2	92	4.7	32	1.6
33	Total Accrued Liabilities	252	18.4	193	11.2	92	4.7	43	2.2
34	State/Federal Income Tax	6	0.4	1	0.1	45	2.3	50	2.5
35	Payroll Taxes Payable	1	0.1	5	0.3	0	0.0	0	0.0
36	Sales Tax Payable	25	1.8	25	1.4	31	1.6	29	1.5
37	<b>TOTAL CURRENT LIABILITIES</b>	<b>569</b>	<b>41.5</b>	<b>809</b>	<b>46.9</b>	<b>984</b>	<b>50.6</b>	<b>958</b>	<b>48.7</b>
38	Long Term Debt-Financial Institutions.	75	5.5	50	2.9	11	0.6	7	0.4
39	Due to Officers/Stockholders	72	5.3	170	9.8	145	7.5	145	7.4
40	<b>TOTAL SENIOR LT LIABILITIES</b>	<b>147</b>	<b>10.7</b>	<b>220</b>	<b>12.7</b>	<b>156</b>	<b>8.0</b>	<b>152</b>	<b>7.7</b>
41	<b>TOTAL SENIOR LIABILITIES</b>	<b>716</b>	<b>52.3</b>	<b>1,029</b>	<b>59.6</b>	<b>1,140</b>	<b>58.6</b>	<b>1,110</b>	<b>56.4</b>
42	<b>TOTAL LIABILITIES</b>	<b>716</b>	<b>52.3</b>	<b>1,029</b>	<b>59.6</b>	<b>1,140</b>	<b>58.6</b>	<b>1,110</b>	<b>56.4</b>
43	<b>NET WORTH</b>								
44	Common Stock	350	25.5	350	20.3	350	18.0	350	17.8
45	Paid In Capital	299	21.8	299	17.3	299	15.4	299	15.2
46	Retained Earnings	5	0.4	48	2.8	155	8.0	240	12.2
47	less: Treasury Stock	0	0.0	0	0.0	0	0.0	30	1.5
48	<b>NET WORTH</b>	<b>654</b>	<b>47.7</b>	<b>697</b>	<b>40.4</b>	<b>804</b>	<b>41.4</b>	<b>859</b>	<b>43.6</b>
49	<b>TOTAL LIABILITIES &amp; NET WORTH</b>	<b>1,370</b>	<b>100.0</b>	<b>1,726</b>	<b>100.0</b>	<b>1,944</b>	<b>100.0</b>	<b>1,969</b>	<b>100.0</b>
50	<b>TANGIBLE NET WORTH</b>	<b>654</b>	<b>47.7</b>	<b>697</b>	<b>40.4</b>	<b>804</b>	<b>41.4</b>	<b>859</b>	<b>43.6</b>
51	<b>NET WORKING CAPITAL</b>	<b>144</b>	<b>10.5</b>	<b>283</b>	<b>16.4</b>	<b>284</b>	<b>14.6</b>	<b>402</b>	<b>20.4</b>

## Balance Sheet – Liabilities and Net Worth Accounts (p. 15)

52	ROADRUNNER CUSTOMER TRAILERS, INC.	TAX RET		TAX RET		REVIEW		REVIEW	
53		Dec 31		Dec 31		Dec 31		Dec 31	
54		2004		2005		2006		2007	
55	Amounts in Thousands of Dollars	12 Months		12 Months		12 Months		12 Months	
56	<b>INCOME STATEMENT</b>	\$	%	\$	%	\$	%	\$	%
57	Sales	1,749	100.1	2,778	100.1	3,929	100.0	3,907	100.7
58	less: Returns, Allow & Discounts	1	0.1	2	0.1	0	0.0	27	0.7
59	NET SALES	1,748	100.0	2,776	100.0	3,929	100.0	3,880	100.0
60	COG - Labor	147	8.4	212	7.6	569	14.5	336	8.7
61	COG - Materials	817	46.7	1,763	63.5	2,308	58.7	2,321	59.8
62	COG - Contract Service (Painter)	210	12.0	214	7.7	120	3.1	222	5.7
63	COG - Misc. allocated	47	2.7	37	1.3	220	5.6	217	5.6
64	COG - Rent	0	0.0	0	0.0	71	1.8	70	1.8
65	Depreciation in COGS	43	2.5	89	3.2	61	1.6	170	4.4
66	TOTAL COST OF GOODS SOLD (COGS)	1,264	72.3	2,315	83.4	3,349	85.2	3,336	86.0
67	GROSS PROFIT/REVENUES	484	27.7	461	16.6	580	14.8	544	14.0
68	General & Administrative Expense	103	5.9	129	4.6	83	2.1	76	2.0
69	Selling Expense	21	1.2	0	0.0	0	0.0	0	0.0
70	Wages & Salaries	16	0.9	15	0.5	0	0.0	0	0.0
71	Officers Compensation	83	4.7	101	3.6	125	3.2	148	3.8
72	Misc. Operating Expense	33	1.9	6	0.2	5	0.1	23	0.6
73	Rent	87	5.0	84	3.0	13	0.3	18	0.5
74	Advertising	46	2.6	52	1.9	128	3.3	84	2.2
75	Depreciation	7	0.4	11	0.4	9	0.2	12	0.3
76	TOTAL OPERATING EXPENSES	396	22.7	398	14.3	363	9.2	361	9.3
77	TOTAL OPERATING PROFIT	88	5.0	63	2.3	217	5.5	183	4.7
78	Other Income	0	0.0	24	0.9	0	0.0	0	0.0
79	EBITDA	138	7.9	187	6.7	287	7.3	365	9.4
80	EBIT	88	5.0	87	3.1	217	5.5	183	4.7
81	Interest Expense ST	41	2.3	36	1.3	53	1.3	48	1.2
82	INTEREST EXPENSE	41	2.3	36	1.3	53	1.3	48	1.2
83	PROFIT BEFORE TAXES & EXTR ITEM	47	2.7	51	1.8	164	4.2	135	3.5
84	Current Taxes	15	0.9	19	0.7	57	1.5	50	1.3
85	PROFIT BEFORE EXTR ITEMS	32	1.8	32	1.2	107	2.7	85	2.2
86	Extraordinary Gain/(Loss)	0	0.0	12	0.4	0	0.0	0	0.0
87	NET PROFIT	32	1.8	44	1.6	107	2.7	85	2.2

	90	ROADRUNNER CUSTOM TRAILERS, INC.	TAX RET	TAX RET	REVIEW	REVIEW	
	91		Dec 31	Dec 31	Dec 31	Dec 31	
	92		2004	2005	2006	2007	
	93	Amounts in Thousands of Dollars	12 Months	12 Months	12 Months	12 Months	
RATIO	94	FINANCIAL RATIOS					CALCULATION (Using Line Numbers)
	95	GROWTH RATIOS:					
	96	Net Sales Growth, Composite %	N/A	58.81	41.53	(1.25)	
	97	Sales Growth, Sales %	N/A	58.83	41.43	(0.56)	
	98	Net Income Growth, %	N/A	37.50	143.18	(20.56)	
	99	Total Assets Growth, %	N/A	25.99	12.63	1.29	
	100	Total Liabilities Growth, %	N/A	43.72	10.79	(2.63)	
	101	Net Worth Growth, %	N/A	6.57	15.35	6.84	
	102	PROFITABILITY RATIOS:					
2	103	<b>Gross Margin %</b>	27.69	16.61	14.76	14.02	67 / 59
	104	Margin, Sales %	100.00	100.00	100.00	100.00	
3	105	<b>Operating Expense, %</b>	22.25	13.94	9.01	8.99	(76 – 75) / 59
	106	Cushion (Gross Margin - SG & A), %	7.89	5.87	7.30	9.41	
	107	Depreciation, Amortization, %	2.86	3.60	1.78	4.69	
4	108	<b>Operating Profit Margin, %</b>	5.03	2.27	5.52	4.72	76 / 59
	109	Interest Expense, %	2.35	1.30	1.35	1.24	
	110	Operating Margin, %	2.69	0.97	4.17	3.48	
5	111	<b>Net Profit Margin, %</b>	1.83	1.59	2.72	2.19	87 / 59
	112	Return on Average Assets, %	N/A	2.84	5.83	4.34	
	113	Return on Average Equity, %	N/A	6.51	14.26	10.22	
	114	ACTIVITY RATIOS:					
6	115	<b>Receivable Days</b>	N/A	N/A	N/A	N/A	(7 x 365*) / 59
7	116	<b>Inventory in Days</b>	179	156	136	154	(12 x 365 *) / 66
8	117	<b>Payables in Days</b>	25	46	40	42	(28 x 365*) / (66 – 65)
	118	Total Assets / Net Sales	0.78	0.62	0.49	0.51	

HANDOUT

	90	ROADRUNNER CUSTOM TRAILERS, INC.	TAX RET	TAX RET	REVIEW	REVIEW	
	91		Dec 31	Dec 31	Dec 31	Dec 31	
	92		2004	2005	2006	2007	
	93	Amounts in Thousands of Dollars	12 Months	12 Months	12 Months	12 Months	
	119	LIQUIDITY RATIOS:					
<b>9</b>	120	<b>Working Capital</b>	144	283	284	402	13 - 37
<b>10</b>	121	<b>Quick Ratio</b>	0.20	0.17	0.04	0.03	(6 + 7) / 37
<b>11</b>	122	<b>Current Ratio</b>	1.25	1.35	1.29	1.42	13 / 37
	123	Sales / Net Working Capital	12.14	9.81	13.83	9.65	
	124	LEVERAGE RATIOS:					
<b>12</b>	125	<b>Total Liabilities / T Net Worth</b>	1.09	1.48	1.42	1.29	42 / 48
	126	Tot Senior Liabilities / TNW & Sub Debt	1.09	1.48	1.42	1.29	
	127	Borrowed Funds / TNW & Sub Debt	0.42	0.48	0.58	0.56	
	128	Long-Term Debt / Net Fixed Assets	0.11	0.08	0.06	0.02	
	129	COVERAGE RATIOS:					
<b>13</b>	130	<b>EBITDA / (Total Interest + CMLTD)</b>	N/A	5.19	5.42	4.87	79 / (82 + 27* *)
	131	Interest Coverage(EBIT/Total Interest)	2.15	2.42	4.09	3.81	
	132	Net Income + Depreciation / CMLTD	N/A	N/A	N/A	9.89	
	133	CASH POSITION:					
	134	Cash Margin, %	N/A	14.23	11.38	15.77	
	135	Cash Coverage	N/A	0.36	0.39	1.68	
	136	Net Cash Income	N/A	(61)	(94)	119	
	137	Net Income + Depreciation	82	144	177	267	
	138	SUSTAINABLE GROWTH & BANKRUPTCY:					
	139	Sustainable Growth, (N/(T-N)), %	5.14	6.74	15.35	10.98	
	140	Z=1.2x1 +1.4x2 +3.3x3 +.6x4 +.999x5	2.17	2.42	3.10	3.16	

\* 365 Days  
\*\* Prior Year's  
CMLTD

HANDOUT

# SMALL BUSINESS LENDING COURSE

## Financial Ratio Worksheet:

1. Gross Margin	67
2. Gross Margin %	67 / 59
3. Operating Expense %	(76 - 75) / 59
4. Operating Profit Margin %	76 / 59
5. Net Profit Margin %	87 / 59
6. Receivable Days	(7 x 365 days) / 59
7. Inventory Days	(12 x 365 days) / 66
8. Payable Days	(28 x 365 days) / (66 - 65)
9. Working Capital	13 - 37
10. Quick Ratio	(6 + 7) / 37
11. Current Ratio	13 / 37
12. Total Liabilities / Tangible Net Worth	42 / 48
13. EBITDA / (Total Interest + CMLTD)	79 / (82 + 87*)

\* Prior Year's CMLTD

# SMALL BUSINESS LENDING COURSE

## Cash Flow:

- Uniform Credit Analysis – UCA (Handout)

## Simplified Cash Flow and Debt Service Coverage Ratio

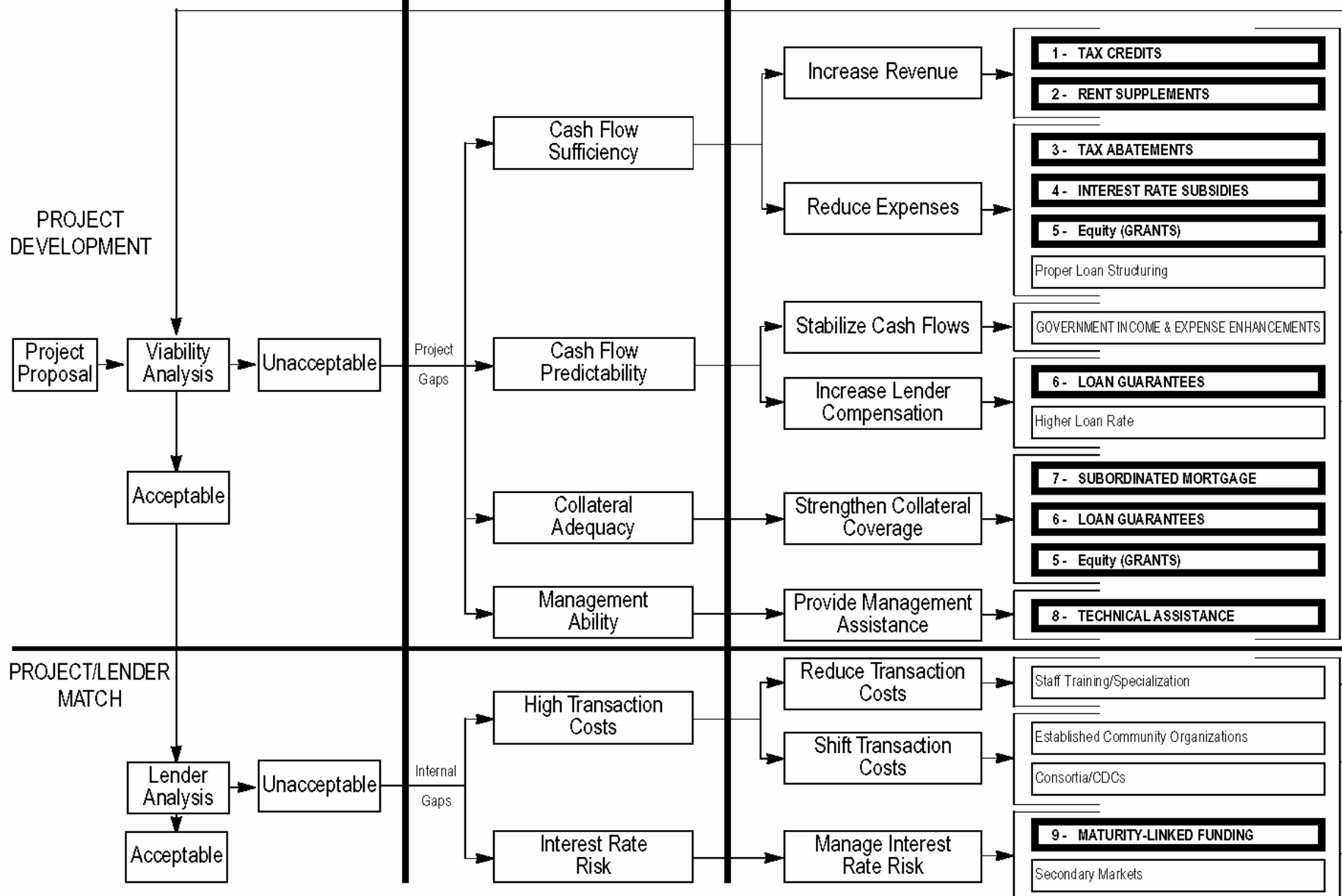
	Net Profit	87	85
	+ Depreciation	+65 + 75	170 + 12
	<u>+ Interest</u>	+ 82	<u>+ 48</u>
•	= Cash Flow		315
	Existing Interest	82	48
	+New Interest	\$320M x 10%	+ 32
	<u>+CMLTD</u>	27	<u>+ 4</u>
•	=Debt Service		84
	<u>Cash Flow / Debt Service</u>		<u>315 / 84</u>
•	=Debt Service Coverage Ratio (DSCR)		= 3.75x

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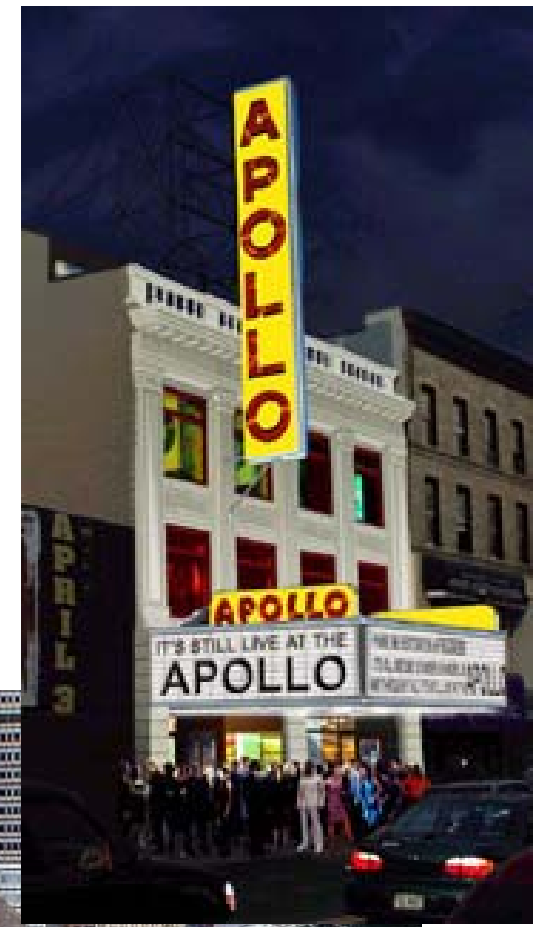
# Silvercup Studios

SEX AND THE CITY®

The Sopranos®



# The Apollo Theater



# South Street Seaport



## La Posada Hotel



## Quilt and Sew



## Tony & Guy Salons



## Professional Organ and Piano



# Rim Country Lanes



# Sonrise Plumbing



# Subway Franchise



# Native American Connections, Inc.



# Desert Ice at ...



# ...Chase Field



# NFL/YET Charter School



# SMALL BUSINESS LENDING COURSE

- How did you do with the common sense questions?
- Embrace the Model and build on it.
- Utilize the Course Material as a reference.
- How did we do? Please complete the Evaluation.

THANK YOU

