Robert Wehland joined Freedom Federal Credit Union in 2010 and is Vice President of Business Banking and Business Development. A long-time resident of Bel Air, Bob is responsible for cultivating relationships and serving the financial needs of small to mid-sized businesses throughout Harford County. Bob's 26 years in commercial banking has provided him with a wealth of knowledge to guide small businesses through their daily banking and financing challenges. Bob is dedicated to helping small businesses succeed and is an asset to the economic development of Harford County.

How to Finance Your Small Business or Franchise

Q: What types of loan products are available for a small business or franchise?

A: There are various lending solutions available for your small business. The type of loan lenders recommend depends on your specific needs, like what is being purchased, repayment terms, repayment period and liquidity of funds. Typical business loans include:

- **TERM LOANS:** For larger business investments, a term loan is a standard solution, often with a 3-7 year term. Term loans are ideal for business purchases, such as vehicles, equipment, other physical property and/or debt consolidation. They provide for a consistent monthly payment (principal and interest) over the life of the loan.
- **CREDIT LINES:** If you need access to short-term working capital or reoccurring access to funds, a Line-of-Credit is the viable solution. Short-term needs should always be repaid within 12 months. Lines-of-Credit provide immediate access to funds for a quick purchase or short-term capital needs (payroll, taxes, inventory or to meet business cycle needs). Credit Lines usually have floating or variable rates tied to an index, such as Prime Rate or the Treasury Index. Rate floors (minimum rate charged) are very common and credit lines typically are subject to an annual review and renewal by the lender.
- **MORTGAGES:** If you are considering purchasing the property from which your business will operate or a property to rent as an investment then a commercial mortgage loan is available to your business. Unlike residential mortgages, commercial mortgage rates are usually locked in for three or five years, (some lenders may lock in longer, but rate is usually higher) and then adjusted again on a similar time frame or annually. Loan payments are typically based on a 15- or 20-year amortization schedule. Commercial Mortgages usually have a 10-year or 15-year maturity.

Q: What documentation is usually required to process a business loan request?

A: When applying for a business loan there are various financial documents required in addition to the standard Business Loan Application and Debt Schedule (listing of current business debts and payments). These include, but are not limited to the following:

- Balance sheet and income statement (for current business cycle)
- Business tax returns (complete copies for three years)
- Personal tax returns of owners (complete copies for two years)
- Personal financial information from all business owners (anyone who has a 20% or more ownership interest)
- If a business is relatively new or a start-up, a business plan along with projections of revenues and expenses is needed.

Q: What factors do lenders and underwriters use in determining a loan decision?

A: Decision-making on an application for a business loan often comes down to two basic questions: 1) Based on the review and analysis, does the lender believe that the borrower has the means and intent to repay the loan? 2) In the unlikely event that this borrower cannot or does not repay this loan, what is the risk of loss to the lender? To evaluate and analyze the risk of a loan, Lenders and Underwriters will review the **Five C's of Credit**:

- **CASH FLOW / CAPACITY:** This is the most important factor. A lender will review the borrower's finances to determine if the borrower has the ability to repay the debt. They will look to see if the borrower is injecting any of their cash (i.e. offering a down payment) and what other sources of repayment exist.
- **CREDIT** (Rating and History): The lender will review the borrower's credit history that serves as a snapshot and track record of the borrower's lending and payment history. They will review credit history from both a business and personal aspect. The lender will also review how the borrower's business and financial status compares to peers within his or her industry.
- **COLLATERAL:** Collateral is physical property of value that can be borrowed against and used to secure a loan. Collateral helps mitigate risks associated with lending money. For instance, if borrowing money to purchase a business vehicle or equipment, that property being purchased is used as the collateral for the loan. The value of that collateral will be reviewed to determine how much funds are available to lend. Depending on the type of collateral, lenders typically lend anywhere from 70% to 80% of the value. Loan terms may also be based on the collateral based on the collateral's depreciation in value over the life of the loan. If a borrower is unable to make the agreed upon payment terms, the collateral can be sold by the lender to repay loans.
- **CHARACTER:** A lender will check the background of the business requesting the loan and others managing and operating the business. This includes its product, service and reputation in the community. This information will help to assess the level of risk the lender may be taking on when providing the loan. If a borrower has demonstrated risky behavior in the past or is of questionable character, it may result in a denial of a loan or a higher interest rate to reflect the level of risk the Lender may be taking on.
- **CONDITIONS:** A lender will review the business market the borrower is in, along with the overall state of the economy, to determine if the loan makes sense for the business and to validate if it is a safe investment for the lender. These measurements help judge the borrower's ability to repay. I95

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