

MANAGING CREDIT OPTIONS FOR EXPORTERS

Guam State Trade Expansion Program (STEP) Training Series



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TRAINING AGENDA

- Factors to Consider Prior to Borrowing
- Common Reasons to Borrow
- Methods of Financing
- 5C's of Credit
- Types and Term of Borrowing
- Sources of Financing
- SBA Loan Programs
- Importance of Credit History
- What to Expect when seeking financing?

FACTORS TO CONSIDER PRIOR TO BORROWING

- Understand your business condition and the potential short- and long-term plan for your business;
- Review business financial statements and assess current financial situation of the business;
- Understanding business cash flow cycle is important in determining current and anticipating future operating needs.
- How strong is your management team?
- Have a BUSINESS PLAN!



COMMON REASONS TO BORROW

- Start Up Assistance
- Growth in Business Sales (Permanent/Temporary)
 - Inventory / Account Receivables
- Fixed Assets Purchases
 - Machinery & Equipment / Auto vehicles / Buildings
- Other purposes
 - Restructuring or consolidation of business liabilities
 - Owner buyouts
 - Unprofitable business operations
 - Other one time expenses, such as legal

METHODS OF FINANCING

- Debt financing - borrowing funds that will be repaid with interest over a period of time;
 - Advantages:
 - Retain control of business;
 - Deductible interest expense;
 - Repayment term can be expected.
 - Disadvantages:
 - Repaying loan plus interest;
 - Secured by business assets and owner's assets;
 - Future earnings are being used for repayment instead of reinvestment.
 - Owners provide personal guarantee.

METHODS OF FINANCING

- Equity Financing - raising funds through share of ownership in the business
 - Advantages:
 - No repayment;
 - No Credit Check;
 - Learn investors managerial skills;
 - Grow the business or diversify into other areas.
 - Disadvantages:
 - Give up ownership interest;
 - Potential conflict in decision making;
 - Share portion of profits and withdrawals;
 - Expect greater return from investment.

5C'S OF CREDIT



- Capacity – Ability to manage cash flow and repay loan obligation
 - Existing Business – Historical financial performance
 - Start Up – Managerial experience and other C's
- Character – Willingness and determination to pay and manage loan obligation
 - Credit history
 - Trustworthy
 - Management Skill
 - Credit References

5C'S OF CREDIT

- Collateral
 - Secondary source of repayment
- Capital – Equity in the business and how the capital is employed
 - Start Up – 15-20% “down payment”
 - Existing Business – Adequately funded by owners.
- Conditions
 - Economic Condition
 - Industry
 - Business Condition

TYPES AND TERM OF BORROWING

- Types of borrowing:
 - Short term purpose: Overdraft, Operating line of credit, seasonal line of credit, Standby letter of credit, short term loan
 - Long term purpose: Long term loan, lease financing
- When considering types of borrowing, it is important to match the purpose of the financing with term and the source of repayment.

SOURCES OF FINANCING

- Loans
 - Commercial Loans
 - SBA Guaranteed Loan Programs
 - USDA Business & Industry (B&I) Loan Program
 - GEDA Loan Programs
 - State Small Business Credit Initiative (SSBCI)
 - Guam Development Fund Act (GDFA)
 - Agriculture Development Fund (ADF)
 - Equipment Leasing
 - Micro Loans

SOURCES OF FINANCING

- Grants
 - GEDA State Trade & Expansion Program (STEP)
 - Small Business Innovation Research (SBIR)/Small Business Technology Transfer (STTR) Programs
- Angel Investors
- Crowd Funding
- Peer to Peer Lending (P2P)
- Family and Friends

SBA GUARANTEED LOAN PROGRAMS

- SBA does not lend money;
- SBA acts as guarantors;
- SBA guarantees loan for financial institutions therefore mitigates risks;
- Eligible type of business and loan purpose;
- Not default in any federal loans;

SBA GUARANTEED LOAN PROGRAMS

- Small businesses that are not able to obtain credit elsewhere;
- 15-20% equity injection;
- Requires five Cs of credit;
- Consider owners' credit history;
- Regular and Preferred Lender Programs.

SBA GUARANTEED LOAN PROGRAMS

- Common SBA Loan Programs on Guam:
 - 7(a) Loan
 - 7(a) Small Loan
 - SBA Express
 - SBA Veteran Advantage
 - CDC/504 Loans

SBA PREFERRED LENDERS PROGRAM

- Bank of Guam
- Bank of Hawaii
- Bank Pacific
- Coast360 Federal Credit Union
- Community First Guam Federal Credit Union
- First Hawaiian Bank

*Listing updated as of February 2023

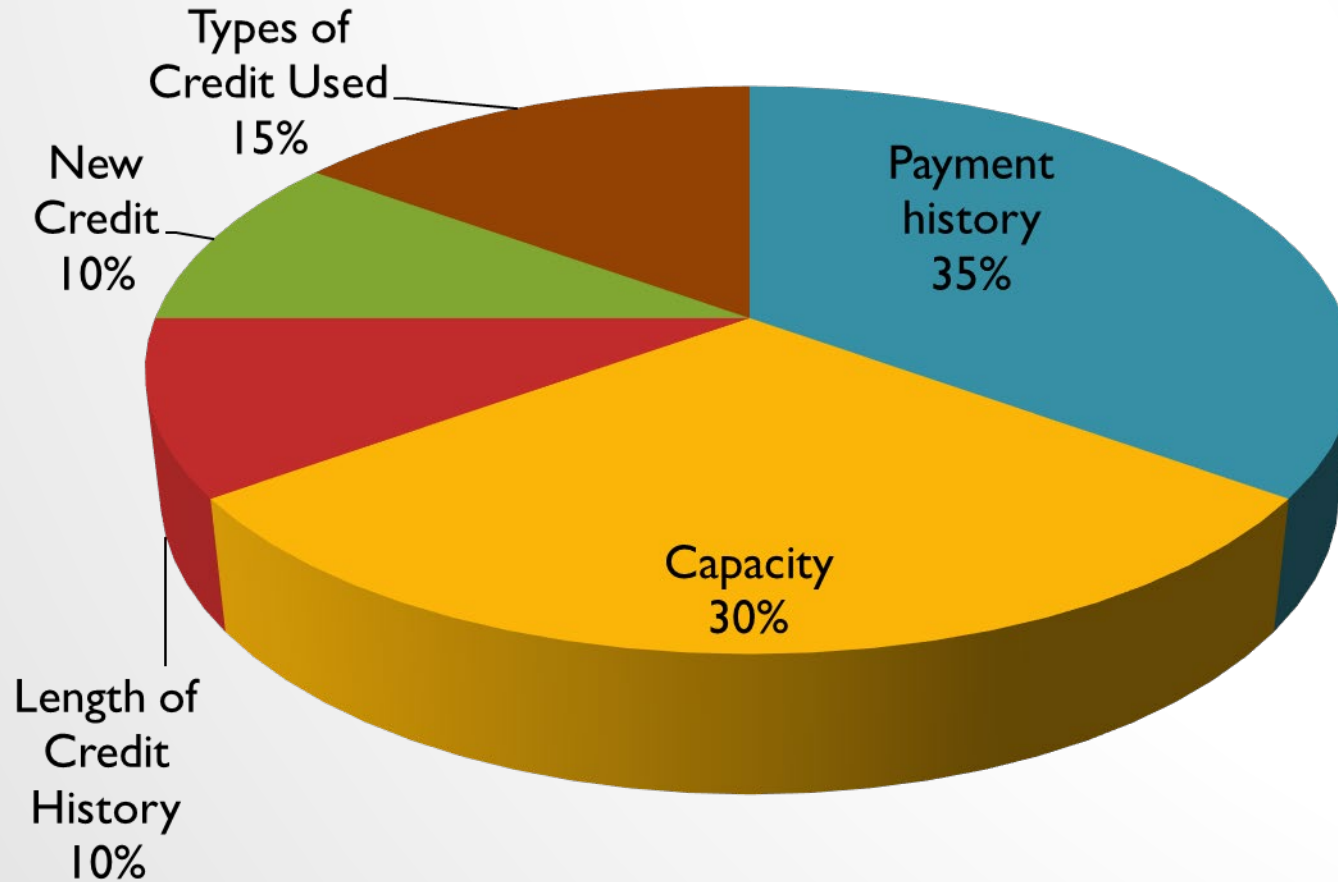
IMPORTANCE OF CREDIT HISTORY

- A credit score is referred to FICO score;
- Credit score ranges from 300 to 850 depending on the three credit reporting companies: Equifax, TransUnion, and Experian;
- Scores can typically range from 300 – 850;
 - Majority are between 600 – 800
 - National average is 678
 - Vary from one credit agency to another
- Good score does not mean you will get the loan;
- Low score might mean a higher cost you will have to pay for credit.

IMPORTANCE OF CREDIT HISTORY

- The Credit Cycle –
 - Create accounts, Start paying lenders;
 - Lenders report on a monthly basis
 - Info includes payment history, types of credit; credit utilization;
 - Lenders share information with credit reporting agencies;
 - Credit reporting agencies share information with new lenders.

IMPORTANCE OF CREDIT HISTORY



IMPORTANCE OF CREDIT HISTORY

- Owners should check their credit score and history prior to applying for business loan;
- Monitor and track your progress with Credit Karma:
<https://www.creditkarma.com/>
- Check your credit history:
 - www.annualcreditreport.com
 - Federal law requires credit reporting companies to give consumers a free credit report every 12 months when requested.
 - www.consumerfinance.gov

IMPORTANCE OF CREDIT HISTORY

- What is in the credit report?
 - Identifying personal information;
 - Account information;
 - Payment history (48 months);
 - Collections;
 - Public record information – Tax Liens / Bankruptcy / Judgement;
 - Inquiries;
 - Dispute Instructions.

Personal Identification

This is all the information that uniquely identifies you from another person who may have the same name.

Public Records

These listings show any legal information that may affect your credit ranking.

Collections

Any collection agencies assigned to recover outstanding debts will be listed here.

Credit Accounts

Installment loan accounts will be listed here, such as school loans, auto loans and mortgages. Revolving credit amounts will also be listed. These may include credit cards, store cards and gas cards. This gives credit issuers information on payment history.

Requested Credit Files

This is a list of any companies who have requested information on your credit history. On this example Equifax may have requested information in response to a credit application.

Your Credit Report

Please address all future correspondence to:
 Credit Reporting Agency
 Business Address
 City, State 00000

PERSONAL IDENTIFICATION INFORMATION

Your Name 123 Current Address City, State 00000	SSN #: 123-45-6789 Date of Birth: July 1, 1956 Telephone Number: (555) 555-5555
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EMPLOYMENT DATE REPORTED

Employer Name: Employer 1 Date Reported: 06/2004	Position: Job/Occupation Hired: 04/2004
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PUBLIC RECORD INFORMATION

Lien Filed 03/93; Fulton CTY; Case or Other ID Number-32114; Amount-\$26,667
 Class-State; Released 07/93; Verified 07/93

Bankruptcy Filed 12/92; Northern District Ct; Case or Other ID Number-673HC12;
 Liabilities-\$15,787; Personal; Individual; Discharged; Assets-\$780

Satisfied Judgment Filed 07/94; Fulton CTY; Case or Other ID Number-898872; Defendant-
 Consumer; Amount-\$8,984; Plaintiff-ABC Real Estate; Satisfied 03/95; Verified 05/95

COLLECTION AGENCY ACCOUNT INFORMATION

Pro Coll (800)XXX-XXXX
 Collection Reported 05/07; Assigned 09/04 to Pro Coll (800)XXX-XXXX Client-ABC
 Hospital; Amount-\$978; Unpaid; Balance \$978; Date of Last Activity 09/04; Individual
 Account; Account Number 787652JG

CREDIT ACCOUNT INFORMATION

COMPANY NAME	ACCOUNT NUMBER	WHOSE ACCT.	DATE OPENED	MONTHS REVIEWED	DATE OF LAST ACTIVITY	HIGH CREDIT	TERMS	BALANCE	PRST DUE	STATUS	DATE REPORTED
Department St. Bank	32514	J	10/96	36	9/98	\$950	X	\$0	X	R1	10/08
Oil Company	1004725	A	11/96	24	5/08	\$750	X	\$0	X	I1	4/08
Auto Finance	541125	A	6/95	12	3/06	\$500	X	\$0	X	OT	4/08
	529778	I	5/95	48	12/07	\$1100	\$50	\$300	\$200	IS	4/08

Previous Payment History: 3 Times 30 days late; 4 Times 60 days late; 2 Times 90+ days late
Previous Status: 01/08 - I2; 02/08 - I3; 03/08 - 14

COMPANIES THAT REQUESTED YOUR CREDIT FILE

09/06/08	Equifax-Disclosure	08/27/08	Department Store
07/29/08	PRM Bankcard	07/03/08	AM Bankcard
04/10/08	AR Department Store	12/31/07	Equifax Disclosure ACIS 123456789

IMPORTANCE OF CREDIT HISTORY

Types of Information	Duration
Accounts paid as agreed	10 years from the date of last activity
Accounts not paid as agreed	7 years from the date the account first became past due
Late or missed payments	7 years
Collection accounts	7 years
Judgements (paid or not)	7 years
Paid Tax Liens / Unpaid Tax Liens	7 years / Indefinitely
Bankruptcy - Chapter 7 / 11 / 13 non-discharged or dismissed	10 years from date filed
Bankruptcy – Chapter 13 (Discharged)	7 years from the date filed
Credit Inquiries	2 years

TIPS ON MANAGING CREDIT

- Pay off outstanding collections and judgements;
- Don't get close to credit card limit; have a plan to pay large credit card balance, not just making the minimum monthly payment;
- Check information on credit report on a regular basis to detect errors, frauds, or identify thefts;
- Establish or re-establish credits with cash secured loan or credit card;
- Continue to maintain some sort of credits; no payment history means no score;
- Seek Credit Counseling if you are in too deep.


WHAT TO EXPECT WHEN SEEKING FINANCING?

- Shop around
- Preparation of loan application package
- Personal/Corporate Guarantee
- Credit Review Process
- Decision
- Closing Process
- Post Loan Process

PREPARATION OF LOAN APPLICATION PACKAGE

- Loan Application
- Business Plan
- Historical Financial Statements/Tax Returns
- Projected Financial Statements
- Personal Financial Statements
- Personal Income Tax Returns
- Other Supporting Documents

COMMERCIAL LOAN APPLICATION



BANK OF GUAM
THE PEOPLE'S BANK
Headquarters • P.O. Box 8W • Hagåtña, Guam 96932
Member FDIC

**APPLICATION FOR CREDIT
BUSINESS LOAN**

Tel: (671) 472-6300

Amount of Credit Applied for		Complete Legal Name		Registered Trade Name	
Business Physical Address			Business Mailing Address		
Federal Tax ID / SSN#		Business Phone	Fax Number	Email Address	
Name of Business		State of Incorporation	State of Registry	NAICS Code	Business License Number
Legal Status					
<input type="checkbox"/> Sole Proprietor		<input type="checkbox"/> "C" Corporation		<input type="checkbox"/> Limited Liability Partnership	
<input type="checkbox"/> General Partnership		<input type="checkbox"/> Professional Corporation		<input type="checkbox"/> Limited Liability Company	
<input type="checkbox"/> "S" Corporation		<input type="checkbox"/> Limited Partnership		<input type="checkbox"/> Other: (Description) _____	
Annual Gross Sales (3 year average of revenues)		Date Business Was Established	Current Ownership Since	Current Number of Employees	Expected Number of Employees If Loan Is Granted
PURPOSE OF LOAN					
Use of Proceeds (Check all that apply):					
<input type="checkbox"/> Purchase Inventory		<input type="checkbox"/> Carry Receivables		<input type="checkbox"/> Contract Financing	
<input type="checkbox"/> Pay Accounts Payable		<input type="checkbox"/> Purchase Equipment		<input type="checkbox"/> Property Renovation	
<input type="checkbox"/> Business Expansion		<input type="checkbox"/> Purchase Real Estate		<input type="checkbox"/> Other: _____	
REPAYMENT PROGRAM					
The Loan, if Granted, will be repaid in the following manner:					
The Source of Repayment is to be from:					
COLLATERAL SECURITY AND GUARANTORS					
Equipment/Personal Property Described As:					
			Current Value \$		
Real Property Described As:					
			Current Value \$		
Other:					
			Current Value \$		



MEMBER BUSINESS LOAN APPLICATION

Member Number: _____

DETAILS OF YOUR LOAN REQUEST					
Amount Requested		Type of Loan:		<input type="checkbox"/> Term Loan <input type="checkbox"/> Line of Credit <input type="checkbox"/> Other: _____	
\$ _____		_____		_____	
What will this loan be used for: _____					
BORROWER'S INFORMATION					
Legal Name of Business: _____					
Type of Business: _____				Federal Tax I.D. No. _____	
Business Street Address Required _____					
Mailing Address (if different from above) _____					
Annual Gross Sales \$	No. of Employees	Business Established	Years you owned Business	Business Phone	
\$ _____	_____	_____	_____	_____	
Business Type: (Check one)	<input type="checkbox"/> Individual <input type="checkbox"/> Corporation <input type="checkbox"/> General Partnership <input type="checkbox"/> Trust	<input type="checkbox"/> LLC <input type="checkbox"/> Limited Partnership <input type="checkbox"/> Gov't. Entity <input type="checkbox"/> Non-Profit Organization	<input type="checkbox"/> Sole Proprietorship <input type="checkbox"/> An Association <input type="checkbox"/> Other: _____		
Industry Type: (Check one)	<input type="checkbox"/> Agriculture <input type="checkbox"/> Business Service <input type="checkbox"/> Construction	<input type="checkbox"/> Consumer Service <input type="checkbox"/> Financial Service <input type="checkbox"/> Health Care	<input type="checkbox"/> High Tech <input type="checkbox"/> Hotel/Lodging <input type="checkbox"/> Manufacturing	<input type="checkbox"/> Legal Services <input type="checkbox"/> Real Estate <input type="checkbox"/> Retail	<input type="checkbox"/> Tourism <input type="checkbox"/> Wholesale <input type="checkbox"/> Other
COLLATERAL TO BE USED AS SECURITY FOR THIS LOAN (attach a separate sheet, if necessary)					
Description	Address, if Real Estate	Year Acquired	Balance owing \$	Est. Market Value \$	Lien holder, if any
_____	_____	_____	\$ _____	\$ _____	_____
_____	_____	_____	\$ _____	\$ _____	_____
TELL US ABOUT YOUR BUSINESS BANKING RELATIONSHIPS (attach a separate sheet, if necessary)					
DEPOSITS					
Financial Institution		Account or Service Type		Balance	
_____		_____		\$ _____	
LOANS					
Name of Lender	Type of Loan	Original Amount	Balance	Rate	Mo. Payment
_____	_____	\$ _____	\$ _____	% _____	\$ _____
PRINCIPAL APPLICANTS (All principals and percentage of ownership must be listed. Attach additional sheets if necessary. Complete and attach your Personal Financial Statement)					
Name (first, middle initial, last)				Title / Percentage of Ownership	
_____				_____	

PERSONAL FINANCIAL STATEMENT



OMB APPROVAL NO.: 3245-0188
 EXPIRATION DATE: 01/31/2018

**PERSONAL FINANCIAL STATEMENT
 7(a) / 504 LOANS AND SURETY BONDS**

U.S. SMALL BUSINESS ADMINISTRATION As of [redacted], [redacted]

SBA uses the information required by this Form 413 as one of a number of data sources in analyzing the repayment ability and creditworthiness of an application for an SBA guaranteed 7(a) or 504 loan or a guaranteed surety.

Complete this form for: (1) each proprietor; (2) general partner; (3) managing member of a limited liability company (LLC); (4) each owner of 20% or more of the equity of the Applicant (including the assets of the owner's spouse and any minor children); and (5) any person providing a guaranty on the loan

Return completed form to:
 For 7(a) loans: the lender processing the application for SBA guaranty
 For 504 loans: the Certified Development Company (CDC) processing the application for SBA guaranty
 For Surety Bonds: the Surety Company or Agent processing the application for surety bond guaranty

Name	[redacted]	Business Phone	[redacted]
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Home Address	[redacted]	Home Phone	[redacted]
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City, State, & Zip Code [redacted]

Business Name of Applicant [redacted]

ASSETS		LIABILITIES	
	(Omit Cents)		(Omit Cents)
Cash on Hand & in banks.....	\$ [redacted]	Accounts Payable.....	\$ [redacted]
Savings Accounts.....	\$ [redacted]	Notes Payable to Banks and Others.....	\$ [redacted]
IRA or Other Retirement Account.....	\$ [redacted]	(Describe in Section 2)	
(Describe in Section 5)		Installment Account (Auto).....	\$ [redacted]
Accounts & Notes Receivable.....	\$ [redacted]	Mo. Payments \$ [redacted]	
(Describe in Section 5)		Installment Account (Other).....	\$ [redacted]
Life Insurance – Cash Surrender Value Only.....	\$ [redacted]	Mo. Payments \$ [redacted]	
(Describe in Section 8)		Loan(s) Against Life Insurance.....	\$ [redacted]
Stocks and Bonds	\$ [redacted]	Mortgages on Real Estate	\$ [redacted]

TIPS WHEN PREPARING LOAN APPLICATION PACKAGE:

- Different format on information requested by lenders;
- Have a well written and complete business plan;
- Double check all fields on application;
- Ensure all required documents are in the package.

MEETING WITH LENDERS FOR SUBMISSION

Be prepared before submitting application:

- Knows your business and personal financial statements;
- Knows your business plan;
- Knows your weaknesses and how are you going to overcome;
- Knows your lenders.

LENDER'S EXPECTATION

- Know your business...
- Accuracy
 - Financial Statements/Tax Returns
- Realistic
 - Business Plan
 - Financial Projection
- Sincerity
- Cooperation
- Disclose full information – even if it is bad!
- Ask questions if you are unsure

WHAT THE LENDERS WILL DO NOW?

- Start Up Businesses -
 - Review business plan and projections;
- Existing Businesses -
 - Perform financial & cash flow analysis;
- Overall criteria to review – for all businesses:
 - Determine primary source of repayment – cash flow;
 - Determine secondary source of repayment, identify any available collaterals from business and personal sources;
 - Review owners' past financial and credit history;
 - Underwrite a credit proposal;
 - Decision.

HERE COMES THE DECISION

- Once a complete loan application package is submitted, it usually takes lenders an average of 3 to 4 weeks to come to a decision.
- Not a favorable decision
 - Decision might come sooner;
 - Prepare to seek other lenders depending on the reasons of denial;
 - Prepare and resubmit to another lender.

HERE COMES THE DECISION

- Favorable decision
 - Receive phone call from Lender;
 - Receive a loan commitment letter;
 - Discuss and explain terms and conditions of the commitment letter;
 - Take time to review prior to acceptance of letter due to possible up front fees;
 - Sign and accept the commitment letter.

WHAT HAPPENS NOW?

- If it is an SBA Guaranteed loan -
 - Complete and sign SBA forms;
 - Lender will go through SBA system to generate a SBA loan number.
- Business obtains business license and lease agreement, provide copies to lenders.
- Business provides final and actual quotes on equipment and inventory for loan disbursement after closing.
- Lender reviews and performs due diligence to ensure priority collateral position.
- Lender prepares and business owners sign closing document.

WHAT AM I SIGNING?

- Promissory note – promise to pay, inclusive of loan term details and repayment terms
 - Loan Amount
 - Term of Loan
 - Interest Rate (WSJ Prime vs.. Bank Prime Rate)
 - Frequency of payments
 - Prepayment penalty
 - Other possible fees

WHAT AM I SIGNING?

- Corporate or Partnership borrowing Resolution
 - Authority to borrow - Who and how much?
- Business loan agreement
 - Rights and obligations of both parties
 - Reasonable standards of performance
- Security agreement
 - Collateral, protect security interest
- Landlord's waiver
 - Access to collateral in the event of default
- Guaranty
 - Personal or Corporate
 - Unlimited vs.. limited
- Mortgage / UCC financing statement

WHAT HAPPENS NEXT?

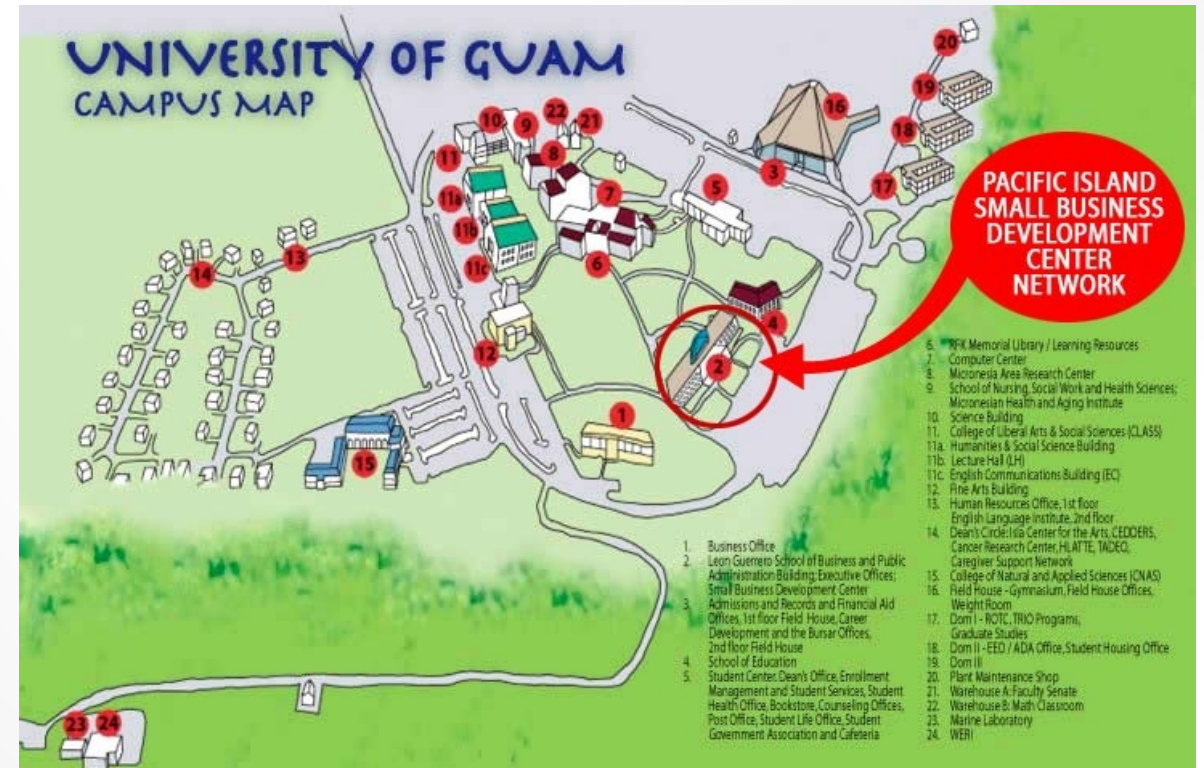
- Records of UCC financing statement or Mortgage.
- Provide evidences for disbursement; such as invoices, paid receipts, and credit card statement for reimbursement.
- Signs disbursement or drawdown request form.
- Issues checks or direct deposit into business accounts.

AFTERWARD.....

- Communicate with your Lender on a regular basis;
- Remember to submit annual financial statements to your financial institutions;
- Inform your lenders when planning for expansion, projects, or contracting;
- Don't wait until issues come up then contact your lenders.

CONTACT SBDC

- Business counseling, training, and community outreach
- In-person and virtual meetings by appointment. Walk-ins are not accepted.
- Contact 735-2590 to schedule an appointment or sign up online.
- Office Details:
 - Operations 8:00 a.m. – 5:00 p.m.
 - Email: sbdc@pacificsbdc.com
 - www.pacificsbdc.com



IN SUMMARY

- It takes a village to raise an export!
- You're not in this alone. Reach out to the Guam SBDC to help you with your export plan.
- Attend other SBDC training and do market research. It's informative and you could get export funding.
- Scan the QR code below to schedule a counseling session and/or sign up for other business training.
- Thank you and have a great day!



QUESTIONS?



FOR QUESTIONS ABOUT GUAM STEP PROGRAM AND INFORMATION

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Guam Economic Development Authority
(671) 647-4332
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www.investguam.com



FOR EXPORT PLAN ASSISTANCE, TRAINING, AND BUSINESS COUNSELING

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