

**BMO Harris presents:**

**Understanding  
business lending**

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Presented to  
SPNA

**BMO**  **Harris Bank**

We're here to help.™

## Disclaimer

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# Empowering Black, Latinx, and Women Business Owners

We are passionate about supporting Black, Latinx, and Women business owners and understand the essential part they play in the U.S. economy.

We're proud to be fueling growth and expanding possibilities for these business owners through the **BMO for Black and Latinx Businesses** and **Women in Business** programs. The programs are based on three critical pillars:



## Access to capital

We help business owners get better access to working capital with expanded credit criteria and competitive interest rates

- Business line of credit (up to \$50,000)
- Business credit card (up to \$50,000)



## Access to education

We help business owners achieve real financial progress in their business through practical tools, templates, webinars and coaching.

We also provide Program training for our bankers to improve customer experience.



## Access to partnerships

We are continually forming new partnerships with organizations to give business owners access to meaningful networks, additional coaching and educational resources, and alternative funding sources.

# Understanding the 5C's of credit

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# Understanding your overall financial position



**1. Personal and Business Credit History** - using credit appropriately helps a lender to expect that in the future by showing creditworthiness and a sense of financial responsibility



**2. Financial Statements** – these are the financial dashboard of your business. They tell you where money is going, where it is coming from, and how much you have to work with



**3. External Factors** – such as economic and industry conditions are important to consider when evaluating the future strategic goals

# Uncovering how lending decisions are made

## Character

- Character is largely evaluated on the borrower's prior payment history from their credit bureau report, their openness to answering questions and their business experience.

## Capacity

- Capacity is an evaluation performed by the bank to make sure that the borrower has sufficient income to repay the loan.

## Capital

- Capital will help a business when times get tough or when the business needs to grow. During these periods, a business needs capital to continue to operate.

## Collateral

- The bank generally asks for collateral to support a loan in the event the borrower doesn't make payments on the loan. If payments stop, the bank leverages collateral.

## Conditions

- The bank will consider external factors that may impact your business, such as the industry you operate in, the economy, supplier relationships and similar.

**IMPORTANT NOTE:** A Bank's credit decisions are not just based on credit scores. *There are many factors that play a role in the lending decision. Although they are a useful guide, the 5 C's of Credit aren't a guarantee for getting a loan approved.*

# Deep Dive: Character

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# What it means to have good character

Banks will review the character of the borrower by looking at the credit history obtained from a credit bureau report (CBR). While it is always important to keep a good credit history, it becomes increasingly important when making bigger personal or business purchases.



# How to review your personal credit history

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## Obtain a free credit report

- A great way to check your personal credit history is to obtain a credit report.
- You can access a free copy of your credit report once per year by visiting [www.annualcreditreport.com](http://www.annualcreditreport.com).

## Understand your credit history

- A credit report contains information related to your credit activity including and may include a list of businesses that have given you credit or loans, payment history, any bankruptcies or other public record information, and current and former names, addresses, and/or employers.
- The information in your credit report is used to calculate a value, your credit score, which may suggest how likely you are to pay on your bills and loans in the future.

## Verify for any discrepancies and/or errors

- It's important to review your credit report to verify that the information is accurate and up-to-date.
- Be aware of any negative events that may be listed including, but not limited to charge-offs, debt collections, bankruptcy, foreclosure, tax liens, and judgments.
- If you find any errors, dispute them with the credit reporting bureau(s):
  - [Disputing credit report errors](#)
  - [Sample dispute letter](#)

# Healthy personal credit habits

## Steps to improve personal credit

Paying bills and personal debts on time

Establishing credit by making utility and cell phone payments on time

Keeping balances low on credit cards and other revolving credit

Applying for and open new credit accounts only as needed

Maintaining separate personal and business accounts

Disputing any inaccuracies on your credit reports

## Things to avoid

Making late payments or missing payments

Not using credit enough and closing unused credit cards

Keeping high balances

Asking for credit too frequently

Co-signing for debt for someone who may not pay on time

Not paying items such as traffic tickets, medical bills, child support or taxes

# Understanding business credit

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Like personal credit, banks also base lending decisions on business credit to help determine a business's creditworthiness. Commonly used is a SBSS score.

- **What is a SBSS score?**
  - SBSS stands for Small Business Scoring Service – it is the equivalent of a personal credit score but for a business.
  - The range for SBSS scores is 0 – 300. The higher the score, the better!
- **How is a SBSS score determined?**
  - Aspects of personal credit and business credit are drawn upon to calculate a SBSS score.
  - Other business factors are also taken into consideration such as: time in business, number of employees, business assets, business cashflow, public records with negative information, such as bankruptcy filings, liens and judgments, and risks to the industry in which the business belongs.
- **How to improve a SBSS score?**
  - A SBSS score is heavily influenced by the same factors that affect a personal credit score.
  - Following healthy personal credit habits, such as those described earlier, as well as healthy business credit habits, can positively impact a SBSS score:
    - Pay business debts in full and on time (i.e., business loans, taxes, utilities, supplier invoices, etc.)
    - Be mindful of the ratio of outstanding business credit card balances and other revolving credit to account limits (credit utilization rate)
    - Apply for and open new business credit accounts only as needed
    - Be cautious about co-signing for debt for someone who may not pay on time

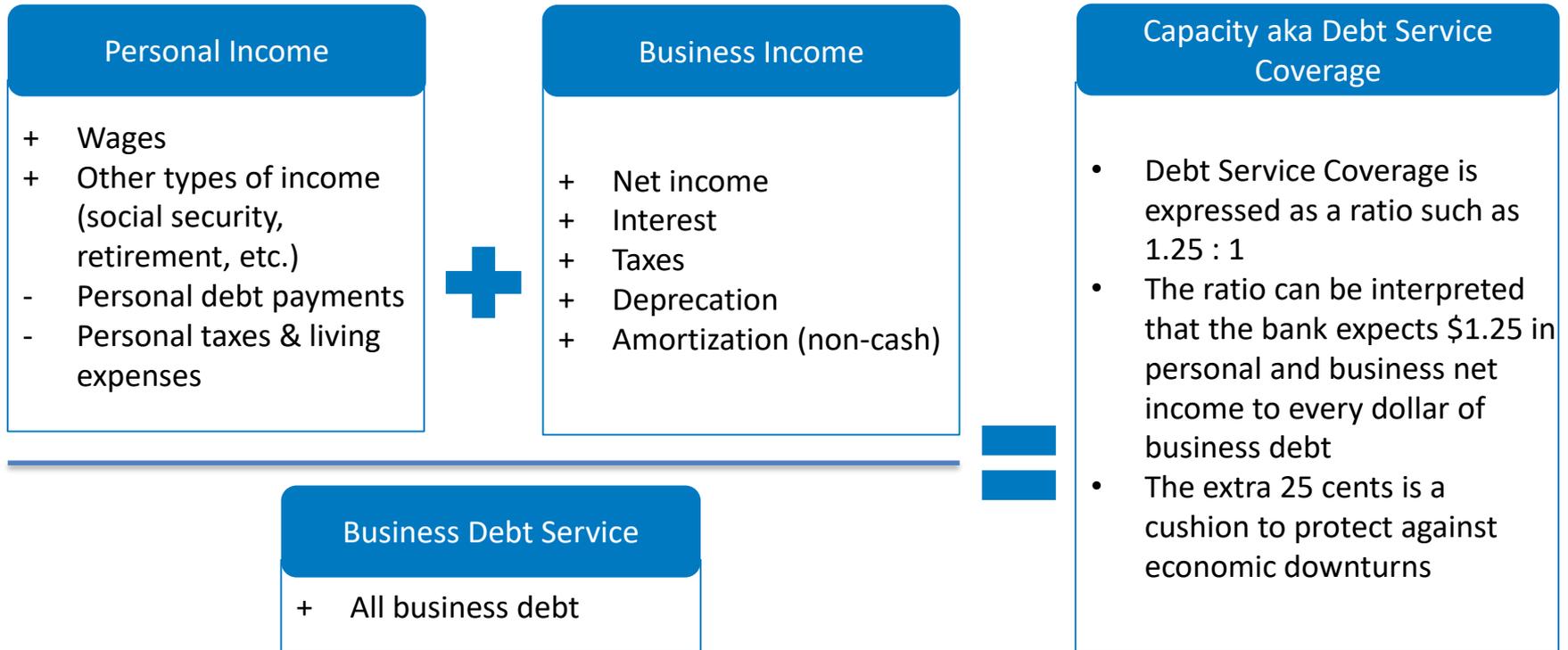
# Deep Dive: Capacity

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# What it means to have sufficient capacity

Banks determine the loan amount you qualify for by combining your personal and business income to ensure you have the capacity to make loan payments from the total income. Business income is determined using tax returns or accountant prepared financial statements which reflect the ability of a company to generate profits.

- Income is determined using tax returns or professionally prepared financial statements.



# Understanding key financial statements

Vigilance is the key to effective business financial management. Review your balance sheet, profit and loss (income) statement, and cash flow statement monthly, and compare them to the previous reporting period. This information is crucial to help you to:

- Project future revenue, cash flow, and expenses
- Make major purchase decisions
- Anticipate and mitigate risk

## Financial Statements

### Balance Sheet –

A snapshot of what a business owns and owes, as well as the amount invested by shareholders

- Current and long-term assets
- Current and long-term liabilities
- Equity

### Income Statement –

Reports a business' financial performance over a specific accounting period

- Revenues
- Expenses
- Gains/losses
- Net Income
- EBITDA (earning before interest, taxes, depreciation and amortization).

**Cash Flow Statement –** Provides data regarding all cash made by the business through its operations and external investment sources

- Operating (transactions from all operational business activities)
- Investing (investment gains and losses)
- Financing (cash used from debt and equity)

**Note:** Trends over time and comparisons to industry benchmarks are important

# Understanding working capital

- **Current assets** - assets that are in cash or can be converted to cash within a year, such as investments, accounts receivable and inventory.
- **Current liabilities** - liabilities expected to be paid in cash over the next year.
- **Accounts payable** - such as what you will be billed for supplies you have already used or equipment you have already installed.
- **Working capital ratio** - the ratio of current assets (cash on hand) to current liabilities (debts owed).

Current assets		Current liabilities	
Cash and investments	\$10	Accounts payable	\$30
Accounts receivable	\$25	Deferred income taxes	\$15
Inventory	\$35	—	
<b>Total current assets</b>	<b>\$70</b>	<b>Total current liabilities</b>	<b>\$45</b>
<b>Working capital ratio</b>	<b>1.56</b>		

Current Ratio of:	What does it indicate?
<b>2.00</b>	Current assets are twice as large as current liabilities.
<b>1.00</b>	Current assets equal current liabilities.
<b>&lt;1.00</b>	Suggests you owe more than you have available in the near term. A business startup, however, may expect to have a ratio less than 1.0 until collections start rolling in and eventually normalize.

## Important Tip:

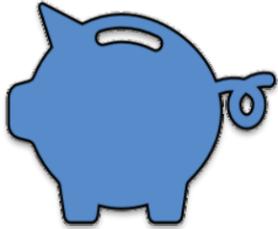
*If you underestimate your working capital needs, you could face a situation where you will likely need to raise funds quickly to pay bills or salaries.*

- *For this kind of short-term fix, businesses often rely on a line of credit from a bank.*
- *Absent a line of credit, you may find yourself, as the business owner, paying expenses with a credit card or other expensive form of debt.*

# Deep Dive: Capital, Collateral and Conditions

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# Capital, collateral, and conditions



## Capital

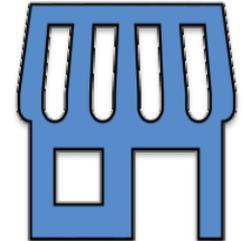
Banks view capital as a critical component of the lending decision. Capital in a business can be either cash or equity in business assets and is like the down payment on a home or a car. Another way to think about capital is considering it as a savings account for the business which is especially important during an economic downturn or business growth.

*Example: Suppose your business got a new contract. Your business would have to invest in labor and materials needed to execute the contract. You'd generate an invoice, however up to this point you haven't received payment. In this case, expenses would need to be paid for using business capital.*

## Collateral

Collateral is important to a lending decision as it is considered a secondary source of repayment. Ideally, the business pays the debt first and if unable to, the business owner will incur the debt. When the possibility of payments being made ends, the bank considers using the collateral as a source of repayment.

*Example: Suppose you have a printing business, and you are looking to upgrade your printing equipment but don't have enough cash to make the purchase, so you turn to financing. A bank may offer you an equipment loan whereby the equipment serves as the collateral. If you are unable to make the loan payments, the bank may repossess the printing equipment to payoff the loan.*



## Conditions

Banks also consider external factors that can impact the demand for your goods and/or services, the supply of your inputs, and ultimately your ability to make payments. These can include economic and industry trends and pending legislation relative to your business.

*Example: The impact of COVID-19 varies across industry types. A lot of industries have been negatively impacted while online retailers and software companies have been stable due to increased demand.*

# Business Lending

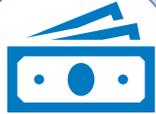
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# Ways a business may use credit



## Start a new business

- Seed funding is often required to get a business off the ground (purchase a storefront/office space, purchase initial inventory and equipment, software, advertising, etc.)



## Provide working capital

- A line of credit or a loan can help to satisfy operational costs until business earnings reach a certain volume, or as backup in case of emergencies or economic downturns



## Grow or expand a business

- Increasing the size or scale of a business may require a loan to purchase additional real estate, upgrade equipment and/or technology, increase inventory, etc.



## Make major purchases

- Tying up cash in large purchases can create cashflow problems. Financing the purchase of major assets such as vehicles, equipment, and real estate can alleviate those problems.

# Types of credit that businesses use



Short-term financing		Long-term financing
Supply working capital, meet short-term goals, pay bills/expenses, etc.	<i>Typical uses</i>	Purchase real estate or equipment, fund construction projects, etc.
<ul style="list-style-type: none"> <li>• Lines of credit</li> <li>• Business credit cards</li> </ul>	<i>Loan products</i>	<ul style="list-style-type: none"> <li>• Term loans</li> </ul>
<ul style="list-style-type: none"> <li>• Defined credit limit</li> <li>• May be unsecured</li> <li>• Flexible purpose</li> <li>• Typically revolving</li> <li>• May have a variable interest rate</li> </ul>	<i>Features</i>	<ul style="list-style-type: none"> <li>• Provide a fixed amount</li> <li>• For a specific purpose</li> <li>• Usually secured with collateral</li> <li>• Typically paid in installments over a fixed period</li> <li>• Generally, a fixed interest rate</li> </ul>

The interest rates you'll pay at the bank will vary depending upon factors such as the following:

- The purpose of the loan
- The length of the loan term
- The current index rate (usually the Prime Rate or the Treasury Rate)
- The perceived credit risk represented by your loan (your personal and business creditworthiness)

# What to expect when applying for a business loan

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## Before you apply:

- ✓ Ensure your business is properly registered in the state(s) you operate and with the IRS
  - Have the legal name of the business (including any assumed names or DBA (Doing Business As)) and Federal Tax ID
- ✓ Clearly state the purpose of the loan and the amount desired
- ✓ Review your personal credit history for accuracy
- ✓ Research your borrowing options to ensure you are working with a lender that is aligned with your values and vision for your business
- ✓ Prepare a business plan and business financial statements (balance sheet, income statement, cash flow statement, shareholder equity)
- ✓ Gather other documentation\* that the bank may require to process your application such as:
  - Business entity documents (varies by the legal structure of your business):
    - Copies of articles of incorporation and by-laws, or
    - General or limited partnership agreement, or
    - Limited liability company articles of organization, operating agreements, and amendments
  - Collateral information (i.e., copies of insurance policies, equipment/vehicle invoices or purchase agreements, real estate purchase contracts/legal descriptions, Real Estate PIN, most recent mortgage statement, etc.)
  - Business tax returns or Accountant Prepared Financial Statements for the past two years
  - Personal tax returns for the past two years
  - Purchase contract/agreement
  - For construction projects items may include; construction budget, vendor quotes for machinery/equipment, itemized listing of professional fees (i.e. architect, appraiser, legal, etc.)

*\*The above is not an exhaustive list. Other documentation may be required depending on the age and nature of your business as well as the purpose of the loan.*

# What to expect when applying for a business loan (cont'd)

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## Submit an application

- Meet with a banker to determine the best financing solution for your business
- Work with the banker to complete a loan application

## Bank provides a loan decision

- The bank will review your application information and credit profile. If it meets their criteria, you'll get approved with specific repayment terms.

## Bank conducts due diligence

- If you agree with the terms you were approved for, the bank will conduct due diligence to confirm information about you as the business owner and the business.

## Loan Closing

- Your banker will review the loan repayment terms with you and collect your signature on necessary loan documents.

## Receive funds

- Your banker will work with you to distribute your loan proceeds (if applicable). This could be in the form of a check, a deposit to your business account with the same bank, or a wire to a business account at a different bank.

# Business financials – best practices

Help improve your ability to secure a business loan by following these best practices:

## Maintain separate personal and business banking accounts

- Ensure accurate cash flow management
- Build your business credit score
- Aid in tax reporting and assessment of business performance
- Establish professionalism and business credibility

## Review your business financials regularly

- Understand revenues, expenses, and profitability
- Calculate your working capital
- Identify and monitor trends in your financials
- Leverage the financials to inform business decisions (i.e., product/service pricing, supplier changes, etc.)

## Create a business plan and update it often

- Define your business strategy and goals and adjust them as your business grows
- Consider consumer demand and competitive environment
- Share with partners, investors, and lenders
- Assess and monitor risk
- Use your plan to make better business decisions

## Enlist professional help

- Consult an attorney to choose the right legal structure for your business
- Leverage an accountant and banker to guide your financial health and progress
- Seek help from other service providers such as marketing consultants to help your business thrive

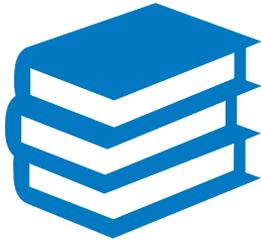
## Top 3 Takeaways

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**Position yourself for personal and business financial stability and growth**

Strive for continual improvement!



**Seek out educational tools and resources**

Visit our program websites frequently for webinars, templates and more. Subscribe to our e-mail list to get free business resources, tips and advice delivered straight to your inbox!

- [bmoharris.com/blackandlatinx](https://bmoharris.com/blackandlatinx)
- [bmoharris.com/womeninbusiness](https://bmoharris.com/womeninbusiness)



**Build a network of trusted experts, mentors and advisors**

No one can do it alone!

# Questions?

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## How to reach us

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**Let's connect! Email us today!**



**[blacklatinxbusiness@bmo.com](mailto:blacklatinxbusiness@bmo.com)**

**[womeninbusiness@bmo.com](mailto:womeninbusiness@bmo.com)**

Thank you for attending!

# Appendix

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# Cash Flow Forecast Tool

## Cash flow forecast

Receipts	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Sales	\$ 10,000	\$ 7,000	\$ 6,800	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 23,800
Other revenue	\$ 1,500	\$ 900	\$ 700	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,100
Other	\$ 500	\$ 300	\$ 300	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,100
<b>(A) Total receipts</b>	<b>\$ 12,000</b>	<b>\$ 8,200</b>	<b>\$ 7,800</b>	<b>\$ 0</b>	<b>\$ 28,000</b>								
<b>Less payments</b>													
Accounting	\$ 600	\$ 600	\$ 600	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,800
Bank fees	\$ 200	\$ 150	\$ 130	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 480
Communication and internet	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General expenses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Marketing	\$ 200	\$ 150	\$ 150	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 500
Materials and stock	\$ 3,000	\$ 2,000	\$ 1,700	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,700
Overheads (Rent, power, etc)	\$ 1,800	\$ 1,800	\$ 1,800	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,400
Repayment of loans	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Staff wages and salaries	\$ 3,000	\$ 3,000	\$ 3,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,000
Tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
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Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>(B) Total payments</b>	<b>\$ 8,800</b>	<b>\$ 7,700</b>	<b>\$ 7,380</b>	<b>\$ 0</b>	<b>\$ 23,880</b>								
<b>(C) Net cash flow (A-B)</b>	<b>\$ 3,200</b>	<b>\$ 500</b>	<b>\$ 420</b>	<b>\$ 0</b>	<b>\$ 4,120</b>								
<b>(D) Opening bank balance</b>	<b>\$ 5,000</b>	<b>\$ 8,200</b>	<b>\$ 8,700</b>	<b>\$ 9,120</b>									
<b>Closing bank balance</b>	<b>\$ 8,200</b>	<b>\$ 8,700</b>	<b>\$ 9,120</b>	<b>Clear form</b>									

# Tools to help you find a financing solution: Loan Calculator

To help understand loan payment details, use the **loan calculator**. You can access the tool [here](#)



My loan details    Extra payments    Print Information

Loan amount **i**    Loan term **i**    Interest rate **i**    Payment frequency

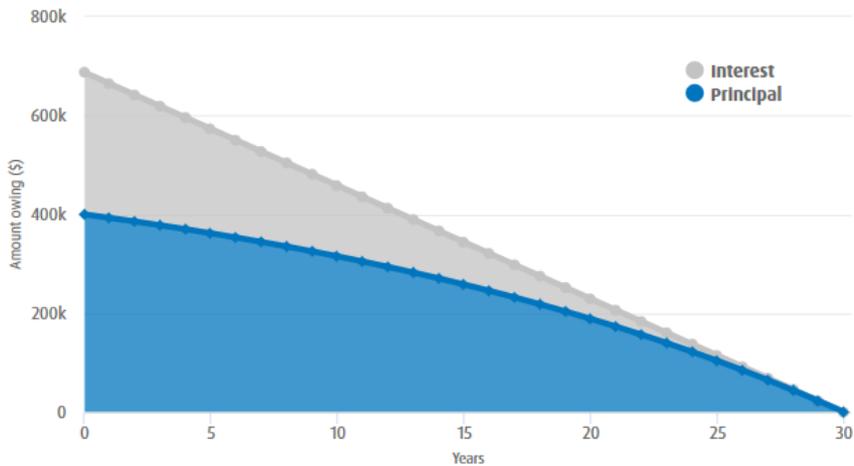
\$ 400,000    30 Years    4.000%    Monthly    Bi-Weekly    Weekly

\$10k    \$2M

See how you can pay off your loan faster [Extra payments >](#)

[Payment chart](#)    [Loan amortization table](#)

Your payment chart



Regular payment  
**\$1,910** / month at **4.000%** p.a.

Total interest payable  
\$287,478 over 30 years

# Tools to help you start your business: Business Plan Template

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To help build your business plan, use the **Business Plan Template**. Use [this professional template](#) to help you structure your business ideas, define clear goals and plan for the future. You'll be taken through the following sections:

- Executive summary
- Business background
- Business strategy
- Team structure
- SWOT analysis
- Market research
- Market analysis
- Marketing strategy
- Competitor analysis
- Financial plan
- Compliance
- IT, equipment, and suppliers

Check out this tool and others at our Business Insights page:

<https://www.bmoharris.com/main/business-banking/business-insights/>

# Tools to help you start your business: Business Start-up Costs Calculator

A helpful tool for entrepreneurs, [this start-up costs calculator](#) lets you input your business expenses to see how much capital you'll need to start your company.



ONE-TIME EXPENSES

ONGOING MONTHLY EXPENSES

RESULTS

## One-Time Expenses

Computer hardware and software

\$2,000

Furniture and fixtures

\$2,000

Office supplies



\$1,000

Legal fees



\$1,500

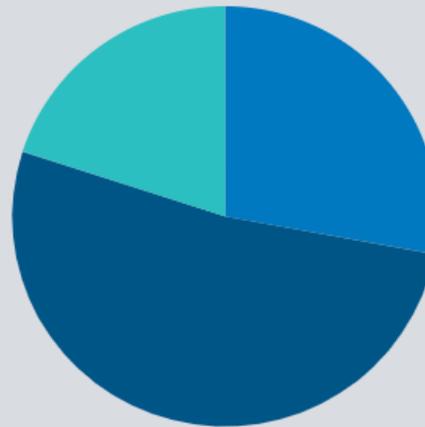
Licensing fees

\$300

To get your business started off on the right foot, you should have approximately

**\$42,331**  
in start-up capital.

Total one-time expenses	\$11,800
Total ongoing expenses	\$22,065
Additional 25% to cover any unplanned or unknown expenses	\$8,466
Total start-up capital needed	\$42,331



■ One-time Expenses ■ Ongoing Expenses ■ Unknown Expenses