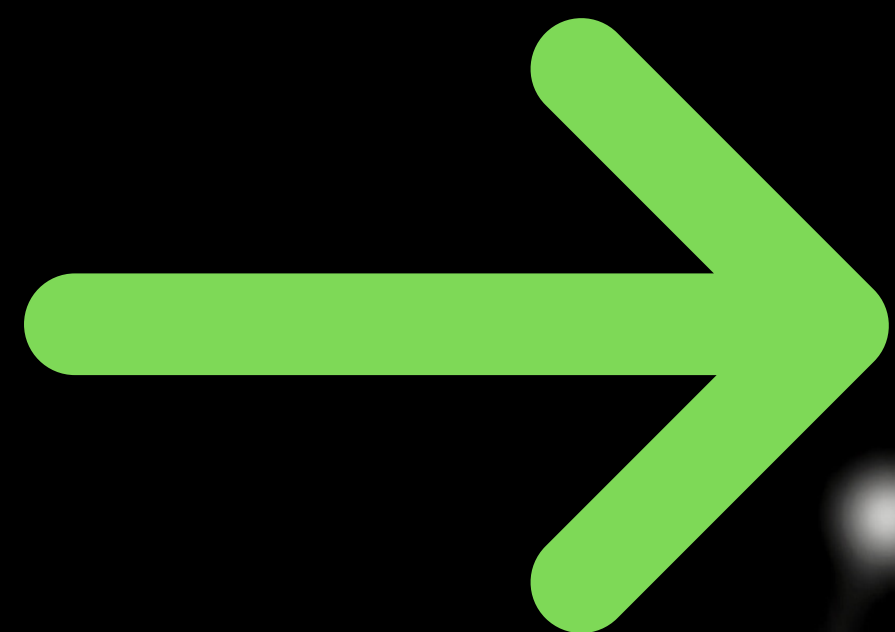




# Working Capital Financing 101

 bizpetrol



**"Working Capital is used to finance a business' day-to-day operations such as: fund payroll, pay taxes, & purchase inventory!"**



Victor Castillo @



# Working Capital Credit Facilities

- **Lenders provide several types of working capital facilities:**
  - Evergreen Line of Credit
  - Conventional Line of Credit
  - Asset Based Line of Credit
  - Commercial Credit Card
  - SBA Express Line of Credit
  - Factoring
- **Working capital facilities are repaid in less than a year through the turn of trade assets:**
  - Selling inventory or services
  - Collecting accounts receivables



# Evergreen Line of Credit

- **Credit limit: up to \$500K**
  - Limit varies by lender
  - Most banks offer evergreen lines of credit
- **Features & Requirements:**
  - Doesn't require a complete loan application package
  - Typically a one-page application
  - Based on personal & business credit scoring, declared revenue and profitability
  - Lenders typically don't put a lien (UCC filing) on business assets
  - Doesn't require an annual renewal



# Conventional Line of Credit

- **Credit limit: \$500K & up**
- **Features & Requirements:**
  - **Must submit a complete loan application package**
  - **Underwriting requirements:**
    - **Trade asset support (~ 80% AR & 50% Inventory)**
    - **Strong balance sheet (debt to net worth < 4:1)**
    - **Good cash flow**
    - **May have a cleanup requirement (pay down to zero balance)**
    - **May have quarterly and/or annual reporting**
  - **Term is usually 1 year**
  - **Lender lien (UCC filing) on business assets**



# Asset Based Line of Credit

- **Credit limit: \$3MM & up**
  - Most lenders have a minimum credit limit
- **Features & Requirements:**
  - For businesses that can't meet some of the requirements of conventional line
  - Must submit a complete loan application package
  - Underwriting requirements:
    - Lender requires a field exam
    - Borrowing base may be up to 85% of AR & 70% of Inventory
    - Has quarterly and annual reporting
    - May require daily sweeps to pay down line
  - Term can be up to 5 years
  - Lender lien (UCC filing) on business assets



# Commercial Credit Card

- **Credit limit: up to several million**
- **Features & Requirements:**
  - Pay for operational expenses such as travel expenses, purchases, or supplier payments
  - For limits under \$500K lenders typically require only a 1-page application
  - For limits greater than \$500K, lenders want a complete loan application package
  - Businesses earn rewards & cash rebates



# **SBA Express Line of Credit**

- **Credit limit: up to \$500K**
- **Features & Requirements:**
  - **Can be used for working & permanent capital**
  - **For businesses that can't meet some of the requirements of conventional line**
  - **Line has a term of up to 5 years with a term out period of up to 5 years for a total of 10 years**
  - **Not all lenders offer the SBA Express**





# Factoring

- **Credit limit: up to several millions**
- **Features & Requirements:**
  - **Business sells invoice to a factor**
  - **Factor advances a portion of the invoice to the business (e.g. 90% of invoice)**
  - **Factor collects invoice from the business' customer**
  - **Factor charges a fee (e.g. 2% of the total invoice per month)**
  - **Factor pays business remaining invoice less fee**
  - **Factoring is more expensive than bank financing**
  - **Best for businesses that can't qualify for bank financing**
  - **Factor focuses on the credit worthiness of the business' customers**



# Want To Improve Your Commercial Lending Game?

This material came from the Commercial Lending Toolkit! The toolkit helps you get your loans approved & funded fast!

Access the free toolkit at: [www.bizpetrol.com](http://www.bizpetrol.com) or follow [#bizpetrol](https://twitter.com/bizpetrol) for more content like this.



Victor Castillo @

