

# Obtaining Financing from Credit Wary Banks

TCA Annual Convention  
Trucking in the Round  
March 10<sup>th</sup> and 11<sup>th</sup> 2009

David Freeman  
Capital Resource Partners, Inc.



# Obtaining Financing from Credit Wary Banks

- Current condition of the banking industry or why are we here?
- What does the current environment mean to you?
- What the carrier should do in advance to prepare.
- Tips for sourcing and working with a bank.
- Summary
- Discussion

# Obtaining Financing from Credit Wary Banks

- **The current bank economic environment.**
  - **Tighter lending standards.**
    - 2<sup>nd</sup> Quarter 2008 55% of banks more restrictive 45% unchanged.
    - 3<sup>rd</sup> Quarter 2008 58% of banks more restrictive 42% unchanged.
    - 4<sup>th</sup> Quarter 2008 84% of banks more restrictive. (the highest in history)
  - **Banks are dumping good clients.**
  - **Loans are costing more.**
  - **Bank examiners are increasing scrutiny.**
  - **A growing percentage of banks have large non-performing loan portfolios.**

# Bank Financial Condition

*(dollar figures in millions)*

Number of institutions reporting

## AGGREGATE CONDITION AND INCOME DATA

Net income (year-to-date)

Total assets

## PERFORMANCE RATIOS (YTD, %)

Yield on earning assets

Net interest margin

Net charge-offs to loans & leases

Credit-loss provision to net charge-offs

Return on Average Assets

Return on equity

Percent of unprofitable institutions

Percent of institutions with earning gains

## CONDITION RATIOS (%)

Nonperforming assets to assets

National Banks

30-Sep-08

All

Institutions

National Banks

30-Sep-06

All

Institutions

7,146

7,449

38,123

97,167

\$12,050,414

\$9,761,896

5.83

6.59

3.39

3.52

1.2

0.39

175.25

106.55

0.49

1.38

4.4

13.49

19.27

6.65

41.09

60.26

1.45

0.48

# Obtaining Financing from Credit Wary Banks

- When is it smart to add debt?
- First things first.
- Make your business plan.
- Understand your banking options.
- Search for the right bank.
- Building a banking relationship.
- Develop your loan request package.
- Resources available to you.

# Should I Really be Adding Debt?

- **Good reasons to seek financing.**
  - Growth of a profitable business.
  - Fund working capital in a growing business.
  - Replace equipment.
  - Technology and productivity investments.
  - New or expanded facilities.
- **Questionable reasons to seek financing.**
  - Fund operating losses.
  - Expand to achieve profitability by growing your fleet to match the your overhead.
  - Fund non-essential enterprises.

# Should I Really be Adding Debt? (The go test)

- Operating ratio has averaged less than 94%-96% in good times
- Company generates cash.
- Operations are stable.
- Balance sheet total equity is growing.
- Your total leverage; liabilities to net worth is reasonable.

# First things First

- **Become familiar with your financial statements.**
- **Review and document your assets and liabilities.**
- **Chart your earning history and cash flow**
- **Evaluate your financial performance.**
- **Clean it up. (literally)**

# First things First

- **Carefully review your financial statements and make it easy for your banker to understand them.**
  - **Revenue accounting process and practices.**
  - **Account classifications and closing schedules are consistent.**
  - **Financial reporting accuracy and consistency.**
  - **Critical accruals**
    - **Revenue**
    - **Expenses**
    - **Personnel cost**
    - **Insurance cost**

# First things First

- **Review and document your assets and liabilities**
  - **Essential to have an accurate spreadsheet of all assets.**
  - **Accurate and up-to-date listing of tractors and trailers with unit numbers, VIN, and major specifications.**
  - **A current listing of debt and lease contracts.**
    - **Date**
    - **Interest rate**
    - **Length and monthly payments**
    - **Any residuals**

# First things First

- **Chart your earning history.**
  - **Document past 5 years**
    - **Revenue**
    - **List major cost items greater than 5% of revenue.**
      - **Salaries**
      - **Fuel**
      - **Maintenance**
      - **Insurance**
      - **Interest**
    - **EBIT**
    - **EBITDA**

# Chart your earning history

	Fiscal 2008	% Total Revenue	Fiscal 2007	% Total Revenue	Fiscal 2006	% Total Revenue
<b>REVENUE:</b>	<b>All amounts stated in thousands</b>					
Revenue, before fuel surcharge	\$595,563	78%	\$601,359	84%	\$ 568,408	86%
Fuel surcharge	171,372	22%	112,224	16%	95,999	14%
<b>TOTAL REVENUE</b>	<b>766,935</b>	<b>100%</b>	<b>713,583</b>	<b>100%</b>	<b>664,407</b>	<b>100%</b>
<b>OPERATING EXPENSES:</b>						
Salaries, wages and benefits	210,939	28%	201,856	28%	191,550	29%
Fuel expense – gross	237,893	31%	189,055	26%	165,594	25%
Operations and maintenance	42,195	6%	39,083	5%	35,881	5%
Insurance and claims	26,113	3%	32,440	5%	26,189	4%
Depreciation and amortization	69,821	9%	65,688	9%	60,387	9%
Purchased transportation	51,463	7%	52,370	7%	39,937	6%
Other operating expenses	35,853	5%	30,649	4%	25,377	4%
<b>TOTAL EXPENSES (OR)</b>	<b>674,277</b>	<b>88%</b>	<b>611,141</b>	<b>86%</b>	<b>544,915</b>	<b>82%</b>
<b>EBIT</b>	<b>92,658</b>	<b>12%</b>	<b>102,442</b>	<b>14%</b>	<b>119,492</b>	<b>18%</b>
<b>EBITDA</b>	<b>162,479</b>	<b>21%</b>	<b>168,130</b>	<b>24%</b>	<b>179,879</b>	<b>27%</b>
<b>NET INCOME</b>	<b>\$ 56,261</b>	<b>7%</b>	<b>\$ 63,123</b>	<b>9%</b>	<b>\$ 82,018</b>	<b>12%</b>

# First Things First

- **Chart your debt coverage ratio over the past 5 years.**
  - **Cash Flow.**
    - **EBIT (Earnings before Interest & Income Taxes)**
    - **Add depreciation.**
    - **Add equipment finance lease payments. (other than operating leases)**
  - **Debt Service**
    - **Add debt service payments. (principal and interest)**
    - **Add lease payments. (Not operating leases)**
- **Cash flow divided by debt service provides a key bank financing statistic.**
- **A ratio above 1:1.1 is important.**

# First Things First

- **Evaluate your financial performance.**
  - **What are your conclusions about to your Company's performance?**
  - **Evaluate your Company's long term viability.**
  - **If you were the bank, would you make a loan to your Company?**
  - **Is it clear how and when the loan will be paid?**
  - **Is investing in the Company the best use of your capital?**

# First Things First

- **Clean it up**
  - **Financial Reporting**
    - Accuracy and timing of reports
    - Accounts receivable aging and billing errors
    - Owner perks
  - **Terminal and equipment**
    - Focus on house keeping and clutter
    - Paint and landscape
    - Remove wrecks and idle equipment bone pile
  - **Management team**
    - Office team's appearance and work ethic
    - Energy and skills
  - **Balance sheet**
    - Take off personal assets and liabilities
    - Bank's hate overdrafts, overdue payments, and personal notes, etc.

# Write Your Plan

- **Cover sheet**
- **Statement of purpose**
- **Table of contents**
- **The business**
- **Financial data**
- **Management**

# Write Your Plan

- **The Business**
  - **Description of Business.**
  - **Key customers and percentage of revenue.**
  - **Marketing plans to develop business.**
  - **Competition strength and weaknesses.**
  - **Operating procedures and technology.**
  - **Personnel and driver recruiting.**
  - **Safety and equipment maintenance programs.**
  - **Business insurance coverage and limits.**

# Write Your Plan

- **Financial Data**
  - **Capital equipment list.**
  - **Balance Sheet.**
  - **Analysis of breakeven revenue.**
  - **3-year income projections.**
  - **Past 3-year summary.**
  - **Past 12-month detail.**
  - **Assumptions used to make projection.**

# Write Your Plan

- **Management**
  - **Biographical information on Owner / CEO.**
  - **Biographical information on senior managers.**
  - **Short biographical sketch on key managers.**
  - **Key functional accountabilities.**
  - **Organization chart.**

# Your Banking Options

- **Banks available to you will usually have different profiles and credit comfort zones.**
  - **The size of the credit facility**
  - **Asset based facilities.**
    - **Accounts receivable line of credit**
    - **Equipment**
  - **Real estate.**
  - **Equipment leasing.**

# Your Banking Options

- **The size and type of bank that works for you depends upon your profile.**
- **The type of credit facility you seek determines where you look.**
- **Usually multiple banking relationships and credit facilities are necessary.**

# Your Banking Options

- **Target the optimal bank relationship**
  - **A bank with lending limits and lending experience that will work for you.**
  - **A bank where your credit requirements are in the bank's sweet spot.**
  - **A Bank with lending capacity. (critical in current environment)**
  - **Work with lenders where you can identify and work with the decision maker.**

# Your Banking Options

The Tale of Two Banks. One is lending and the other is not

FDIC - Statistics on Depository Institutions  
Report`

Cert –  
22354

Cert -  
895

Performance Ratios (% annualized)

(Year-to-  
date)

(Year-to-  
date)

Net interest margin

3.85%

3.91%

Net operating income to assets

0.94%

-0.10%

Return on assets (ROA)

0.83%

-0.05%

Pretax return on assets

1.23%

-0.12%

Return on equity (ROE)

7.12%

-0.33%

Net charge-offs to loans

0.28%

1.64%

Credit loss provision to net charge-offs

63.27%

138.57%

Earnings coverage of net loan charge-offs

7.55

1.22

# Your Banking Options

- **Determine the bank's lending characteristics.**
  - **Are the decision makers positive and energized?**
  - **What industry is the bank comfortable working with?**
  - **Does the bank have experience working with trucking?**
  - **Will the bank do equipment finance leasing.**
  - **Does the bank make the type of loans your company needs?**

# Searching for a Bank

- **Local Banks** you can source from the yellow pages, local business journals, and the internet.
- **Regional Banks** you can source from federal, state resources, yellow pages and the internet.
  - **FDIC**
  - **Yahoo finance (public companies)**
- **National and Money Center Banks** can be sourced through federal and state resources as well as their web page.

# Searching for a Bank

- **Local and small regional banks.**
  - **Assets generally between \$50M and \$1B.**
  - **Local banks are privately owned for the most part and Regional banks are public. Knowing ownership profile is very important.**
  - **Most appropriate for a small to mid size carrier.**
  - **A personal relationship is critical. Get to know the senior management team.**
  - **Most have a well defined loan profile.**

# Searching for a Bank

- **Large Regional, National Banks, and Money Center Banks**
  - Assets between \$500M and \$1.5T.
  - More appropriate for larger carriers.
  - Generally public institutions with multiple branches.
  - Commercial lending generally centralized at division headquarters.
  - Bank provides commercial products in separate divisions.
    - Equipment Leasing
    - Account Receivable / Cash management
    - Large comprehensive credit facilities.
  - **Examples**
    - Regions (see example next page)
    - PNC

# Searching for a Bank



## Transportation Banking

### Transportation Banking

We're committed to your business. Watch us prove it. Transportation companies operate within a unique industry. Through our specialized Transportation Banking team, Regions is focused on meeting these unique needs, utilizing a wide range of products, services and expertise.

### General services include:

**Loans and equipment financing** – Obtain fixed or variable rate loans with a fixed maturity for such uses as equipment, leasehold improvements, vehicles and working capital. Leases and special equipment financing can provide up to 100% financing and be tailored to your situation.

**Lines of credit** - Use an open-ended line with a variable interest rate for working capital, equipment, seasonal needs, growth, including acquisitions, or general purchases.

**Real estate loans** – Obtain fixed or variable rate loans for the purchase or refinance of facilities or real estate.

**Risk mitigation** – Consult with us to create hedging positions to manage fluctuations in fuel and delivery costs.

**Employee banking** - Obtain a valuable package of banking services for employees.

To learn more, call (404) 221-4360.

# Building a Banking Relationship

- **Local and small regional banks.**
  - **Make a personal visit and meet senior lending officer and bank officer.**
  - **Arrange for bank executives to visit your facility.**
  - **Plan social time with local bank executives.**
  - **Develop several points of contact at the bank.**
  - **Work introductions through customer and dealership referrals, church, and civic organizations.**

# Building a Banking Relationship

- **Large Regional, National, and Money Center Banks.**
  - **Work with the branch and the appropriate lending division.**
  - **Search for commercial division offices, most likely at the headquarters.**
  - **Broad range of credit facilities and can handle larger credit requirements.**
  - **Referral and introductions from local dealership branches, suppliers, and major customers.**

# Develop your Package

## The 5C's

- Character
- Capacity
- Capital
- Collateral
- Conditions

# Develop your Package

- **Develop your personal information detailing your business experience.**
- **The business plan and financial forecast you have developed as discussed earlier.**
- **A plan detailing your use of the funds.**
- **Resumes for all principals and management.**
- **Summary of key accounts and business relationship.**

# Develop your Package

- **Supporting Documents for your Business Plan.**
  - **Complete a loan application specifying the loan amount requested.**
  - **Tax returns for business and principals shareholders for past three years.**
  - **Personal financial statement**
  - **Account receivable and payable register**
  - **Copy of licenses and other corporate documents.**
- **Compile your package into an attractive binder or notebook.**

# Pitch Your Package

- **Present your package in person to all of the senior lending officers you have surfaced in your research.**
  - **Practice your presentation and be concise.**
  - **Identify the best person to make presentation.**
  - **Make an appointment and present in person.**
  - **Make multiple presentations in the same time frame.**
  - **Follow-up with thank you note.**
  - **Follow-up with lending officer a week or so after the meeting.**

# Available Resources

- **FDIC**
  - <http://www2.fdic.gov/idasp/main.asp>
- **State Banking Regulator web sites**
- **Small Business Administration**
- **Federal Reserve**

# Summary

- Properly evaluate your current performance and condition.
- Borrow for the right reason.
- Write a solid business plan.
- Clean up your act.
- Find the right bank.
- Develop a relationship.
- Contact multiple potential lenders.
- Get to know the key executives at your lender.
- Develop your loan package.
- Follow up with good reporting and performance.
- If business changes notify your senior lender.

# Additional Information

- **Capital Strategies**
  - **Small with marginal earnings.**
    - OEM equipment leases
    - Factored receivables
    - SBA Loan
  - **Medium with excellent earnings.**
    - OEM equipment finance debt or leases
    - Bank line of credit for working capital
    - Real Estate loan for facilities
  - **Larger with excellent earnings.**
    - Bank comprehensive term / revolving facility