Franchise Brokers Association

FUNDING – “Show me the money”

Presented by

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FUNDING – SHOW ME THE MONEY

- **COURSE PURPOSE:** *FTI's funding course is designed to help participants obtain better understanding of funding options and processes, becoming more proficient in helping prospective entrepreneurs access the necessary capital to become business owners*.
- *Graduates of this course become not just **better** FRANCHISE ADVISORS but **better** trained FUNDING EXPERTS. This helps to separate **you** from others while helping you achieve **MORE** placements much **SOONER**… **This should significantly increase your income !!!!***

TODAY'S AGENDA

1. Introduction/Background
2. Managing the Process
3. Funding Options
4. Overcoming Obstacles
5. Working with Funding Resources
6. Avoiding Liability
7. Q & A

1. INTRODUCTION

- **Importance / Motivation**
- **YOUR BIGGEST OBSTACLE** (NOT Funding)
  - **F.E.A.R. & ANXIETIES**
    - FALSE EVIDENCE APPEARING REAL
    - FUNDING EXPECTATIONS AREN'T REALIZED
  - **F.E.A.R.** PRESENT FACTS EXPOSING ALTERNATIVE REALITIES
- **YOUR BIGGEST COMPETITOR** (NOT another broker)
  - **PAYCHECK ADDICTIONS (INCL. SPOUSE)**
  - **J-O-B**

1. INTRODUCTION / BACKGROUND

- Introduction / State of Funding
- When to Introduce
- Increasing Engagement
- Estimating Financial Reach
  – Understanding credit scores (FICO, SBSS, Paydex)
  – Instant Funding Assessment Tool

STATE OF FUNDING

- State of Funding : Past, Present, Future
  - Last 10 years
  - Underwriting
  - Equity Injection / Home Ownership / Collateral
  - Credit scores (credit scores by regions)
  - Denial Rates (Local versus National Brokers)
  - Future – Interest Rates
- GOAL

GOAL

To close

MORE,

BIGGER, AREA & MASTER Placements

SOONER

WHEN TO INTRODUCE FUNDING

- Pre – 2009: Often after concept introduction
- Post – 2009: Sooner rather than later
- Funding Time- Line
  - Without Real Estate
  - With Real Estate
- BEST: Very EARLY in the process
- BEFORE you present options
- SAVES YOU & CLIENTS THOUSANDS OF $$ & TIME

CREATING A SENSE OF URGENCY

Always ask "Ideally when do you want to be in business?"

- **AVERAGE PLE/MTH $4600**
- **FRANCHISE SEARCH 2-3+ M**
- **FUNDING 1-3+ M**
- **TRAINING/SETUP 2-6+ M**
- **BREAK-EVEN POINT 3-6+ M**
- **INC REPLACEMT PT 3-6+ M**
- **TOTAL 11-24+ M**

COST OF WAITING: $88,000

- **Require Income = $8000/month**
- $4600 X 175% = $8000

Less Taxes (Payroll 15.3%, Fed. 28-33%, State 6% avg)

- Expediting process saves

thousands of PLE $$ & improves success potential!!

- **BIGGEST TRAP = SEVERENCE CREATES PROCRASTINATION**

OFTEN 3-6 MONTHS BEHIND WHERE THEY SHOULD BE

INCREASING ENGAGEMENT

- A good message should help one differentiate yourself and 'engage' the candidate to respond

Key components should include:

1. Intro
2. Empathy
3. Credibility
4. Curiosity
5. Action request

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Example: Engagement Question

(INTRO) Ann, this is Joe Roe with X-C0, I was responding in regards to your interest in a franchise options. (EMPATHY) Many have some fears and anxieties about starting a business. I understand your fears, many have similar feelings. (CREDIBILTY) I work with one of the world's most respected advisory firms in helping people find the RIGHT and BEST franchise opportunities out of thousands of options. Best of all, my EXPERTISE is FREE as part of my process! (CURIOSITY) ***There is an innovative funding program where the govt. assumes up to 40+% risk of your investment AND increases your potential success up to 80%.*** *(ACTION) When would be the best time to discuss these options to help you start your own business and provide long-term wealth and income protection for you and your family! XXX-XXX-XXXX*

INCREASING ENGAGEMENT

- **INITIAL CALL**: ASK PERMISSION
- *"In order to help you find the* ***RIGHT*** *business and* ***MAXIMIZE*** *your potential for success I will need to ask you some questions. Will that be okay?"*
- *Know the difference:*
  - *(1)Pre-Assessment (2) Pre-Qualified (3) Pre-Approval*
  - *(4) Approval (5) Funding*

UNDERSTAND TERMS

- **PREASSESSMENT:** Loose estimate of $$ reach
- **PREQUALIFY:** More advanced, requires app.
- **PREAPPOVAL:** Conditional approval (lease, etc)
- **COMMITMENT LETTER:** Funding approved
- **ROBS:** **R**oll **O**vers for **B**usiness **S**tart-ups

  Using IRA/401(k) to fund a business
- **PLE:** Personal Living Expenses
- **EQUITY INJECTION:** Non-Borrowed Down Payment

ESTIMATING FINANCIAL REACH

- COMPLETE ‘REQUEST FOR CONSIDERATION’ FORM:
- FICO SCORE FOR BOTH SPOUSES, MONTHLY LIVING EXPENSES, CASH, *IRA/*401(K), *HOME EQUITY, STOCK PORTFOLIO, BANKRUPTCY LAST 10 YRS, SHORT SALES, DEBT RATIOS, ETC.
- < 700 FICO SCORE – POTENTIAL PROBLEM
- INSTANT FUNDING **PRE-ASSESSMENT** LINK:

https://www.benetrends.com/funding-calculator

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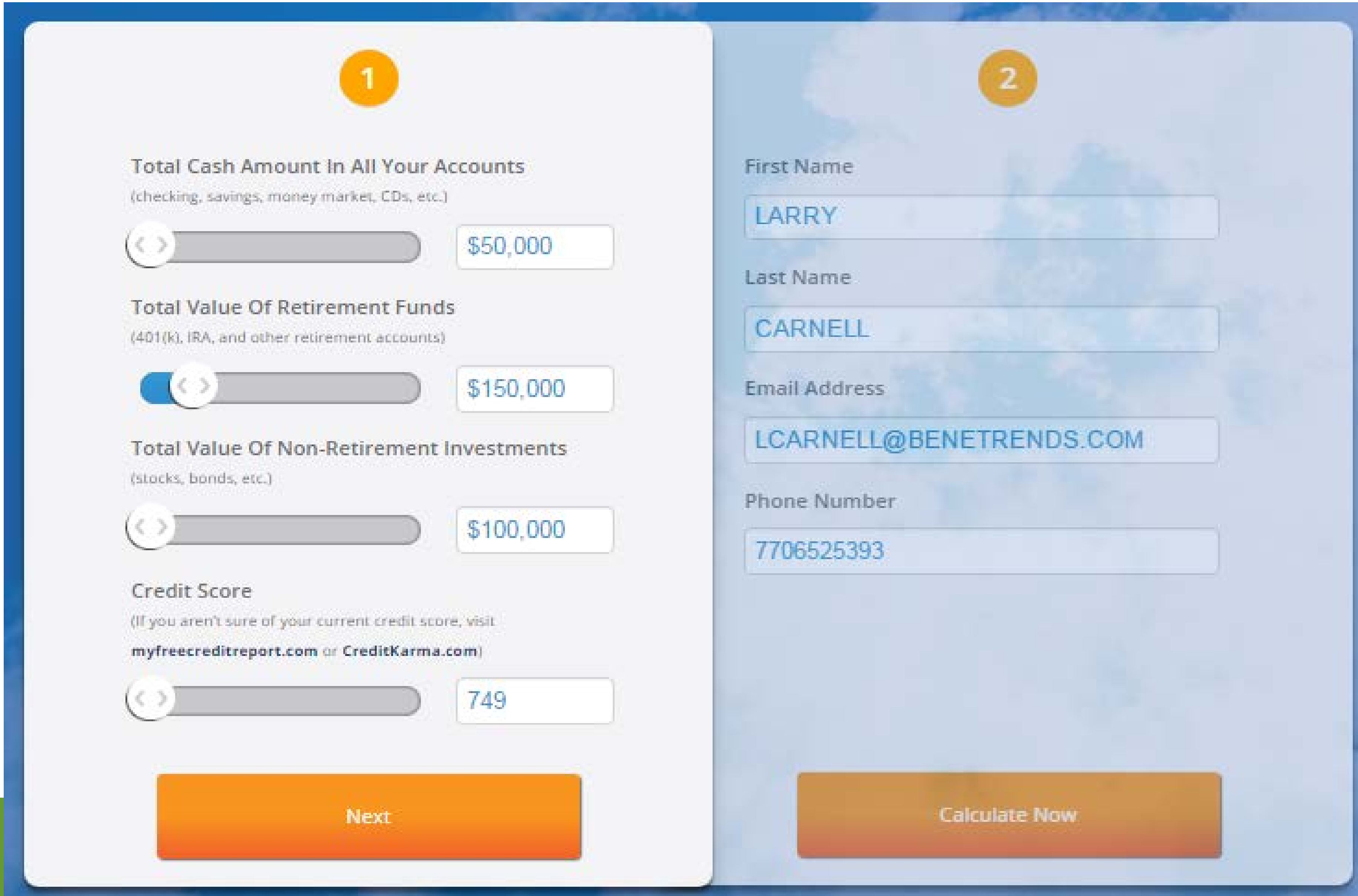
PRE-ASSESSMENT



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PRE-ASSESSMENT

✔ Your Results Are In! You May Pre-Qualify For

$920,000

Based on the information you entered, our pre-qualification estimator has determined the possible amount of funding you may qualify for above, as well as a further breakdown of funding options in the chart below. This total amount is estimated based on all available options, including cash, retirement funds, stocks and bonds, plus an estimated SBA loan amount.

Additional factors may impact the amount of funding available, and not all funding options can be used in combination. Please consult with a Benetrends representative to discuss your individual situation and confirm actual results.

YOU'RE ALMOST THERE

Set up an appointment today to discuss your potential funding solution with an expert.

Call (866) 423-6387

Request a Call Back

INSTANT FUNDING ASSESSMENT

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FUNDING ASSESSMENT TIMELINE-TERMS

	RAINMAKER PLAN	SBA LOAN	SBLOC .
TIME TO FUND	10 - 20 business days	30 - 60 business days	10 business days
TERM	none	7 - 10 years	Revolving
INTEREST RATES	none	Prime + 2.75%	Variable
MONTHLY PAYMENTS	$0	Principal + Interest	Interest Only

INSTANT FUNDING ASSESSMENT LINK

SEND REQUEST FOR YOUR PERSONAL LINK

To...	LARRY@BENETRENDS.COM
Cc...	
Subject	Please send my personalized pre-qualification/funding link


Q
&
A

UNDERSTANDING CREDIT SCORES

- **FICO (**Fair Isaac Corporation **300-850)**: Person's credit score. **3 Agencies:** *TransUnion, Equifax, Experian. SBA requires 650 minimum*

Most lenders want 680-700+

- **SBSS (***Small Business Scoring Service* **0-300):** ranks small businesses by their likelihood of making payments on time. The minimum score to pass the SBA's pre-screen process is 140 **(most require 165+)**

UNDERSTANDING CREDIT SCORES

- **PAYDEX SCORE (0-100):** term used by Dun and Bradstreet, score granted to 'existing' businesses as a credit score for promptness of payments to creditors. Often used to obtain working capital, expansion or unsecured loans.
- **Generally NOT used for those acquiring a new business unless they currently own a business and looking to expand**

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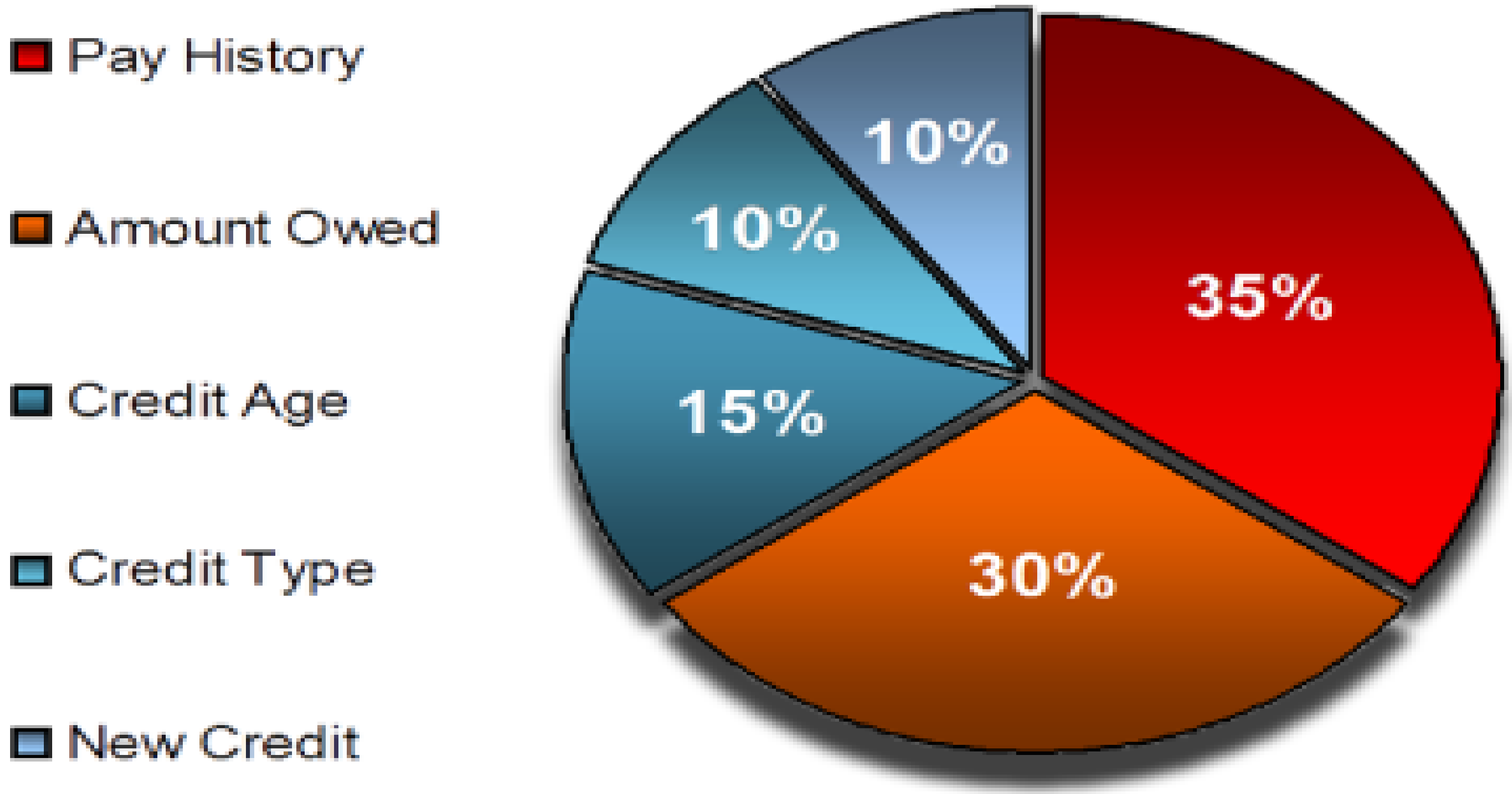
CREDIT SCORE 300-850



CREDIT SCORES

PAYMENT HISTORY 35%

- LATE PYMT 30, 60, 90
- SHORT SALE / DEFAULT
- BANKRUPTCY
- CREDIT RESTRUCTURE

CREDIT AGE 15%

- DON'T CANCEL CREDIT OR CARDS

AMT OWED / DEBT % 30%

- OWE $ 300 VS. $ 3000
- CREDIT $ 500 VS. $10,000
- DEBT % 60% VS. 30%
- GOOD:BAD% <7/<30/60+

CREDIT TYPE 10%

- HOME, CAR, REVOLVING

NEW CREDIT 10%

- # OF CREDIT INQUIRIES

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RATINGS

- **50% HAVE < 693 SCORE**
- **WORST:** SOUTH
- NV, TX, MS, GA, SC, NJ
- **BEST:** N. CENTRAL, N.E.
- WI, ND, SD, VT, NH, MA, WY
- **STATES FOR SUCCESS (2011)**
  IMPACTS FUNDING APPROVAL
- **BEST:** ND, VT, IA, WY, KS
- **WORST:** CA, NV, NH, TN, CO

WORST BIZ STARTUP CITIES:

- *Jackson, Mississippi*
- *Albuquerque, New Mex.*
- *Louisville, Kentucky*
- *Providence, Rhode Island*
- *Fresno, California*
- *Santa Rosa, California*
- *Allentown, Pennsylvania*
- *San Bernardino, California*

2. MANAGING THE FUNDING PROCESS

CANDIDATE

- Local lenders have high denial rates.
- Losing control of funding increases denial rates, lost deals, & lost referral fees.
- You should never refer your client to a funding resource until registered. This can result in lost referral fees.

REFERRAL PARTNER / Zors

- Should be notified if you are already working with a funding resource
- If your candidate is redirected to another funding resource you should contact their superior immediately and/or stop referrals.

2. MANAGING THE PROCESS

POST CALL – LOAN PREP

- PREQUALIFICATION (Not Preassessment)
- SPOUSE & PARTNERS (=>20%)
  - CREDIT REPORT
  - 3 YEARS TAX RETURNS
  - PERSONAL BUDGET ANALYSIS
  - PERSONAL FINANCIAL STATEMENT
- MANAGEMENT RESUME
- BUSINESS PLAN – PROJECTIONS

3. FUNDING OPTIONS

- EQUITY FUNDING
- DEBT FUNDING
- TIME TABLES
- PROS & CONS
- BUNDLING OPTIONS

PROS & C0NS - SBA

PROS

- UP TO $5 MILLION
- REASONABLE % RATE
  - PRIME + 2.75% = 6.5%
- TERMS 7-10 YRS.
- GOVT. BACKED vs. Conventional
  - HIGHER APPROVAL RATES?
- IRA down payment approval

- **CONS**
- 10-30% DOWNPAYMENT
- FEES: Up to $5000 package + 2-3% Bk Fees, Adjustable
- Higher debt, = > failure rate < cash flow, time, prep
- Adversely impacts credit
- Requires collateral (home)
- No personal liab. protection

	Real Estate			Non-Real Estate			Franchise - Non Real Estate (Start-up) Within Policy		
Factors of Credit	Existing Business	Change of Ownership	Start-up	Existing Business	Change of Ownership	Start-up	> 150 Locations	75 - 150 Locations	< 75 Locations
Repayment Ability	1.20 times coverage for last year-end & interim	1.20 times coverage for last year-end & interim	None - Must be supported by business plan & detailed projections with assumptions	1.50 times for last two year-ends & interim	1.50 times for last two year-ends & interim	None - Must be supported by business plan & detailed projections with assumptions	None - Must be supported by business plan & detailed projections with assumptions	None - Must be supported by business plan & detailed projections with assumptions	None - Must be supported by business plan & detailed projections with assumptions
Verifiable Experience	Proven by existing business status	Proven management experience - with ownership transition plan	Proven management experience in the industry or previous successful business ownership experience	Proven by existing business status	Proven management experience in the industry or previous successful business ownership experience	Proven management experience in the industry or previous successful business ownership experience	Professional career - Principal not required to run on daily basis - on site manager must have 10% ownership	Proven management experience - Principal must operate on daily basis or have manager with 10% ownership	Proven direct industry experience - Principal must operate franchise on daily basis
Personal Credit	650 or better - past due accounts explainable	650 or better - past due accounts explainable	650 or better - no collections, bankruptcies, judgments or liens	650 or better - past due accounts explainable	650 or better - past due accounts explainable	700 or better - past due accounts explainable	650 or better - past due accounts explainable	670 or better - past due accounts explainable	670 or better - past due accounts explainable
Character Issues	912 issues to be cleared by SBA	912 issues to be cleared by SBA	Limited 912 issues	912 issues to be cleared by SBA	Limited 912 issues	No 912 issues	912 issues to be cleared by SBA	912 issues to be cleared by SBA	Limited 912 issues
Amount of Injection	10%	10%	15%	20%	20%	30%	20%	25%	30%
Source of Injection	50% from owner / guarantor	50% from owner / guarantor	50% from owner / guarantor	50% from owner / guarantor	50% from owner / guarantor	50% from owner / guarantor	50% from owner / guarantor	50% from owner / guarantor	50% from owner / guarantor
Personal Liquidity After Cash Injection	Minimum required as 1.20 DSCR is adequate to provide living expenses	3 months personal living expenses	6 months personal living expenses	Minimum required as 1.50 DSCR is adequate to provide living expenses	6 months personal living expenses	1 years personal living expenses	3 months personal living expenses. Owner can draw up to $50k/yr from new business	6 months personal living expenses Owner can draw up to $50k/yr from new business	1 years personal living expenses. Owner can draw up to $30k/yr from new business
Loan to Liquidation (LLV)	Can be under secured, based on historical cash flow, max. LTLV 260%	Can be under secured, based on historical cash flow, max. LTLV 260%	Loan to liquidation value of 150% or better	Can be under secured, supported by a loan/EBITDA of 4.0x or better	Can be under secured, supported by a loan/EBITDA of 4.0x or better	Loan to liquidation value of 200% or better	Can be under secured	Loan to liquidation value of 150% or better	Loan to liquidation value of 100% or better

SBA FRANCHISE GUIDELINES

> 150 Locations	75 - 150 Locations	< 75 Locations
None - Must be supported by business plan & detailed projections with assumptions	None - Must be supported by business plan & detailed projections with assumptions	None - Must be supported by business plan & detailed projections with assumptions
Professional career - Principal not required to run on daily basis - on site manager must have 10% ownership	Proven management experience - Principal must operate on daily basis or have manager with 10% ownership	Proven direct industry experience - Principal must operate franchise on daily basis
650 or better - past due accounts explainable	670 or better - past due accounts explainable	670 or better - past due accounts explainable

➢ 150	75- 150	< 75
30% from owner / guarantor	30% from owner / guarantor	30% from owner / guarantor
3 months personal living expenses. Owner can draw up to $30k/yr from new business	6 months personal living expenses Owner can draw up to $30k/yr from new business	1 years personal living expenses. Owner can draw up to $30k/yr from new business
Can be under secured	Loan to liquidation value of 150% or better	Loan to liquidation value of 100% or better

PROS & CONS - UNSECURED

PROS

- QUICK : 3-4 Weeks
- < 4% interest 1st Year
- No Collateral
- Up to $150,000

CONS

- 3-5 Yr terms
- 2nd+ Yr: 10% + Varible
- 100% Personal Guarantee
  - (risks income garnishment)
- FEE: 8-12% Can be included
- Negatively impacts credit

PROS & CONS - HELOC

PROS

- 3-4 Weeks < 4% interest
- 85% LTV of Collateral
- **EXAMPLE:**
- **Home Value $400,000**
- 85% LTV = $340,000
- Mortgage = ($300,000)
- **RISK 100k For** $40,000
- **250% Collateral Risk!!!**

CONS

- Need Job! Loan can be called
- Adjustable rising rates
- Credit line can be instantly pulled or eliminated
- You can lose MORE than loan
- Risks roof over head => Fear
- Negatively impacts credit
- Higher collateral risk factor

PROS & CONS - SBLOC

PROS

- QUICK : 2-3 Weeks
- < 4% interest
- Only 50%-80% LTV
- FEE: 2%

CONS

- Loan called if value drops
- Adjustable rising % rates
- Credit line can be instantly pulled or eliminated
- Higher collateral risk factor
- You can lose MORE than loan
- Forced risk to take loss => Fear
- Negatively impacts credit

PROS & CONS - LEASING

PROS

- QUICK 2-3 WEEKS
- NO OUTSIDE COLLATERAL (EQUIP. USED)
- CAPITAL LEASE (You own the asset/often with $1 buyout option)
- OPERATING LEASE (You rent it, 100% Tax deductible)

CONS

- Often Expensive 12+%
- Capital Lease often not fully tax deductible

PROS & CONS – 401(k) participant Loan

PROS

- No set-up Fees
- Low interest (prime + 1-2%)
- All interest goes to plan NOT banker

CONS

- Loan payment can adversely impact cash flow
- If payment is missed, balance is taxed
- Taxed if you leave employer

PROS & CONS - CASH

PROS

- QUICK
- DEBT FREE

CONS

- Reduces cash for Personal Living Expenses (PLEs) **INCREASES FEAR**
- Increases loans denials due to reduced post-close liquidity
- **Assumes 100% of risk**
- **Often must generate 175% in income after taxes (payroll, federal, & state) to replace cash**

EQUITY FINANCING

PROS & CONS R.O.B.S

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PROS

- Legal, Approved for SBA down payment
- No Approval Process, No credit impact
- **Govt. assumes 40+/-% of investment risk**
- No Debt, Higher potential **success rates**
- Often Reduces Fears and Anxieties
- * **Better accumulation, acceleration, & protection of wealth and appreciation**
- * **Better Tax & personal liability protection**
- * **ZERO NET COST** (after incorp. & tax benefits)

CONS

- * Legal ?
- Retirement security risk
- Spousal fear
- C corp risks

*Rainmaker Plan, other providers may have higher costs and risks

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COLLATERAL RISK COMPARISON $100K

BANK LOAN (HOME Collateral)

- $150K COLLATERAL NOT UNUSUAL REQUIREMENT

DEFAULT RISKS: Ruins Credit, Payment Losses, Home Loss

Potential 150% Loss > Loan

- **CASH (POST-TAX $$)**

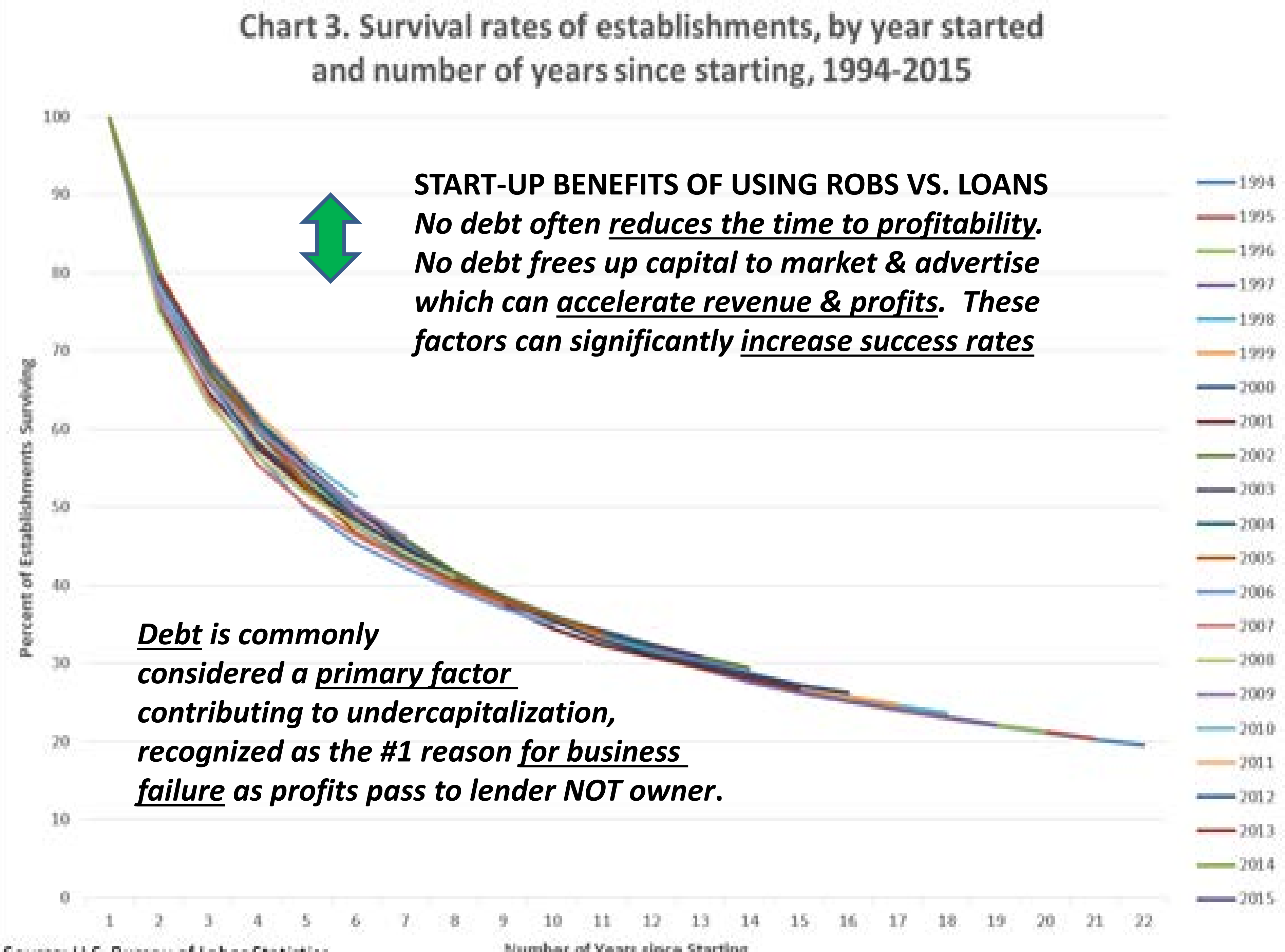
DEFAULT RISK = 100% LOSS

MUST create $175,000 in income

To recreate $100k in savings

RETIREMENT $100K: Pretax $$

- 33%-35% FEDERAL TAX
- 6% AVR. STATE TAXES
- LOSE $39K-$41K IN TAXES
- LOSE +10% IF < 59 ½ YRS OLD
- **NET $49K -$51k**
- **ROBS = 100K**
- **YOU LOSE = $49-51K**
- **IRS LOSES $49-51K**
- **You Never Pay Back Taxes**



START-UP BENEFITS OF USING ROBS VS. LOANS

No debt often reduces the time to profitability. No debt frees up capital to market & advertise which can accelerate revenue & profits. These factors can significantly increase success rates

Debt is commonly considered a primary factor contributing to undercapitalization, recognized as the #1 reason for business failure as profits pass to lender NOT owner.

PROS & CONS - GIFTS

PROS

- FREE

CONS

- None… provided it not a disguised loan
- May have hidden strings

NOTE: *Gifts may not be allowed for SBA loan down payment without note from gift giver confirming it is a gift.*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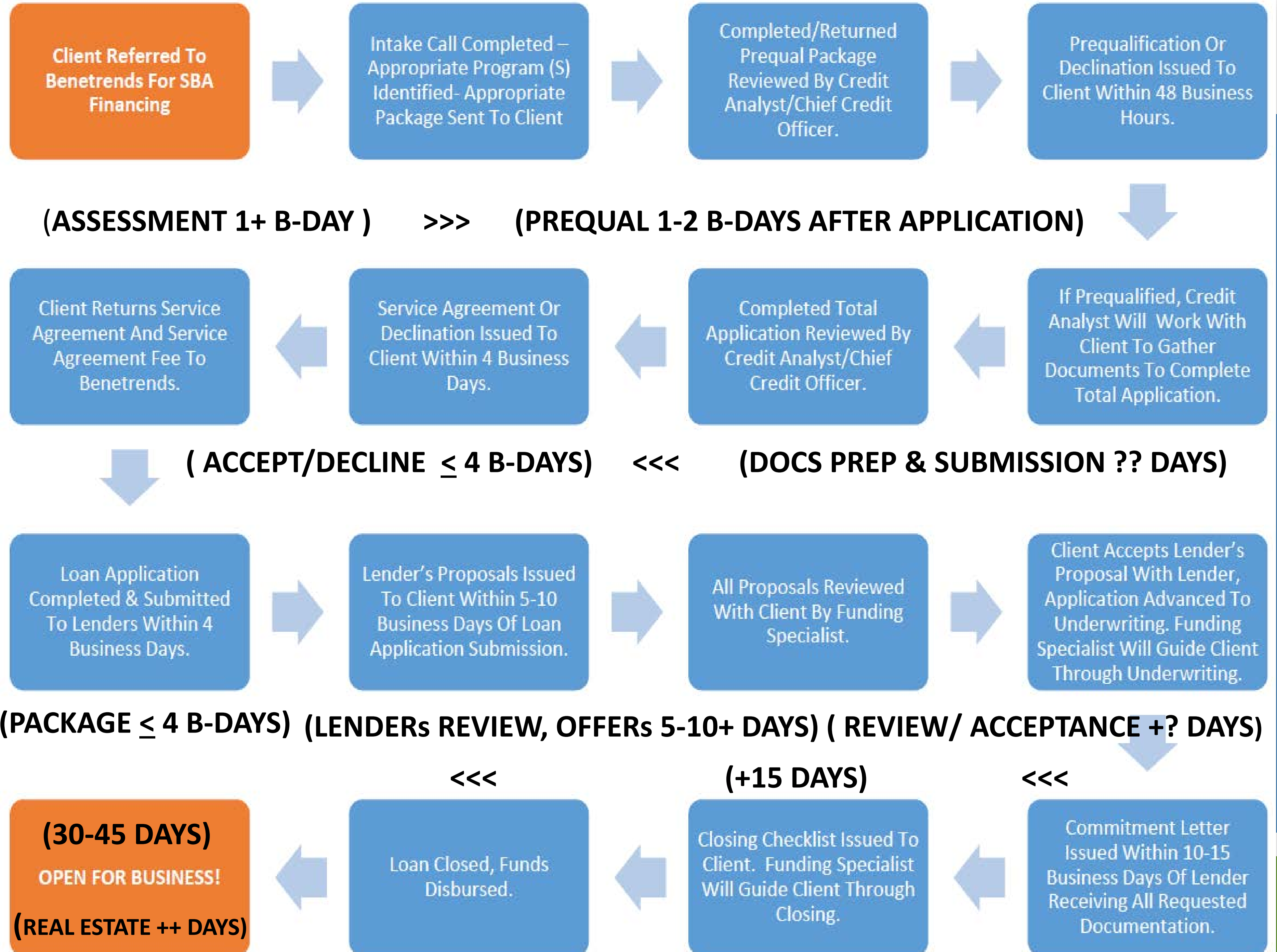
2. FUNDING OPTIONS- TIME TABLES

DEBT FINANCING:		DEBT FUNDING:	
1. SBA	1 1/2 -3+* MTHS	1. CASH	INSTANT
2. UNSECURED	2-4 WKS	2. R.O.B.S	3-4 WKS.
3. HELOC	2-4 WKS	3. GIFTS	INSTANT
4. SBLOC	2-3 WKS		
5. LEASING	2 WKS		
6. 401(k) Participant Loan-$50k max	2 WKS		

* REAL ESTATE & LEASES CAN ADD MONTHS TO THE LOAN APPROVAL PROCESS


Client Referred To Benetrends For SBA Financing
Intake Call Completed – Appropriate Program (S) Identified- Appropriate Package Sent To Client
Completed/Returned Prequal Package Reviewed By Credit Analyst/Chief Credit Officer.
Prequalification Or Declination Issued To Client Within 48 Business Hours.
(ASSESSMENT 1+ B-DAY) >>> (PREQUAL 1-2 B-DAYS AFTER APPLICATION)
If Prequalified, Credit Analyst Will Work With Client To Gather Documents To Complete Total Application.
Completed Total Application Reviewed By Credit Analyst/Chief Credit Officer.
Service Agreement Or Declination Issued To Client Within 4 Business Days.
Client Returns Service Agreement And Service Agreement Fee To Benetrends.
(ACCEPT/DECLINE ≤ 4 B-DAYS) <<< (DOCS PREP & SUBMISSION ?? DAYS)
Loan Application Completed & Submitted To Lenders Within 4 Business Days.
Lender's Proposals Issued To Client Within 5-10 Business Days Of Loan Application Submission.
All Proposals Reviewed With Client By Funding Specialist.
Client Accepts Lender's Proposal With Lender, Application Advanced To Underwriting. Funding Specialist Will Guide Client Through Underwriting.
(PACKAGE ≤ 4 B-DAYS) (LENDERs REVIEW, OFFERs 5-10+ DAYS) (REVIEW/ ACCEPTANCE +? DAYS)
<<< (+15 DAYS) <<<
Commitment Letter Issued Within 10-15 Business Days Of Lender Receiving All Requested Documentation.
Closing Checklist Issued To Client. Funding Specialist Will Guide Client Through Closing.
Loan Closed, Funds Disbursed.
(30-45 DAYS)
OPEN FOR BUSINESS!
(REAL ESTATE ++ DAYS)

BUNDLING OPTIONS

- **ROBS + SBA:** Very Popular, saves cash for PLEs, expands capital (larger acquisitions, multi-unit)
- **ROBS + Cash:** Eliminates debt, tax, success benefits
- **Unsecured + Cash or ROBS:** Ideal for no collateral
- **Leasing + Cash or ROBS:** Equipment & no collateral
- **SBA + Cash**: Ideal for those with no ROBS

4. OVERCOMING OBSTACLES

• CREDIT ISSUES (< 700)	• ROBS, Credit Repair (Lenders)
• NO COLLATERAL	• ROBS, Unsecured, Gift
• LIMITED CAPITAL	• Bundling, SBA + ROBS + Gift
• FEAR OF FAILURE	• ROBS, Reduce Debt
• LIMITED CASH	• ROBS, Unsecured, HELOC
• JOB	• CLICK: **The Insecurity of Job Security**
• LOCAL LOAN DENIALS	• National Loan Broker
• HIGH PLE, LIMITED CASH	• *ROBS (Abilty to pay a salary)
• FEAR OF USING HOME	• ROBS, Unsecured, Gift, Lease

*** Not all ROBS providers allow you to use funds to pay owner a salary**

SPOUSAL ISSUES

- LOSS OF PAYCHECK
- FEAR OF FAILURE
- RETIREMENT FUND RISKS
- RISKING HOME
- DIVORCE ISSUES
- HEALTHCARE

Feel. Felt, Found

- When facing a concern or objection:
- I understand how you **FEEL** about….
- Many have often **FELT** the same
- However what we have **FOUND** is….

5. Working with Funding Resources

- Review all options offered. They aren't Magicians
- For each type of funding resource they offer, what resource reach do they possess
- Investigate their track record with colleagues
- Review credentials & recommendations of anyone working with your clients (LI)
- Have some basic knowledge of their financials, credit BEFORE YOU REFER THEM.

6. AVOIDING LIABILITY

- Federal Credit Reporting Act: Keep credit info confidential, only share with related parties.
- FTC: Never provide earnings statements, success rates, or other financial estimates beyond FDD.
- Never help with business plan projections
- Washington State, California and Illinois require franchise brokers to register

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