Bridging the Capital Access Gap

A Curriculum for Lenders, Business Development Organizations, and TA Providers

LISC ICIC

Main Topics

CHAPTER 1

Lending Landscape

(Modules 1 - 4)

CHAPTER 2

Underwriting Basics

(Modules 5 - 8)

CHAPTER 3

The Best Version of the Business

(Modules 9 - 14)

CHAPTER 4

Preparing for the Next Level

(Module 15)

CHAPTER 5

Resources for Professional Development

(Module 16)

CHAPTER 3

Best Version of the Business

(Modules 9 - 14)

Quality Applications (Module 9)

Startups vs. Existing Businesses (Module 10)

Loan Ready vs. Not Qualified (Module 11)

Improving Credit (Module 12)

Improving Debt Service Coverage (Module 13)

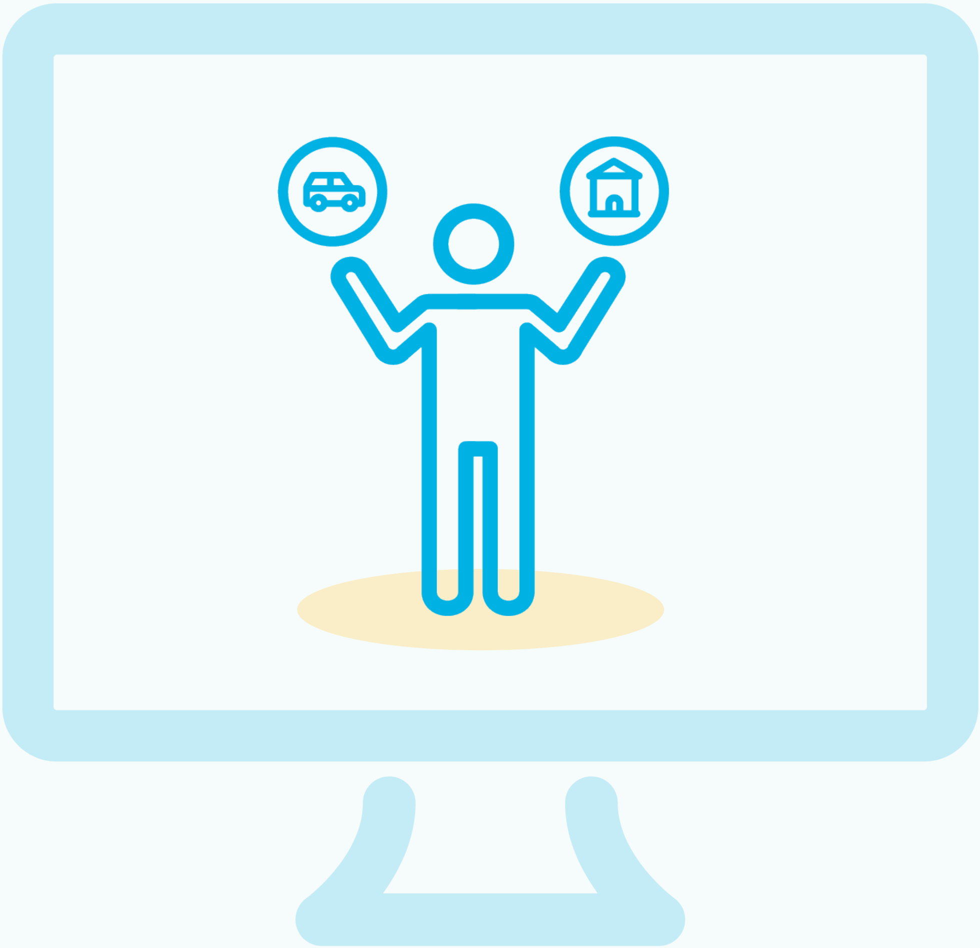
Collateral (Module 14)

Collateral

14

Collateral: What You'll Learn

- Why lenders require collateral.
- Conventional vs mission-based lenders.
- Common forms of collateral.
- Alternatives.



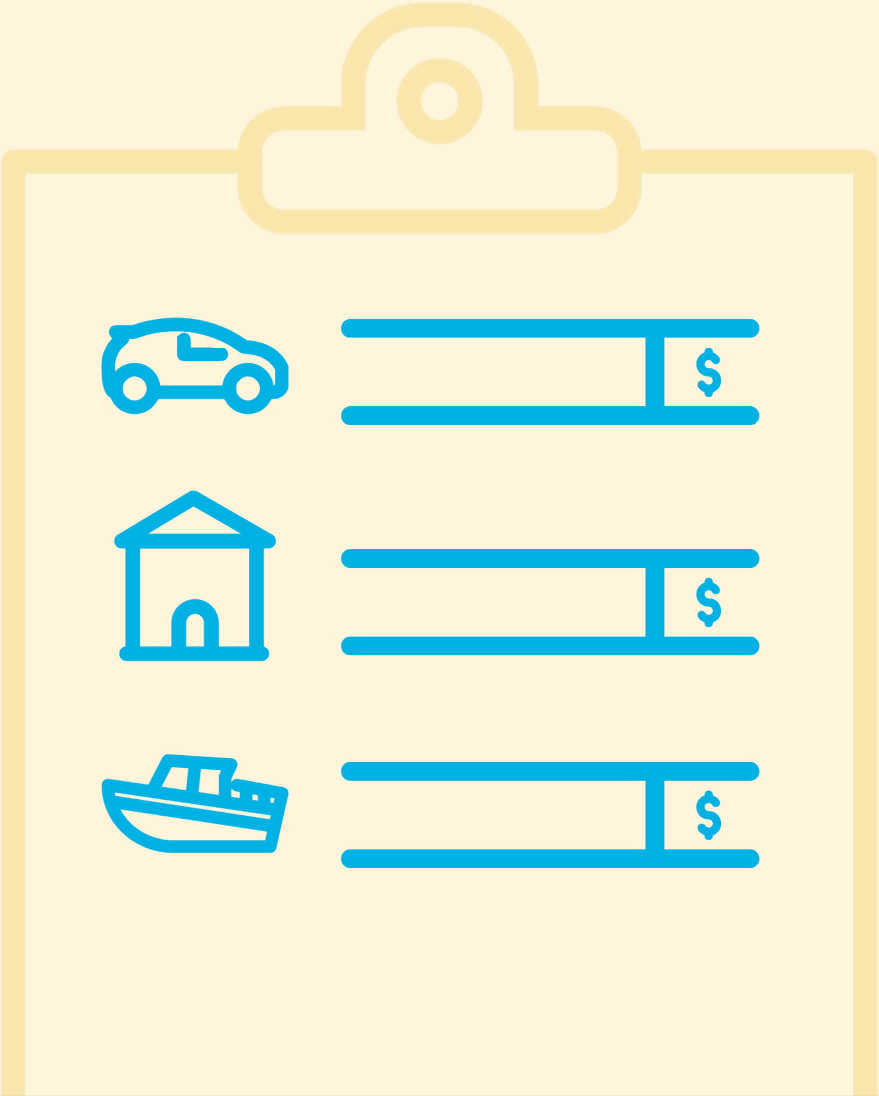
Why lenders require collateral

- Collateral is an asset that the lender can take if the borrower defaults.
- Reduces risk – a lender will sell collateral to recoup losses.
- Serves as evidence that a borrower intends to repay their debt.

> **"Banks and other lenders don't really want your collateral. They're not in the collateral business — they're in the money business."**

Collateral details

- How lenders evaluate, secure, and collect collateral is complicated.
- There are legal elements.
- As BDO staff, you don't need to know all the details – that's the lender's job.
- Know enough to help your clients navigate this element of the capital access process.



Conventional vs. Mission-based lenders

Conventional Lenders

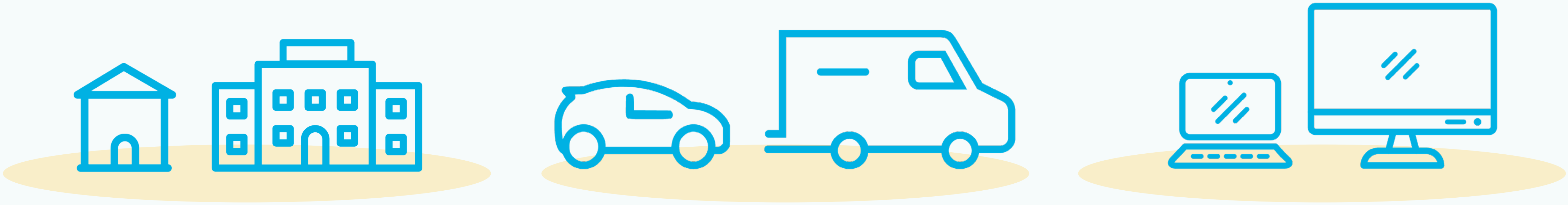
often require high-value fixed assets because they are easier to value and liquidate.

Mission-Based Lenders

might take lower-value collateral and collateral alternatives such as personal guarantees and co-signers.

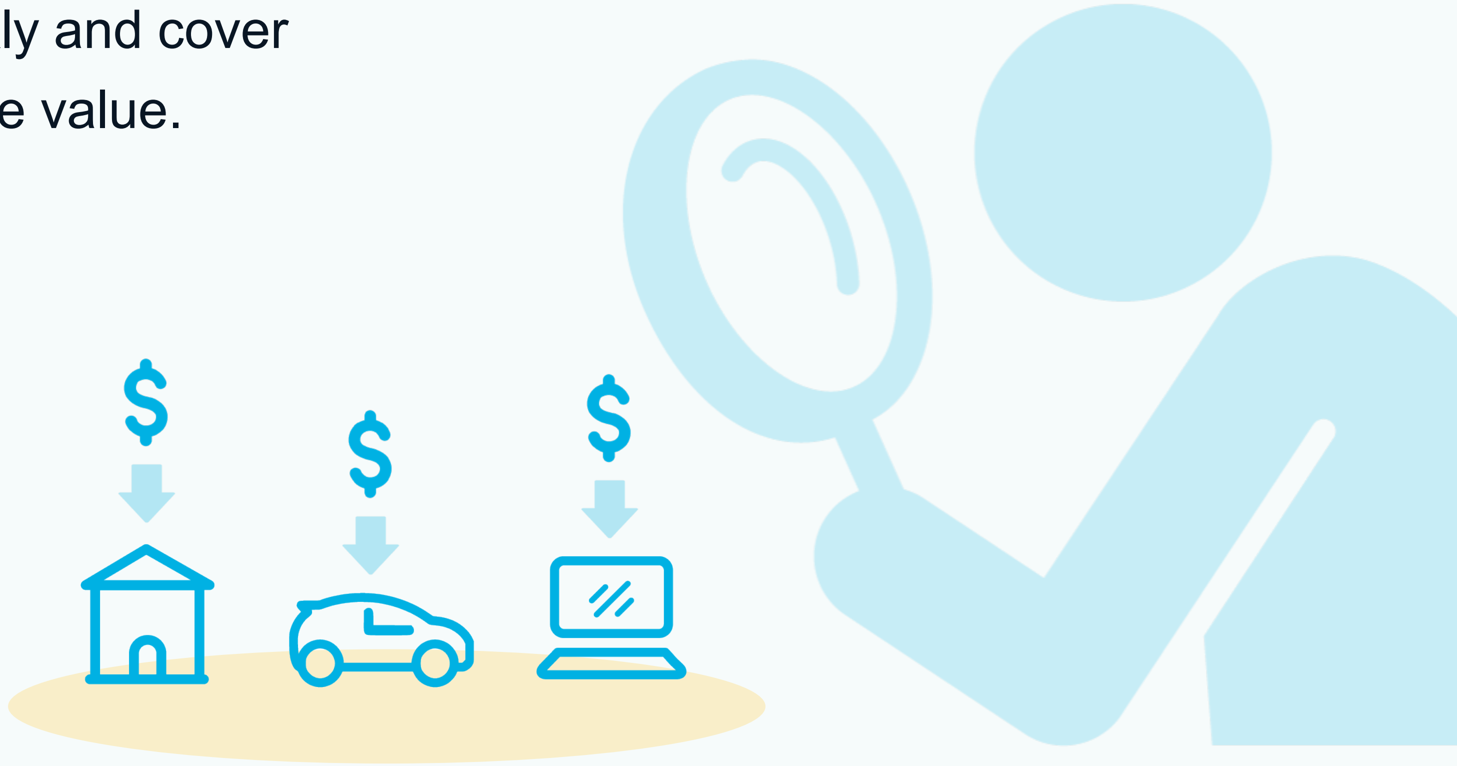
Common forms of collateral

- **Real estate:** homes and commercial buildings.
- **Vehicles and large equipment:** cars, trucks, vans.
- **Business assets:** inventory, small equipment, computers, etc.



Appraisal value and loan amount

- Lenders will get an appraisal of collateral.
- Since lenders liquidate collateral quickly and cover their liquidation costs, they discount the value.
- Thus, they may only be willing to lend 50% - 80% of the collateral value.
- If the fixed asset is a niche item and not used widely, they may discount the value even more.



Liens and position

- A lien is a legal filing on property giving a lender the legal recourse to an asset.
- Lien priority determines the order in which creditors get paid in a foreclosure.
- Conventional lenders prefer to be in first position.
- Mission-based lenders willing to be in second position. Example: SBA 504 loan program.
- Costs to secure collateral might be passed on to borrower.

ADDITIONAL RESOURCES:

[What is a Property Lien?]

NOLO
LAW for ALL

[What is a lien?]

Investopedia

Alternatives: Personal Guarantee

- A personal guarantee is an individual's legal promise to repay credit issued to a business for which they serve as an owner, executive, or partner.
- A personal guarantee says owner will personally make those payments if the business can't.
- All owners of a business, depending on their percent ownership, may be responsible for qualifying and paying back the loan.
  - For example: SBA programs require anyone with 20%+ ownership to be on the loan.

ADDITIONAL RESOURCES:

[Personal Guarantees]

NOLO LAW for ALL

[Personal Guarantees]

Investopedia

Alternatives: Co-Signer

- A co-signer is a person – such as a parent or family member – who pledges to pay back the loan if you do not.
- Co-signer's income and credit record are included in the underwriting analysis.
- Co-signer will sign closing documents pledging to pay the loan back thus making him/her liable for repayment.
- Usually, the co-signer must have good credit, income and a strong personal tie to the borrower.

ADDITIONAL RESOURCES:

[What is a Co-signer?](#)

cfpb
Consumer Financial
Protection Bureau

Research lender collateral requirements

- Get to know the lenders in your region.
- Ask them about their collateral requirements and process.
- Ask what security costs will be passed on to the borrower.
- Work with clients to meet lender requirements.

CHAPTER 4

Preparing for the Next Level

(Module 15)

UP NEXT

Preparing for the Next Level (Module 15)

LISC *Capital Access* Training Modules

CHAPTER 1

Lending Landscape

(Modules 1 - 4)

1 Lending Landscape
2 When to Borrow
3 Finding the Right Lender
4 Building Relationships with Lenders

CHAPTER 2

Underwriting Basics

(Modules 5 - 8)

5 What is Underwriting?
6 Five C's Overview
7 Understanding Credit
8 Debt Service Coverage

CHAPTER 3

The Best Version of the Business

(Modules 9 - 14)

9 Quality Applications
10 Startups vs Existing Businesses
11 Loan Ready vs Not Qualified
12 Improving Credit
13 Improving Debt Service Coverage
14 Collateral

CHAPTER 4

Preparing for the Next Level

(Module 15)

15 Preparing for the Next Level

CHAPTER 5

Resources for Professional Development

(Module 16)

16 Resources for Professional Development

Thank you for joining us!

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LISC

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