

C&I Lending

Should You or Shouldn't You

Craig Poms

Regional Senior Vice President of Sales

LSQ Funding

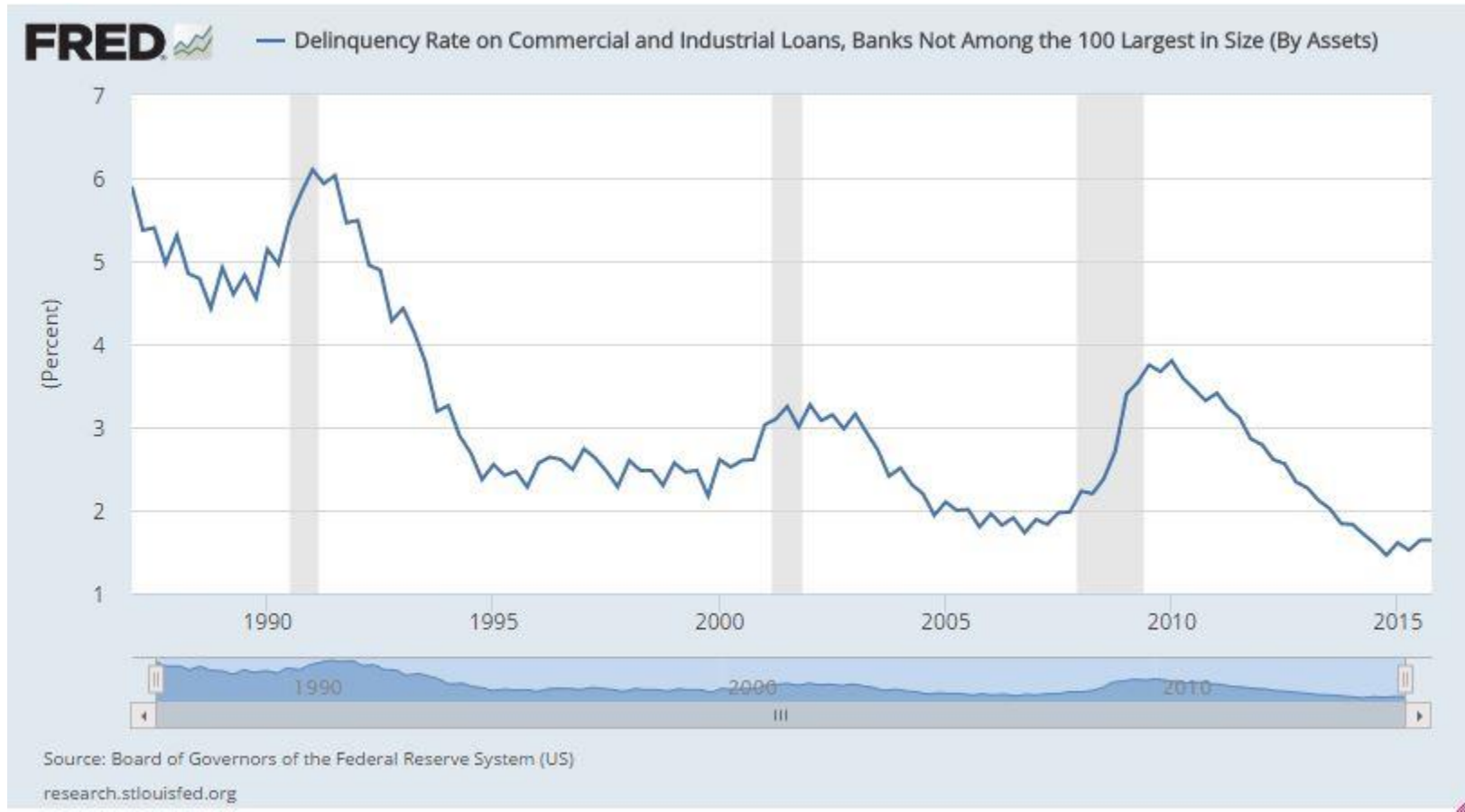
I Know What Some of You are Thinking



Delinquency Rate on CRE (ex Farmland)



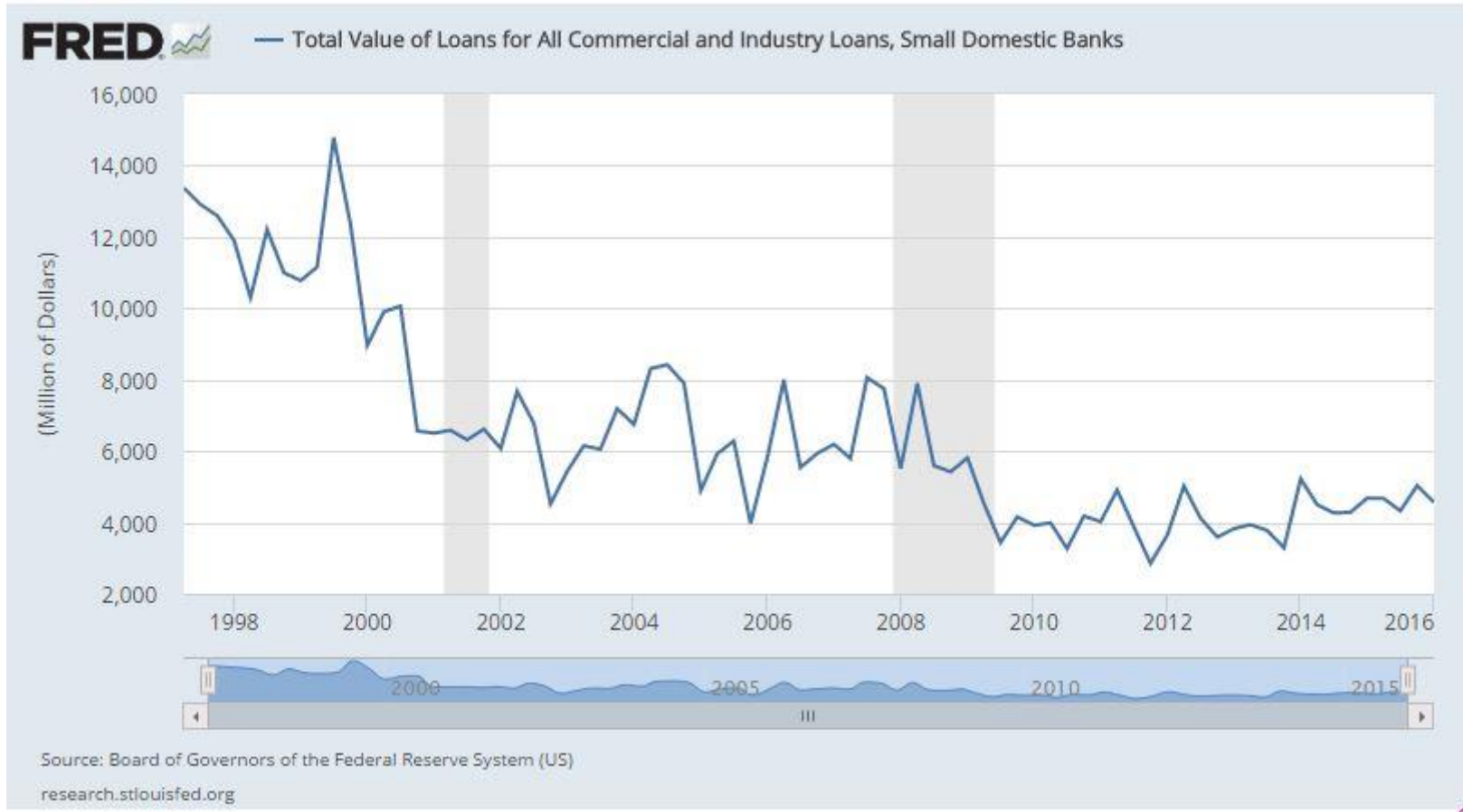
Delinquency Rate, C&I Loans Banks not in the 100 Largest



C&I Loans



Total Value, C&I Loans Small Domestic Banks



What Comprises C&I Lending

- Accounts Receivable
- Inventory
- Equipment
- Working Capital Term Loans
- Acquisition Financing

Credit Issues

- Cash Flow Coverage
- Collateral Valuation
- Collateral Liquidation

Accounts Receivable

- Cash Flow Coverage
 - Interest Expense/CFADS
 - A/R Turnover Ratio – Net Sales/Accounts Receivable
 - A/R Turn – 365/Turnover Ratio
- Collateral Valuation
 - Advance Rates (typically 70% to 90%)
 - Dilution (Return and Allowances, Bad Debt)
 - Audits
- Collateral Liquidation
 - How to collect
 - Collection issues

Inventory

- Cash Flow Coverage
 - Interest Expense/CFADS
 - Inventory Turnover Ratio – COGS/Average Inventory
- Collateral Valuation
 - Advance Rates (typically 50% to 80%)
 - FIFO or LIFO
 - Raw Material, WIP, Finished Goods
 - Audits
- Collateral Liquidation
 - Selling the inventory
 - Accessing the inventory (Landlord Waivers)

Equipment

- Cash Flow Coverage
 - Debt Service/CFADS
- Collateral Valuation
 - Book Value vs Market Value
 - Valuation engagements
- Collateral Liquidation
 - Selling the equipment
 - Accessing the equipment

Working Capital Term Loans

- Cash Flow Coverage
 - Debt Service/CFADS
- Collateral Valuation
 - What is the collateral?
 - Is it shared with other loans?
- Collateral Liquidation
 - Same issues as above

Acquisition Financing

- Cash Flow Coverage
 - Debt Service/CFADS
 - Global Cash Flow
- Collateral Valuation
 - What is the collateral
 - The unsecured portion (Cashflow Recapture)
- Collateral Liquidation
 - Similar issues to above

Monitoring

- Monitoring accounts receivable
 - Reporting Requirements
 - A/R Aging
 - Borrowing Base Certificates
 - Should you lockbox
 - Should you verify
- Monitoring term loans
 - Financial Statements
 - Cash Flow Coverage Covenants

Monitoring

- Monitoring inventory
 - Reporting requirements
 - Audits

Red Flag Warning Signs

- Early warning signs in accounts receivable
 - Deteriorating Aging
 - Re-aging
 - Concentrations
- Early warning signs in term loans
 - Deteriorating cash flow coverage

Red Flag Warning Signs

- Early warning signs with inventory
 - Deteriorating inventory turn
 - Inspections

Liquidation

- Account receivable
 - Collecting receivables
 - Discounts
 - Excuses
- Equipment
 - Selling equipment
 - Landlord's Waivers

Liquidation

- Inventory
 - What type of inventory do you have
 - Is it still there
 - Who do you sell to

Advantages

- Shorter term rate structures
- Shorter term maturities
- More rapid amortization

Disadvantages

- Require more monitoring
- Different credit skill set than CRE
- Collateral is less tangible
- Collateral depreciates faster
- Collateral is more easily moved

It Fits in Your Mission

- Lines of Credit and Term Loans are the financing most businesses need to thrive.

Practice Safe C&I Lending

- Credit officers who have had C&I credit training
- Put policies and concentration limits in place
- Consider specializing in certain industries
- Create a monitoring process
- Use covenants (and monitor them)

Contact Information

- Craig Poms
- cpoms@lsq.com
- 443-223-0393