

Finding the Money for Your Small Business

Small Business Banking



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Agenda

- The capital requirements of building a business
- Financing options
- Where does your Banker fit in?
- How to get a Bank loan.

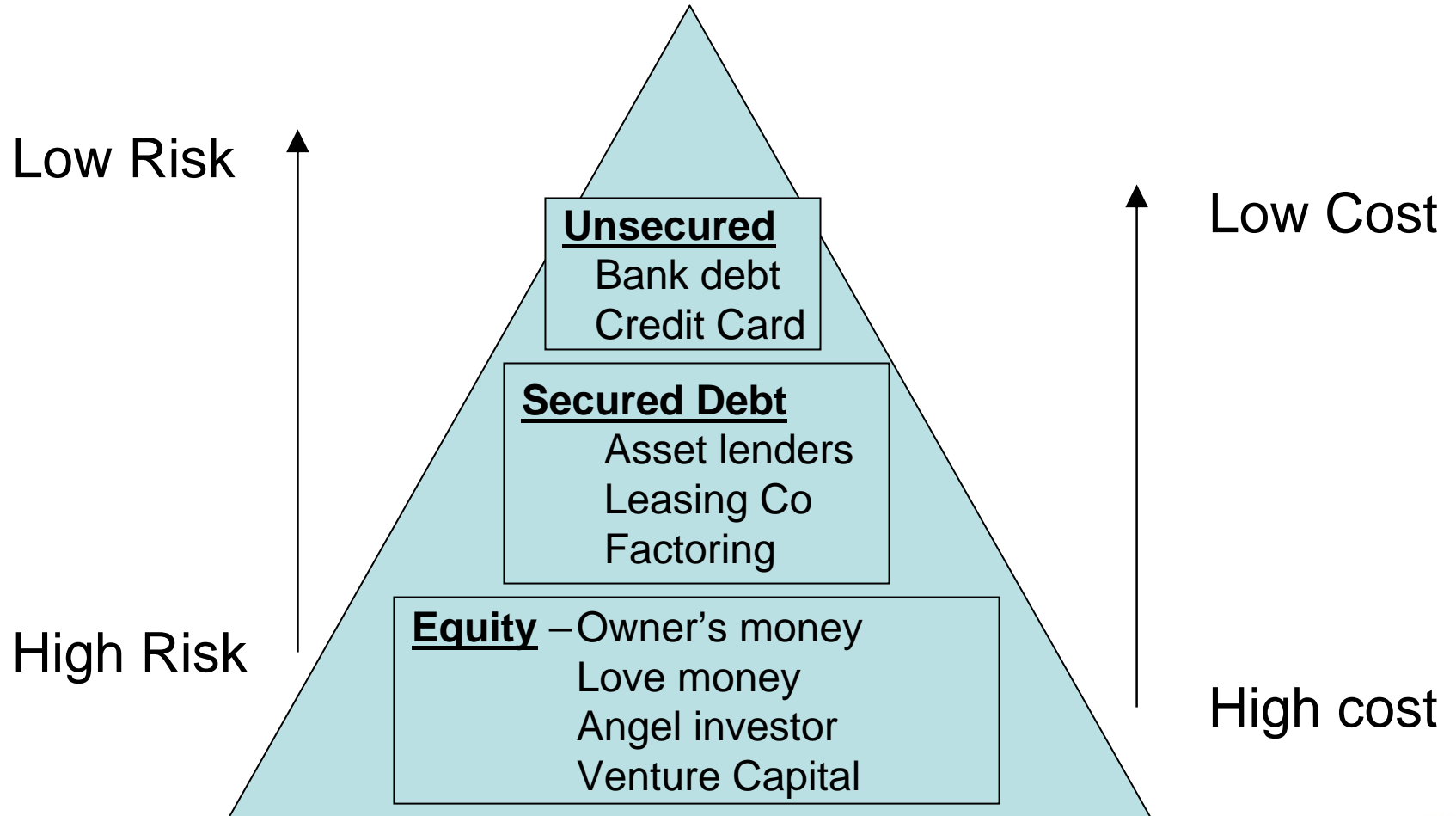
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Sources of financing



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Where do banks fit in

- Banks are involved in all financial transactions in your business – you need a banker whether you have debt or not
- Banks provide the lowest cost but the lowest risk preference in the capital markets
- Banks are not investors. Banks will not assume any of your business risk
- Banks provide liquidity, not capital

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How do you establish a relationship?

- Get an introduction
- Many banks have ethnic branches
- Stick to a branch in your community
- Go through the Call Centre

What do banks expect from you?

- A strong credit bureau
- Talk to them if you have a problem or question
- Pay your loans on time
- Talk to them if you are having trouble paying your loans
- Take advantage of Internet or telephone banking

Loan Criteria

- The owner has a strong personal credit bureau
- Company has positive cash flow before management salaries - (DSR of 1.25:1)
- Must be at least 2 years old (except for special programs)
- Operating credit generally set at 2 months sales

Document requirements

- Attachments:
 - ✓ 2 years financial statements,
 - ✓ Corporate Federal Notice of Assessment,
 - ✓ Personal Notice of Assessment and
 - ✓ Personal income tax return for all owners
- Invoice/Purchase order for fixed asset financing
- Business Plan - if company is a start-up

Eligible Loans

- Overdrafts
- Operating loans
- Term Loans
- Leases
- US dollar loans
- Letters of Credits/Letters of Guarantees
- Foreign Exchange Contracts

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Collateral

- General Security Agreement
- Personal Guarantee

Limited to 25% under the Gov't Guarantee program

- If required to strengthen application the Bank may accept - spousal guarantee
 - collateral mortgage
 - cash collateral

Canada Small Business Financing Act (CSBFA)

- A government program to encourage entrepreneurs to start or expand their small business
- Designed for start-ups and existing companies (with sales under \$5 million) to purchase fixed assets & leasehold improvements
- Guaranteed by the Federal Government, administered by Canadian Chartered Banks

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CSBFA Terms & Conditions

- Finance up to 90% of the cost of fixed assets, new or used equipment, real estate or leasehold improvements or 75% for real estate
- Maximum loan \$350,000 for fixed assets, \$250,000 for restaurants and \$500,000 for real estate.
- Amortization up to 10 years or 20 years for real estate
- Personal Guarantee limited to 25% of original amount of the loan
- Interest rate is limited to Prime plus 3%
- 2% registration fee is payable to the Government

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How do Bank's make decisions?

- Your personal credit bureau
- Your Experience
- Your Equity
- Your Industry
- Your Business Plan

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Manage your credit rating

Contact your local Credit Bureau:

- Make sure it is accurate and up to date.
- You can get a copy of your bureau from www.equifax.ca

Follow payment due dates carefully:

- Ensure you honour your arrangements with suppliers and other lenders
- Use pre-authorized payment systems on your on-line banking system

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How much debt can my business handle?

- TDSR

- Retail Bankers qualify you using your Total Debt Service Ratio
- All of your monthly Principal, Interest and Property Taxes divided by your monthly income before tax
- Use 3% of the authorized credit limit of your credit cards and lines of credit as the servicing requirement for these debts
- Maximum TDSR is 42.5% (the lower the better)

- DSR

- Business Bankers use Debt Service Ratio
- Cash Flow divided by Principal and Interest
- Cash flow is Net Income plus Interest and Depreciation & Amortization
- Minimum DSR is 1.25:1 (the higher the better)

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How much debt can my business handle?

- Retail Example:

- Monthly Income - \$5,000
- Mortgage Payment (P&I) - \$1,550 a month
- Property tax - \$250 a month
- Credit cards authorized at \$10,000
- $(1,550+250+300)/5,000= 42\%$

- Business Equivalent

- Monthly Net Income - \$4,900 – includes \$100 depreciation
- Term loan Payment - \$1,550 a month
- Interest on term loan - \$250 a month
- Credit cards authorized at \$10,000
- $(4,900+100+250)/(1,550+250+300)=2.5:1$

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Manage your Debt

- Avoid revolving debt
- Consolidate and term out your loans
- Take no for an answer
- Check the interest rate on your credit card
- Avoid loans with increasing payments



Borrow wisely using the right borrowing solutions...

Pick the right loan to finance the right asset.

- Revolving credit for financing receivables and inventory
- Term credit or leasing are perfect solutions for longer term capital purchases

Borrow only what you need, when you need it.

- Make arrangements ahead of time
- Consider using the equity in your home as a option

Support for Start Up Business

The screenshot shows the Scotia Plan Writer for business tool interface. At the top, it says "Settings: What business sample most closely resembles your own business?" with three options: "Sample One: Sole Proprietor", "Sample Two: Partnership", and "Sample Three: Corporation". Below this is a "Quick Start: My Business Plan" section with a list of categories and sub-items: "Getting Started" (The Road Ahead, Planning Tips), "Business Description" (Business Overview, Personal Goals, Business Vision, Objectives, Product), "The Marketplace" (Industry Factors & Trends, Competition, Customers), "Sales & Marketing" (Positioning, Pricing, Promotions, Sales), "Business Operations" (The Team, Suppliers, Alliances, Plan Changes, Contingency Plans), "Financial Information" (Personal Finances, Business Finances, Balance Sheet, Income Statements, Cash Flow Report, Ratios, Highlights), "Finishing My Plan" (Executive Summary, Presentation), and "Using My Plan" (Balancing Your Plan, Looking Ahead). At the bottom, there are navigation links: "This tool at a Glance", "Help Using This Tool", "Help Writing a Business Plan", and "Online Tools".

- Scotia Plan Writer *for business*TM
- Start Up Seminar series
- Scotia Starting Line *for business* Check-up tool

The screenshot shows the Scotia Starting Line for business check-up tool. It features a photo of a woman smiling in a shop. The text reads: "I am thinking about opening a business. Are you ready for the challenges and rewards of starting your own venture? Take the Start-Up Checkup to get you on the road to successful independence." Below this is a "Get started" button with a right arrow and a link "I've already started".

The screenshot shows the "Steps to Start Up Seminar" content. It includes a "Steps to Start Up" button and a list of topics: "Welcome!", "Introductions", "Why is Scotiabank offering this seminar?" (Entrepreneurship is now Canada's hottest career choice. Starting a small business requires careful planning. This seminar will walk you through the steps involved in launching your venture. By offering this seminar, Scotiabank hopes to make it easier for you to become self-employed and achieve business success.), and "Who will benefit from this seminar?" (Anyone who is thinking about starting a business, preparing to launch one or recently opened shop. It is not designed for people several years into a business.). The Scotiabank logo and website URL are at the bottom.

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Introducing Scotia Running Start *for business*



Opening a business

If you're thinking about becoming your own boss, you can find practical advice and simple solutions from Scotiabank Small Business bankers.

Get out of the gate fast with our Scotia Running Start *for business*™ banking package, featuring a complimentary copy of QuickBooks EasyStart accounting software™.

The package gives you everything you need to start your business, including savings on business personal and business banking services and special offers.

Small Business Banking

Accounting made easy – so you can get back to business.

Congratulations on opening your Scotiabank small business account! As a new customer, we are pleased to offer you a complimentary full version of QuickBooks EasyStart 2007.

Banking for Business Owners

Custom Logo and Design services from

&

only **\$149.00***

Scotiabank and Davis + Henderson are proud to offer a custom logo and business card service for your new business.

A professionally designed logo is a great start in building a strong brand. And, when you use your logo on your business cards, it helps convey a message of credibility and stability to your existing and prospective clients.

- Account Plan *for business*™ with monthly plan fee waived for five months¹
- Credit Line *for business*™ with credit fee waived for five months²
- One year free banking on any Day-to-Day Account with *Scotia Simple Switch*®
- Special Personal Lending offers[‡]
- QuickBooks EasyStart accounting software – retail value approximately \$100
- Davis + Henderson discounted logo design services and business cards – retail value over \$500

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