A 5-Step Recipe

to Help Get That Loan

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AEM

~ The Industry's Premier Entertainment Consultants

One of the major players on our AEM Consulting Team is Jerry Merola. As a former commercial bank loan officer, he spent many years evaluating hundreds of businesses in almost every industry. There were so many business owners applying for loans and project funding that he had to look for several key ingredients in any deal to 'whet his appetite' before he would ever consider approving the package and bringing it to the loan committee. The FEC/LBE industry is one that requires constant improvements, such as the purchase of new equipment, expansion of an existing facility, or major renovations, to maintain repeat business. These five key elements are often missing or not properly developed in many of the business plans that we have seen.

The success of a loan applicant is often dependent on the presentation of these elements:

1) **financial stability of the company or proposed project**
2) **economic outlook of the company's immediate industry**
3) **value of collateral available**
4) **ability of business to service the current (if any) and proposed debt**
5) **support available from guarantors**

These five variables, in addition to others, form the basis for a funding decision, and establish the criteria by which terms, interest rates, and covenant requirements are determined. To present yourself and your business in the best possible light, consider this 'menu':

With a little prep work, you can offer your banker a five-star meal.

1

Hors d'oeuvres

Accountant-Prepared Financial Statements

Spend time with your accountant or advisor to fully understand the contents of your financial statements. (It is often helpful to choose an accountant who is well known to the banks in your area and comes highly recommended.) Loan officers are quickly turned off if they discover that you are not capable of explaining how you arrived at each line item of your balance sheet, income statement, statement of cash flows, and statement notes. Keep in mind that financial statements report conditions during a defined time period (calendar or fiscal such as June 30th), so if a large event didn't hit your books until a week or a month after the closing date, be prepared to offer this additional information to your banker. In most cases, 'good news' will be evaluated favorably and may serve to offset negative events, such as a decline in gross revenues, an increase in expenses, or sub-standard profitability.

Always prepare a written summary to accompany the accountant-prepared financial statements. This will not only help the banker better understand the financial period under review, but will impress him or her as well. Were there any one-time events that occurred, such as road construction or adverse weather conditions that negatively affected your business? Each of these events would dramatically impact any business, but without a detailed explanation, your banker will not be aware of these. Yes, loan decisions are based largely on 'the numbers,' but the numbers don't always tell the real story—that is your job.

2

Soup & Salad

Industry Outlook

Bankers typically rely on printed material in evaluating different industries. The odds are that your banker does not fully understand the intricacies of our industry and may misinterpret the average standards of performance. To guard against this, it is important that you provide an overview of the industry, complete with your marketing plan and performance targets. Articles and press releases written about you and your company are helpful. Don't allow your company profile to be 'lumped' in with an industry classification, as many are composed of groups of companies that may not even be considered a part of your industry. We are very fortunate that there is much printed material that favorably reports on our industry as well as the need for leisure options. Identify your company's recent successes and demonstrate how and why your business excels amongst the competition.

Appetizer

3

Collateral Value

An adequate collateral package has become essential in today's society. Without it, a banker must rely solely on a company's future performance to repay a loan facility, which typically means greater risk and higher interest rates. Some loans are self-collateralizing—that is, the funding is used to directly purchase an asset that has a defined market value. Equipment loans can fall into this category if they are set up properly. For example if the equipment seller agrees to buy back the equipment at predetermined prices at the end of one year, two years, three years, and guarantees such recourse, the loan package takes on much less risk for the bank. Other loans, such as leasehold improvement or renovation loans are more difficult to collateralize, particularly if the business facility is leased or rented. Don't be surprised if your banker requests a 'blanket' lien on the company's business assets, particularly if the requested loan would represent the company's main debt instrument.

Whenever possible, look to confine the collateral lien to specific assets, thereby safeguarding the unencumbered assets for use on future transactions with the same or other lenders, such as a working line of credit (usually paid down to zero balance for a period of time each year). Be prepared to provide a collateral 'package' to your banker, which may include a variety of assets sufficient in value to adequately cover the amount of the loan facility. Confirm in advance that these offerings are 'free and clear' and not already pledged to any other source. Again, a proactive approach can permit your application to be viewed in the best possible light and enhance your ability to negotiate improved interest rates and terms.

Entrées/Main Course

4

Ability to Service Debt

Before setting foot in your banker's office, develop your own loan repayment plan. Don't wait for the banker to tell you that your company can't afford the requested loan, as your credibility will then be lost and the chances of receiving any level of funding reduced. Instead prepare a spreadsheet of company earnings and expenses along with a pro forma statement that incorporates the new loan facility into the operation. Make sure your revenue projections are both realistic and conservative. If the loan is for the purchase of equipment or attractions that will increase per capita spending, or length of stay, and/or expand customer base (i.e. increase age group of customer), include these projected additions to revenues and expenses in the pro forma statement. This single step can go a long way in showing your banker that the company has carefully evaluated its ability to service new debt and may help to establish a solid case for presentation by the banker to the loan committee. For new projects, it should be detailed how each attraction (revenue stream) was selected and the impact that each has on per capita spending within the facility.

Dessert

5

Guarantor Support

More often than not, we receive questions from business owners about the best method to avoid personal guarantees. While a personal guarantee effectively punctures the corporate veil and exposes the business owner(s) to debt repayment responsibilities, it sends a clear message to the lender that the loan applicant is willing to stand behind his or her business. Refusing to offer a personal guarantee sends an alternate message: "Let the lender beware." If you are seeking funding for a new project or concept but are unwilling to provide a personal guarantee, does this mean that you are not sure about the project's ability to succeed? Maybe not, but put yourself in the lender's shoes. The answer, perhaps, is to provide a limited guarantee that clearly identifies the assets at risk for the guarantor (such as specific securities, real estate, etc.). In this manner, both parties are cognizant of their exposure and can more effectively negotiate a favorable loan agreement.

Take Your Banker to Lunch Now

Invariably, many applicants wait until a real need exists to begin a lending relationship. This type of relationship, however, must begin months (if not years) earlier, so that prospective lenders can enjoy the benefit of tracking your growth and performance. The easiest method in establishing a relationship is at the local level, where both business accounts and personal accounts should be opened. Create as 'big' a relationship as you can by moving your personal investments and savings accounts into the local branch, as a frequent customer is viewed as an important customer. Get to know not only the branch manager, but the commercial lender for the district. Consider applying for a small business line of credit that is fully collateralized, as this will provide a starting point in developing a larger relationship. On a regular basis, request moderate increases in the line and don't be afraid to use it to cover temporary working capital needs. Bring the balance back to zero ('clean up') at intervals throughout the year to show the bank that you are a responsible borrower. Always pay the monthly installments on time. If there is a problem, or you anticipate a cash flow jam during a particular month, notify your lender before it happens, and provide a plan by which to resolve any such delinquency.

Communication is by far the most critical step in the relationship. If you fail to communicate, the bank will almost always assume the worst, and your loan facilities may be 'called' if your future financial statements fall behind your projections. Provide regular updates to your banker, including press releases of new business achievements (don't be shy), so that the bank can stay abreast of your progress. Encourage your accountant to establish a relationship with your banker as well, so that each party can share suggestions and solutions in designing a lending program for your business. Keep in mind that your accountant can be an excellent source of referrals for your banker, so whenever possible your banker will look to appease your accountant with prompt, effective service. Take time to attend bank-sponsored seminars, workshops, and grand openings, and make a point to introduce yourself to other bank officials. These same individuals may serve double-duty on the bank's loan committee, and a personal attestation of your 'character' by such individuals can go a long way toward swaying a board's decision into favorable territory.

Unless you are independently wealthy or have wealthy friends to loan you money whenever you need it, the need for financing will be an ever-present part of your business life. How quickly a loan can be obtained could mean the difference between expanding your facility to capture greater market share (or retain your current customer base) or sitting on the sidelines while your competition serves up a 'five-star meal' and gets the big loan. Protect your ability to borrow by carefully managing your current credit facilities and plan your approach alongside a qualified accountant and a well versed industry advisor. Bon Appetit! And don't forget to celebrate with a special after-dinner drink. fw