

2019

INSTRUCTOR GUIDE



BANKING SERVICES

Available for a Small Business

MONEY SMART for Small Business



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ACKNOWLEDGMENTS

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GETTING STARTED

Here are ideas to help you plan and present engaging and productive sessions:

- **Review the Money Smart for Small Business (MSSB) train-the-trainer materials.** This resource was designed to train MSSB instructors. It summarizes other Money Smart modules and facilitation suggestions and includes a section on accommodating participants with disabilities. Links to Money Smart materials can be found on the FDIC and SBA websites (www.fdic.gov/moneysmart and www.sba.gov/moneysmart).
- **Use the PowerPoint presentation effectively.** The slides are provided to support and enhance your presentation; they alone are not the presentation. This Instructor Guide contains suggested talking points for every slide, but instructors are encouraged to add their perspective. The participants will appreciate interesting or local examples and brief anecdotes that make the concepts come alive.
- **Make time for introductions.** Introductions allow you to break the ice, create active instructor—participant dialogue, and set the tone for the session. Introductions can also help you gauge the level of business experience of your participants.
- **Recognize the diversity of participant needs.** Assume that some participants are just getting started (Group A), while others have already gone down the path to business ownership (Group B). Where appropriate, Group A and Group B options may be provided to allow you to anticipate and address the diverse needs of participants in some modules.
- **Explain the agenda, materials, and ground rules.** Explaining the agenda, the icons in the Participant Guide, and any provided handouts, in addition to establishing ground rules, helps participants understand how the training will be conducted.
- **Set expectations.** Discussing expectations gives participants the opportunity to tell you what they hope to learn from the training.
- **Explain the learning objectives.** Establishing objectives helps participants place the information they will learn in the proper context and ensures that the content is consistent with their expectations.
- **Use the Participant Guide.** The Participant Guide helps participants follow the presentation. Several of the included worksheets and exercises help participants apply key concepts to their specific situation.
- **Prepare for the discussion points, exercises, and case study analysis.** Discussions and exercises help participants reinforce learning. The case study helps enhance understanding by applying concepts to practical, realistic situations.
- **Conduct the Pre and Post surveys or the Before and After and Evaluation forms.** The **Pre-Survey** helps determine what the participants already know so that you can customize the presentation accordingly. The **Post-Survey** helps gauge how well participants learned the content, which helps you determine what content, if any, to review and what additional materials participants may want to review on their own.






The **Before and After form** focuses on the learning objectives and helps participants recognize where they have grown in knowledge after completing the training. Also consider using the provided **Evaluation form**, which gathers feedback on the instructors and the materials.

- **Use a parking-lot chart paper or board.** This option is helpful if you are asked questions that you do not have time to answer or that you will answer later. Instructors park those questions on a chart or board and then follow up with participant(s) during or after the training.
- **Allow time for breaks.** Modify the suggested agenda accordingly.

Understanding the Icons

This Instructor Guide uses several icons to help you quickly navigate the training.

Notes to the instructor and additional information that should not be read aloud are in green boxes.

	Share Key Takeaway	When you convey the primary message of a section
	Lead Discussion	When you facilitate discussions
	Lead Activity	When you facilitate activities
	Take Action and Closing	When you help participants plan action steps to apply what they learned
	Case Study	When you use a short story to start a discussion or activity about a financial topic

TRAINING OVERVIEW

Purpose

The Money Smart for Small Business (MSSB) **Banking Services** module summarizes the financial and banking services available to small business owners. It is designed to help participants understand which banking products and services can benefit their business.

This training has three sections: The first section describes a wide array of business services banks offer that entrepreneurs may not be aware of, including account features such as reporting and bundling, payment solutions, and merchant services. The second section describes financing options and sources, including what banks and nonbanks offer. The third section addresses how to avoid fraud and scams.

For the purpose of this training, “banking” refers to financial products and services offered by all federally insured financial institutions (banks, savings associations, and credit unions). This module contains some technical terms. Advise participants to check the **Glossary of Terms** or to ask you if they are unfamiliar with a term. Glossary terms are specific to this module and can be found at the end of the guide. Sections or names of Money Smart modules and resources are **highlighted**.

This **Instructor Guide** and the accompanying **PowerPoint** slides are the key documents for instructors. The **Instructor Guide** serves as a script for each slide. We provide space in the **Instructor Guide** for you to add notes and examples from your own experience, or you can edit the document electronically. The **Participant Guide** is the key document for participants. Please be sure to review the slides and **Participant Guide** carefully, as they contain information you will reference during the training.

Preparing for Class

Each participant will need a **Participant Guide** (printed two-sided), but copies of the slides are not necessary. Before printing the guides, consider adding local information—such as resources in your area that offer technical assistance or responsible financing options for small businesses—to the **For More Information** section and editing other sections as needed.

Learning Objectives

After completing this class, participants will be able to understand the following:

- The benefits of building effective long-term relationships with bankers (branch managers and lenders) and business advisors
- Factors to consider when selecting a financial institution
- Features, advantages, and risks associated with the financial services and products under consideration
- Types of small business financing options and lenders
- Factors to consider when evaluating financing options
- Ways to improve their chances of getting a loan, including building a strong personal and business credit history, keeping accurate business records, and understanding the Five C's of Credit
- Ways to recognize and avoid small business fraud, scams, and cybersecurity risks

Presentation Time

Each section has an approximate completion time. Use the suggested times to personalize the training based on participant needs. When teaching larger groups, allow appropriate time for discussion and questions.

Materials and Equipment

You will need the following materials and equipment to present this training:

- ☐ Instructor Guide
- ☐ Participant Guide
- ☐ PowerPoint presentation
- ☐ Audiovisual equipment (computer with software to run the slides, projector, and microphone, if appropriate)
- ☐ Board or easel pad

When preparing your materials and resources, be sure to address the needs of participants who request accommodations.

Banking Module at a Glance

Time (in minutes)	Topic	Instructor Comments/Notes
10	Welcome, Pre-Survey/Before Form, Agenda, and Learning Objectives	
30	Section I: Banking Services*	
15	Exercise 1: What Banking Services Do I Need? (case study introduction before and after reviewing all banking services)	
20	Section II: Financing Options and Sources	
15	Break	
15	Exercise 2: Small Business Financing Checklist	
15	Exercise 3: Self-Assessment Loan Readiness Checklist	
10	Section III: Avoiding Fraud and Scams	
10	Summary, Post-Survey/After Form/Evaluation	

Total 150

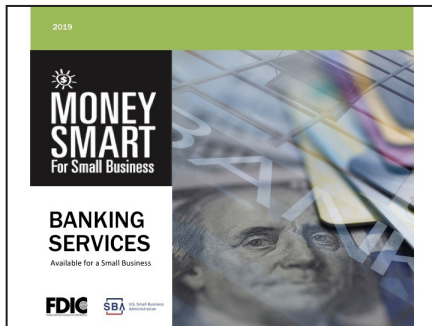
***Section I** does not include financing options or loans.

Welcome

10 minutes

Welcome to **Banking Services Available for Small Business**. This class is an important step toward building a better business.

My name is ____ (briefly introduce yourself).

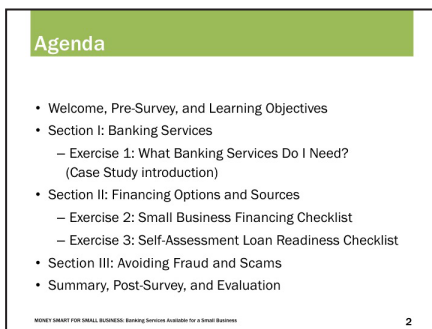


Slide 1, Participant Guide page 3

Participant Guide

Each of you has a copy of the **Banking Services Participant Guide**. It contains information and discussion points to help you learn the material. Take time to review the guide on your own before and after the training. Be sure to also check out the **For More Information** section, which lists many valuable resources.

Note: Instructors provide local resources in the “For More Information” section, which is a standard section in all MSSB modules.



Slide 2, Participant Guide page 3

Agenda

We have a full agenda today, and we want to make sure we cover all of the learning objectives; therefore, we will discuss as a group whether we need to spend more or less time on different topics based on interest.

Learning Objectives

- Benefits of building effective long-term relationships with bankers (branch managers and lenders) and business advisors
- Factors to consider when selecting a financial institution
- Features, advantages, and risks associated with financial services and products
- Types of financing options and lenders

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Learning Objectives (continued)

- Factors to consider when evaluating financing options
- Ways to improve your chances of getting a loan, including building a strong personal and business credit history, keeping accurate business records, and understanding the Five C's of Credit
- Ways to recognize and avoid small business fraud, scams, and cybersecurity risks

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Slides 3—4, Participant Guide page 3

Learning Objectives

This training will help you understand the following:

- The benefits of building effective long-term relationships with bankers (branch managers and lenders) and business advisors
- Factors to consider when selecting a financial institution
- Features, advantages, and risks associated with the financial services and products that you may be considering for your business
- Types of financing options and lenders
- Factors to consider when evaluating financing options
- Ways to improve your chances of getting a loan, including building a strong personal and business credit history, keeping accurate business records, and understanding the Five C's of Credit
- Ways to recognize and avoid small business fraud, scams, and cybersecurity risks



Slide 5, Participant Guide page 4

What Do You Know?

Before we begin, let's take a few minutes to find out what you know about financial products and services for a small business.

If using the What Do You Know? form:

The **What Do You Know?** form on page 4 of your **Participant Guide** lets you compare how much you know before and after the training.

Please take a few minutes now to complete the "Before the Training" column on the form. Which statements did you disagree or strongly disagree with?

We will complete the second column when we finish the training to determine what you've learned.

Introductions: What Do You Know?

- What do you currently know, and what do you want to learn?
- Complete the What Do You Know? form or Pre-Survey and discuss the results.


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Note: Two resources are available to help instructors assess the participants' knowledge before and after the training: The **What Do You Know form** and the **Pre and Post surveys**. There is also an **Evaluation form** that could be merged with one of the two post-training resources. Consider asking participants to complete the **What Do You Know?** form and **Pre-Survey** before the training and sharing the average results with them. The **What Do You Know?** form focuses on the learning objectives, while the **Pre-Survey** and **Post-Survey** focus on important concepts and details assumed to be known (Pre) or taught during the training (Post).

Ideally, participants' answers can help you determine priorities during your training and customize it. The proposed agenda does not factor in time to discuss answers to either tool in detail; the allotted time may be used for participants to complete the surveys during class.

Consider using a co-facilitator to collect the answers and tabulate them for discussion. Be sure to address the knowledge gaps during the training.

If using the Pre-Survey

Take a few minutes to complete the **Pre-Survey** on page 5 of your **Participant Guide**. Which questions were you unsure of or unable to answer?

As we progress through the module and cover the training material, you will be able to determine whether you answered each question correctly.

Now that we know who is here and what you want to know, we will discuss banking products and services for small businesses. This training has three sections: The **first** addresses banking services (except loans). The **second** covers financing alternatives available for small businesses. The **third** discusses avoiding fraud and scams.

Before and After: What Do You Know?

Instructor: _____ Date: _____

This form will allow you and your instructor to see what you know about business banking services before and after the training. Read the statements below and circle the number that shows how much you agree with each one.

	Before Training				After Training			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. I can identify financial products and services that are commonly available to a small business.	1	2	3	4	1	2	3	4
2. I can explain how these products and services work.	1	2	3	4	1	2	3	4
3. I can identify the advantages and disadvantages of financial products and services.	1	2	3	4	1	2	3	4
4. I can explain how small business owners decide which financial products and services are best for their business.	1	2	3	4	1	2	3	4
5. I can list what is needed to submit a loan application.	1	2	3	4	1	2	3	4
6. I can describe how to build effective long-term relationships with bankers (branch managers and lenders) and business advisors.	1	2	3	4	1	2	3	4
7. I can describe the role of a personal credit score in the business lending process.	1	2	3	4	1	2	3	4
8. I can explain the benefits of separating business and personal bank transactions.	1	2	3	4	1	2	3	4
9. I know how to identify potential fraud, scams, and cybersecurity risks.	1	2	3	4	1	2	3	4

Pre-Survey

The correct answers are in **bold** below.

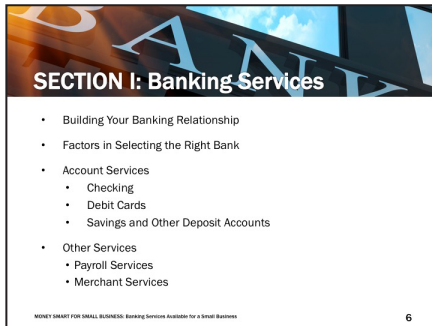
Assess your knowledge of banking services before you start the training.

1. **Which of the following is true? Select all that apply.**
 - a. I can open a business checking account as soon as I have an Employer Identification Number.**
 - b. A business must have a personal checking account to open a business checking account with a bank.
 - c. Small businesses cannot open commercial checking accounts.
 - d. Small businesses must make a profit to establish commercial banking services such as opening accounts and setting up merchant services.
2. **Which of the following best characterizes a zero balance account?**
 - a. An account maintained with no funds until checks are written**
 - b. A new account
 - c. A closed account
 - d. An account with funds that are withdrawn until no funds remain
3. **Purchases and receipts for your business should be kept separate from your personal ones.**
 - a. True**
 - b. False
4. **Which of the following is true about FDIC deposit insurance? Select all that apply.**
 - a. FDIC insurance only protects consumers with deposit accounts at FDIC member banks.**
 - b. Only consumers with deposit accounts at FDIC-insured banks are fully insured by the FDIC up to at least \$250,000.**
 - c. FDIC insurance cannot protect consumers unless they have money deposited at an FDIC member bank.
5. **Certificates of deposit can be used as loan collateral.**
 - a. True**
 - b. False

6. **Which of the following is a common advantage of online banking?**
 - a. Information is updated frequently.
 - b. Check images may be available for viewing.
 - c. Current and past statements may be available for viewing.
 - d. b and c
 - e. **a, b, and c**
7. **If a business becomes a victim of online theft, there is a chance that the money may not be recoverable.**
 - a. **True**
 - b. False
8. **The following may be needed for a business loan application:**
 - a. **Personal and business tax returns**
 - b. **Business incorporation documentation**
 - c. Business accounting journal and daily financial projections
 - d. **Business financial statements**
9. **Which of the following is one of the Five C's of Credit?**
 - a. Collateral
 - b. Character
 - c. Common sense
 - d. **a and b**
 - e. All of the above
10. **With a term loan (to be paid off by a specific date), the purpose of the loan and the collateral will typically determine the length of the financing period.**
 - a. **True**
 - b. False

SECTION I: Banking Services

30 minutes



Note: Slide 6 summarizes what will be covered in **Section I** of this training. This section will help participants understand the need to choose a financial institution partner very carefully by assessing all the benefits and resources it can offer.

Slide 6, Participant Guide page 7

Banking services change at the fast pace of technological advances. Therefore, entrepreneurs need to consider building relationships with their financial institutions to ensure that they can keep up with these changes and understand how to choose the right products and services for their business.

Before we talk about banking services, accounts, and loans, let's discuss how and why you should build a relationship with a financial institution and some myths about bankers. We will then discuss the types of banking services and how to choose the ones that are right for your business.

Section I of the module discusses banking products and services except loans, **Section II** covers loans, and **Section III** talks about how to avoid fraud and scams that can lead to business losses.

Slide 7, Participant Guide page 7

Building Your Banking Relationship

Building a banking relationship is just like building any other relationship. It doesn't happen in one day. To select the bank that will handle your needs, take time to meet and develop a relationship with various bank staff: the loan officer, account manager, relationship manager, and branch manager. A good relationship with your banker can help them better understand your business operations and needs. This can help your banker better advise you about obtaining and building credit, maximizing the bank's benefits and resources, and leveraging the banker's extensive knowledge and contacts.

Clear, frequent, open lines of communication are necessary components of a strong relationship with your bank. Talk to your bank contact at least quarterly and when something important occurs, such as winning a major account or overcoming a big competitor.

If you have a start-up business, spend time educating your contacts about your business. If you are an established business, invite the banker to your company for a tour. If you engage the bank staff, they will become interested in your business and prospects.



Note: Slide 7 lists all the topics covered under the subheading **"Building Your Banking Relationship."** The slide also summarizes myths about bankers.



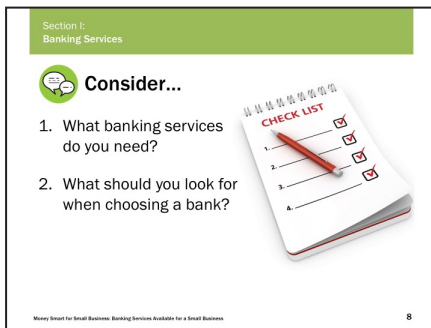
Myths About Bankers

Products and services that can help small business owners manage their day-to-day finances and improve their long-term financial health are not always easy to identify because of preconceived notions about banks, bankers, and business loans. The following are some common myths among small business owners about banks and business products and services:

- 1. Banks don't want my business because my company is too small.** You don't need a lot of money to establish a banking relationship. Bankers want your business because they hope you use other services and expect your company to grow. You can open your business deposit accounts as soon as you have an Employer Identification Number (EIN). The FDIC's 2017 Small Business Lending Survey found that smaller banks (up to \$10 billion in assets) tend to be flexible in structuring loans for small businesses, and nearly four in five of these banks report that they lend to small businesses that have been in operation for up to two years.
- 2. Banks are not able to consider my loan application if my loan is too small.** First, at most institutions, you don't need to have an account with the bank to obtain a loan. While banks have thresholds, there are no requirements such as being in business for a minimum number of years or needing a minimum amount of financing to approach a bank. It is best to discuss your needs with your banker without making assumptions; every situation is unique. If one institution cannot accommodate you, many others may have interest.
- 3. Banks require a perfect credit history.** Banks generally require a good business plan, history, and projections of cash flow, as well as proof of sufficient revenue to ensure that you are able to pay back the loan. Having collateral can also help the lender's assessment of your loan application. While personal and business credit histories play an important role in getting a loan, lenders also consider other factors (find a Money Smart for Small Business **Credit Module** training near you, or download the module to learn more about credit scores).
- 4. The loan application process takes months.** The time it takes to process a loan application depends partly on whether the applicant has submitted all the required documentation. Even government loan applications, such as those for U.S. Small Business Administration (SBA) guaranteed loans, are

processed relatively quickly, considering the benefits. Don't make assumptions; ask about the time for credit approval and funding.

5. **Fees are not affordable.** Fees for bank services can sometimes be waived or lowered, especially if you already use products and services from the bank that you are seeking a loan from. Borrowers should not be afraid to ask for better terms, such as lower fees, collateral, or interest rate, or changes to payment schedules. Many factors determine the cost of bank products, and these factors change from time to time. To determine the best solutions for your business, always analyze and compare your options when shopping for bank products and services.



Slide 8, Participant Guide page 9

What Banking Services Do I Need?

15 minutes



This exercise addresses two questions: (1) What banking services do I need? and (2) what should I look for when choosing a bank?

The following are additional questions addressing these two issues, which the instructor may discuss:

- Do I pay employees or vendors regularly?
- Do my customers generally pay me via check, credit card, or electronic transfer, or in cash?
- Are mobile and online banking important for my business?
- Will I need to make deposits after banking hours?
- Do I handle cash? How can my financial institution help me manage my cash?
- Will I need merchant services now or in the future to facilitate credit and debit card payments?

To better understand your banking needs, we'll first discuss the banking services that the entrepreneurs in the following case study will need. Then you will take some time to think about your own needs, write them down, and discuss.



Slide 9, Participant Guide page 10

Case Study: Meet Eco-Grow Solutions



Instructor: Refer participants to the introduction of the case study on page 10 of the **Participant Guide**. Read (or ask a volunteer to read) the following description.

Rosa is 21 years old and wishes to patent and sell a plant nursery irrigation system. She is partnering with her father, Albert, an avid gardener and retired veteran with a disability, who opened his own commercial nursery two years ago.


Rosa grew up gardening with her father. While in high school, she developed an innovative, water-efficient irrigation system for their home flower and plant nursery. This experience increased her interest in science and technology and led her to pursue a biochemistry and agribusiness degree. She is in her second year of college and has developed an eco-friendly plant nursery technology as part of her studies. Her father has incorporated this system into his nursery business, and Rosa and Albert believe that there is a market to sell this technology to commercial nurseries and farmers; therefore, they need financing to develop this line of business.

Eco-Grow's revenue is less than \$80,000 a year: about \$60,000 from three contracts for providing gardening services to government buildings and about \$20,000 from sales to retailers.

Albert already has a business bank account because it is a requirement to do business with government agencies.

Note: Refer participants to the blank space in their guide where they can list their own ideas first, then discuss as a group. Also, consider asking participants to raise their hand if they already have a business bank account.

Section I:
Banking Services

 **Exercise 1: Banking Service Needs**

Use the table in your Participant Guide on page 11 to draft a list of business banking service needs for both Eco-Grow and your business now and within the next 6 to 24 months.

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Slide 10, Participant Guide page 11

Exercise 1: Banking Service Needs

15 minutes



What banking services do you think Eco-Grow Solutions needs, and what features should Rosa and Albert look for in a bank?

Draft a list of services and important factors for Rosa and Albert's business, then draft a list for your business. Once we complete **Section I: Banking Services**, you will go back to both lists and revise them based on what you have learned.


We discussed very briefly what services we expect to find at a bank. Now it is time to analyze in detail various factors that would be relevant in choosing a bank and selecting appropriate services according to the business life cycle—that is, whether you are a start-up, developing, or mature business.

Services Needed	Now	Within 6–24 Months
Accounts		
Payment Solutions		
Financing		
Bank Characteristics and Technology		

Section I:
Banking Services

Factors in Selecting the Right Bank

Consider
Research
Compare



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Slides 11-12, Participant Guide page 12

Factors in Selecting the Right Bank

There are many factors to consider when selecting the right financial institution for your business needs. Be sure to properly research your options before choosing a bank, as switching can be difficult once you have already established many services, such as online or mobile banking, automated payments, and merchant services.



Consider your unique needs, particularly financing needs, when choosing a bank and banking services. **Research** and **compare** your options by taking into account your current and future business needs.

Section I:
Banking Services

★ Factors in Selecting the Right Bank

- ✓ Customer service
- ✓ Access to your accounts and money*
- Technology
- Specialized small business products and services

*More protections for consumers than businesses!

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Customer service

Customer service is key. Many financial institutions do not have 24-hour customer service. Note, however, that certain services, such as payment processing or merchant services, obtained at a bank may actually be provided by third-party companies with different customer service hours and telephone numbers. You should understand the benefits and limitations of all the banking services you are using or planning to use. If you don't already have a relationship with a bank, you may know people who are pleased with theirs.

Account access

Account access means more than bank staff being available to answer your questions when they arise. It also refers to whether you have physical access to your money and the bank branch, as well as whether you can access your funds quickly and cost-efficiently, and use bank services virtually. For example, **online banking** allows businesses to conduct nearly every facet of their banking without entering a financial institution. Advantages of banking online include 24/7 access to account information, images of cashed checks, and previous account statements.

Technology

Technology is another important consideration. For example, most banks generate reports that can be integrated with business accounting software such as QuickBooks. Linking, not comingling, your personal and business bank accounts under the same online profile may also be possible. Ask your financial institution about the technology features you may need.

Specialize in small business products and services

Discuss banking products, including accounts, loans, online options, and investment services, with key bank staff. Some financial institutions **specialize in small business products and services**, such as SBA or other government guaranteed loans. Often these banks will be designated as SBA lenders or have staff positions such as a vice president for small business loans.

To help you make the most educated decision, ask other small business owners about financial institutions they recommend, and do some research through social media and consumer reviews. For complaints and lawsuits against financial service providers, you can contact your state attorney general, the Better Business Bureau, and the Consumer Financial Protection Bureau. Your local SBA office is also a great place to get help and referrals to banks considered friendly to small businesses and knowledgeable of your local market.

Slide 13, Participant Guide page 14

Deposit Insurance

Since the FDIC began operating in 1933, no depositor has ever lost a penny of FDIC-insured deposits. FDIC insurance is backed by the full faith and credit of the United States government.

Many consumers and businesses deposit money at FDIC insured banks and stay within the FDIC insurance limit to avoid losing money in the unlikely event of a bank failure.

The following section provides some details on FDIC deposit insurance coverage that may pertain to your business.


Basic FDIC Deposit Insurance Principles

- **Deposit insurance coverage is per depositor.** A depositor may be any person (does not have to be a U.S. citizen or resident) or legal entity (such as businesses,¹ nonprofit organizations, or government agencies).
- FDIC insurance covers all deposit accounts, including checking and savings accounts, money market deposit accounts, and certificates of deposit. The **standard insurance amount is \$250,000** per depositor, per insured bank, for each account ownership category.
- For details, please look for the latest version of the FDIC's **deposit insurance brochure**, "Your Insured Deposits," at your bank or on the FDIC website: www.fdic.gov/deposit. If you

Section I:
Banking Services

Basic FDIC Deposit Insurance Principles

- Coverage is per depositor.** A depositor may be any person (does not have to be a U.S. citizen or resident) or any legal entity (**businesses, nonprofit organizations, and government agencies**).
- Standard insurance amount is \$250,000*** per depositor, per insured bank,¹ for each account ownership category.



*See the FDIC's Electronic Deposit Insurance Estimator at <https://edie.fdic.gov>

¹Deposits in credit unions may be insured by the NCUA, but insurance details may differ in some respects.

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Note: Explaining deposit insurance could become highly technical. Instructors should briefly describe the key principles of deposit insurance as listed on the slide and refer participants to the tip and footnote in the Participant Guide for more detailed information. If the instructor is not a banker familiar with deposit insurance rules, he or she should refer participants to the FDIC or the National Credit Union Administration for more information on insurance coverage.

¹Additional information for participants on FDIC deposit insurance for different organizations:

- A sole proprietor account (sometimes referred to as a "doing business as" or "DBA" account) is typically owned by one person and insured as the owner's "single ownership account." A sole proprietorship account is added together with the owner's other single ownership accounts at the same bank, and the combined balance is insured up to \$250,000. In some cases, a sole proprietorship is jointly owned by two people. Assuming all requirements for a joint account are met, a deposit account titled in the name of a jointly owned sole proprietorship will be insured as the co-owner's joint account. Each owner of a joint account is insured up to \$250,000 for the combined amount of his or her interests in all joint accounts at the same bank.
- Deposits owned by corporations, partnerships, and unincorporated associations, including for-profit and nonprofit organizations, are insured under the same ownership category. All deposits owned by the same corporation, partnership, or unincorporated association at the same bank are combined and insured up to \$250,000. Insurance coverage for these types of legal entities is in addition to FDIC insurance for personal deposits that a partner or business owner may have at the same bank.


have questions about deposit insurance coverage, please contact an FDIC deposit insurance specialist at 1-877-ASK-FDIC (1-877-275-3342), or use the FDIC's Electronic Deposit Insurance Estimator at <https://edie.fdic.gov>

- Account holders of **deposits in a credit union may also be insured** through the National Credit Union Administration (NCUA), a federal government agency. The NCUA's insurance rules are similar to the FDIC's rules, but they may differ in some respects. For more information on credit union accounts and coverage, go to www.ncua.gov and do a search using the key words "Share Insurance Fund."

Section I:
Banking Services

★ Account Services

- Business Checking Accounts
- Business Debit Cards
- Savings Accounts
- Certificates of Deposit (CD)
- Retirement/Other Employee Benefit Accounts
- Business Credit Cards
- Payroll Services
- Cash Management
- Merchant Services
- Other Services



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Slide 14, Participant Guide page 15

Account Services




Choosing the right bank and suite of services and products for your business is important. Evaluate the services of each bank you are considering by reviewing the **bank's brochures, websites, account disclosures, and fee/schedule sheets**, which include balance requirements and fees for overdrafts, check processing, and other transactions.

Section I:
Banking Services

Account Services

☒ Cost of services and transactions

- Brochures and fee schedules for features and service costs, including options for overdraft protection
- Account disclosures
- Ways to get fees waived/reduced (transaction volume/bundling)



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Slide 15, Participant Guide page 15

Cost of Services and Transactions

Understanding your options can save you hundreds of dollars. Some types of accounts charge fees on each processed item, including **checks, Automated Clearing House (ACH) debit and credit processing, wire transfers, and deposits**.

Find out how you may be able to get **fees waived**, perhaps by consolidating multiple accounts at the bank or exceeding minimum balances.² Ask if your accounts can be **bundled**.

Some bank systems analyze the combined activity and balances in multiple customer accounts to assess or waive fees on a monthly basis. See page 16 of the **Participant Guide** (page 22 in this guide) for a **sample fictional bank fee schedule** that features different accounts and pricing examples. After we review the many banking services available in the following section, we will apply that knowledge, along with the information provided in the sample fee schedule, to revisit our list of banking services from **Exercise 1**.

²Businesses that manage a high volume of transactions may want to consider asking about a bank's earnings credit feature, which is typically available on accounts designed for a greater number of transactions.

Fictional Local Bank Fee Schedule for Case Study Discussion

The following fee schedule does not represent industry averages. It serves only as a reference to facilitate analysis and discussion for the Money Smart for Small Business Banking Services case study. **Highlighted** and *annotated* items represent recommendations to Eco-Grow Solutions from this fictional bank.

Key: *Subject to monthly account analysis and earnings credit review.
 ** Fees as noted, except subject to monthly account analysis and earnings credit with Level IV Business Checking.
 +Surcharges may be assessed by other institutions for the use of their ATM.

Basic Business Checking

Monthly Maintenance Fee (if minimum daily balance of \$500 is not maintained) \$4.00

Level II - Business Checking

Monthly Maintenance Fee (if minimum daily balance of \$2,500 is not maintained)\$6.00

No transaction fee for first 150 transactions in each monthly statement cycle; \$0.50 for each additional transaction

Waived if signing up for merchant services

Level III - Business Checking

Monthly Maintenance Fee (if minimum daily balance of \$5,000 is not maintained) \$20.00

No transaction fee for first 300 transactions in each monthly statement cycle; \$0.50 for each additional transaction

Level IV - Business Checking

Monthly Maintenance Fee (per monthly statement cycle)\$10.00

Fees are per item/transaction:

Items Deposited Fee* \$0.10

Remote Deposited Imaged Item\$0.10

Checks Written Fee* \$0.05

ACH Debit Service Charge

(electronic debits)..... \$0.05

On-Us Check Cash Svc Charge* \$0.05

Deposits Made Svc Charge* \$0.35

Business Money Market Deposit Account

Monthly Maintenance Fee (if minimum daily balance of \$2,500 is not maintained) \$15.00

Excess Transaction Fee (over six per statement cycle item)\$10.00

OTHER FEES

Non-Sufficient Funds Fee, Deposited Item Return Fee

Basic Business Savings Account

Statement Savings Account (free if \$1,500 minimum balance)

CASH MANAGEMENT SERVICES

ACH ORIGATION MONTHLY FEES**

ACH Origination Setup Fee **\$45.00**

Files Per Month	Service Charge
Up to 5	\$25.00
6	\$30.00
7	\$35.00
8	\$40.00
9	\$50.00
10	\$60.00
11 or more	\$90.00

ACH Risk Monitoring **\$25.00**

Business Online Banking

Entitlements \$25.00

Positive Pay Check Fraud Protection

Monthly Fee** \$25.00

Positive Pay Per Item Fee* \$0.005

Positive Pay Mismatch Item Fee** \$0.10

REMOTE DEPOSIT SERVICES

Remote Deposit Service Fee \$50.00

Per Imaged Item Fee \$0.10

Scanner Varies

ATM/DEBIT BUSINESS CARDS

ATM Free

Debit Business [Credit Card Issuer]..... Free

Transaction at Our Bank ATMs..... Free

Transaction at Other Banks' ATMs Varies

Overdraft Fee \$35.00 each instance

To be reimbursed

Section I:
Banking Services

 **Account Services**

Timing, Ease, and Security of Payment Transactions

Most payment transactions do not occur in real time, and writing a check or initiating a bank transfer when you don't have funds available can result in costly charges!

- Direct deposit, Automated Clearing House debit and credit processing, wire transfers
- Debit block
- Lockbox services
- Remote deposit capture



Money Smart for Small Business: Banking Services Available for a Small Business

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Note: Real-time gross settlement, a process in which each transaction settles immediately, is not available in the United States at all times every day, but banks are making progress in processing payments faster.

Note: Lenders can require an **ACH** form of payment for loan installments. Although federal and state laws regarding electronic fund transfers prohibit this type of compulsory repayment of a loan extended to a consumer, those laws do not apply to business credit.

Slide 16, Participant Guide page 17

Timing, Ease, and Security of Payment Transactions



Writing a check when you do not have sufficient funds available will likely lead to costly charges. Keep in mind that most payment transactions and deposits do not post to the financial institution's accounting system in real time. For example, when you deposit a check, the funds are not always immediately available, depending on the type and amount of the check deposited.

Peer-to-peer payments focus on immediate fund availability to the consumer or business rather than immediate settlement. Some businesses need access to available funds in a shorter time frame—a need you should discuss with your financial institution. Fund availability is usually listed in the account disclosures, along with the check-clearing time frames.

You can manage many payments and other financial transactions securely online.³ The examples in this section pertaining to account access may help reduce business expenses and increase transaction efficiency.

- **Direct deposit, ACH debit and credit processing, and wire transfers** allow for online transfers of funds. These types of transactions can be used for purchases, transfers to other businesses, and to pay employee salaries. Some lenders may require debits to accounts through the ACH system to collect loan payments.
- A **debit block** allows you to control whether an ACH debit transaction may be made against your business account, protecting your account from unauthorized electronic charges. Businesses use bank accounts primarily for paying employees or vendors.
- Your financial institution can process payments from your customers through **lockbox services** by allowing them to send checks or other payments to a special address that the bank assigns to your business. The bank will process

³For instructor's information (not to be covered in class): Some services are generally available to larger businesses with significant cash movement. One such service is positive pay, a cash-management feature that many commercial banks offer to help protect business accounts from ACH and check fraud. The business provides the bank with an electronic list of expected ACH transactions and checks, along with the expected amounts and dates. The bank then matches incoming checks or payments to this list. Mismatches generate a notice to the business for payment approval. This service may require paying a fee.


the payments to your account and provide a record of the transactions. Banks generally charge a setup fee for each lockbox you establish, as well as fees for monthly maintenance and processing payments.

- **Remote deposit capture (RDC)** offers business owners the convenience of depositing paper checks electronically. Qualification for RDC is subject to the approval of an application that may involve reviewing credit history and performance on the customer's existing accounts (for example, total amount of debt, payment history, check volume, average account balances, and other factors). You will need a scanner or digital camera to capture the check image as well as internet access to securely transmit the image to the bank. Equipment options depend on the anticipated volume of checks the business deposits. This service is subject to a monthly and per-item fee; however, depending on other product relationships, such as having a high-volume business checking account, banks may waive these fees.

Section I:
Banking Services


Account Services

Business Checking Accounts

 Important considerations:

- Transaction volume may determine best account type
- Know federal, state, and contract rules governing checks*
- Banks may use information systems to evaluate applicants for checking accounts (for example, ChexSystems)

*For example: Uniform Commercial Code related to losses resulting from business negligence or forged checks.



Protect yourself from check fraud liability!

Money Smart for Small Business Banking Services Available for a Small Business

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Slide 17, Participant Guide page 17

Business Checking Accounts

Now let's talk about some specific transaction accounts. Banks have different names for their checking accounts. Ask your bank representative to explain the account types so that you can select the products that best meet your business needs.

- A **small-business checking account (or flat-fee account)** generally allows fewer fee-free transactions than a regular commercial checking account, including a limited number of deposits and checks, on a monthly basis. This type of account usually has a lower minimum balance requirement than other commercial checking accounts.
- An **analyzed commercial checking account** is designed for a business that has a high volume of transactions and maintains a larger balance than the minimum required.

Compare the checking account packages offered by different banks to find the one that is best for you.

Once you are ready to open your checking account...

- **Know the rules governing checks**, as they depend largely on the law in your state. For example, many states have adopted the Uniform Commercial Code, or some variation



If you don't have a bank account, many banks offer safe, low-cost personal accounts. The **Money Smart for Adults** modules on banking include tools to compare bank fees and features of consumer accounts.

of it, which requires banks to offer business customers a “commercially reasonable” security protocol. Under this code, the bank could decide not to reimburse the business for losses if it determines those losses were the business’s fault or the result of the business’s negligence. In addition, a bank is responsible for forged checks and may voluntarily replace money fraudulently taken out of a business account. Your deposit account agreement may include more information about your liability for forged checks or other events, so read it carefully. We will cover tips to avoid forged checks in **Section III: Avoiding Fraud and Scams**.

- Some financial institutions conduct an evaluation of consumers and businesses seeking to open a personal or business checking or savings account. Banks may use information from companies that track returned checks, accounts closed, charge-offs, nonsufficient fund events, check fraud, and other negative activity before allowing you to open an account. Some of those companies are ChexSystems, TeleCheck, and Early Warning Services.⁴ Because mismanaging checking accounts can cause the closing of an account, or create barriers to reopening accounts, it is important to **learn how to properly manage a checking account**. Remember to record and track all checks, electronic debits, and ATM use on your account(s).


Many banks also have second-chance checking accounts for individuals who performed poorly with prior checking accounts.

Section I:
Banking Services

Account Services

Business Debit Cards

- Consider **convenience and risk**: ATM use, online and point-of-sale purchases, limited daily purchases/withdrawals, various cardholders
- Preloaded card** option instead of additional signers



Money Smart for Small Business: Banking Services Available for a Small Business

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Slide 18, Participant Guide page 18

Business Debit Cards

Business debit cards allow your business to withdraw cash conveniently at **ATMs** and purchase goods and services. Business debit cards facilitate **online or point-of-sale (POS) purchases** without having to use credit. Bank debit cards have a daily limit for POS purchases and cash withdrawals, as well as an overall limit. Debit cards are issued in the name of the business owner. Only an account signer is authorized to conduct debit transactions. If you have **additional signers**, each should

⁴Additional information for participants if their checking account application is rejected: A “Consumer Disclosure” report from ChexSystems shows items such as unpaid fees (primarily from overdrafts), bounced checks at retailers, and suspected fraud. Reports also list credit inquiries, check orders, and consumer-initiated security freezes. Victims of identity theft may place a freeze on their ChexSystems consumer report, which means that no new financial account can be approved unless you authorize it. Every bank evaluates this information differently. If your banking history is a reason you may be told that you cannot open a bank account, discuss your options with the financial institution, and contact the company that provided the report to the bank (for example: ChexSystems, Telecheck, or Early Warning Services).

have a card. Discuss the card's intended use and who needs access with a bank representative. The bank may suggest an alternative to debit cards that is less risky, such as a prepaid or preloaded card.

Slide 19, Participant Guide page 18

Savings Accounts

Savings help build a cushion for unexpected needs. Many entrepreneurs must rely on their savings to start a business. Setting aside money also shows your lender that you are reserving cash for anticipated expenses such as equipment or building maintenance or replacement. Businesses keep unused funds in savings or money market accounts. Such savings may serve as retained earnings or equity, which can be a positive factor in a loan application. Some types of savings accounts, such as certificates of deposit (CDs), have monthly limits on withdrawals and other transactions.

Insured CDs allow you to keep money in an account for a few weeks to several years. In return, the bank pays a higher interest rate than on checking or money market savings accounts (the longer the term, the higher the interest rate).

Entrepreneurs should always consider retirement savings programs. For more information, search the Internal Revenue Service (IRS) website, www.irs.gov, using the keywords "retirement for small business." You should also talk to a financial advisor.

Section I:
Banking Services

Account Services

- Savings Accounts:** show your lender you are reserving cash for unexpected needs
- Certificates of Deposit:** used as loan collateral; build your business credit history

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Slide 20, Participant Guide page 19

Additional Banking Services

Payroll Services

Payroll services include accounting for payroll, retirement, workers' compensation insurance payments, and federal and state taxes. Numerous **reports** can be generated for your records, including summaries for all or individual employees, date ranges, and data filters. Payroll services can also reduce the number of checks issued and the **potential for fraudulent, forged, or erroneous payroll checks**, as it can be directly deposited to an employee's account. Having a payroll account and an **operating**

Section I:
Banking Services

Additional Banking Services

Payroll services

- Benefits
 - Easier record keeping: retirement, workers' compensation, insurance payments, federal and state taxes (reports for each employee)
 - Direct deposit to employee accounts*
 - Payroll account separate from operating account
 - Zero balance feature to manage payroll and avoid fraud

*Assist employees with identifying low-cost or second-chance personal checking accounts.
Money Smart for Small Business: Banking Services Available for a Small Business
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account, which is used to pay all expenses except payroll, can simplify business accounting. A feature called **zero balance** links your operating account with your payroll account so that you only draw payroll checks from the payroll account. As each paycheck is presented to the bank, the system totals the checks and moves exactly that amount from the operating account to the payroll account, which helps prevent fraud. By monitoring these transfers, you can quickly spot amounts greater than your payroll calculation, which could be the result of an error or an altered or forged check. The payroll account will remain at zero at the end of each day's processing. Ask your bank representative about fees. This product might be most useful to medium and large corporations.



Slide 21, Participant Guide page 19

Cash Management

Small businesses may receive multiple types of payments such as cash, checks, ACH, and debit and credit card payments.

If you are a retail business that handles significant amounts of cash, you have to comply with the law by reporting all revenue to your state business revenue department and the IRS, keeping detailed records that show the legitimacy of your business revenue, and discussing options to manage cash with your bank. If you receive payments from international customers, banks may offer remittances and wire-transfer services.

Section I:
Banking Services

Additional Banking Services

- **Manage cash by:**
 - discussing options with your bank;
 - keeping detailed records;
 - reporting all your cash income; and
 - considering remittance or wire-transfer services from a bank.
- **Increase sales by using merchant services**
 - Credit and debit cards: point-of-sale card reader terminals, marketing support
 - Gift/prepaid cards
 - Online payments/orders

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Merchant Services

To accept credit and debit cards for payment, small businesses enter into a relationship for merchant processing services provided by financial institutions (some of which are banks), which facilitate connections to the card networks (American Express, Discover, Mastercard, and Visa) for authorization and settlement purposes. Additionally, merchant providers offer point-of-sale card reader terminals, marketing support, online tools including data analytics, and capabilities to issue gift and prepaid cards. The costs of merchant services are usually a percentage of the transaction.

The rates charged depend on the likelihood of chargebacks, which are losses on fraudulent or disputed transactions, as well as average transaction amounts, the number of transactions, and industry risk.



Slide 22, Participant Guide page 20

Financial and Credit Education

Financial institutions understand the value of financial and credit education. They support and collaborate with nonprofits that offer training, counseling, business plan development assistance, and microloans. For example, bankers may volunteer with local nonprofits to teach Money Smart or participate in small business information fairs.

Entrepreneurs can find out about small business development resources near them by asking their trusted advisors or visiting the Small Business Administration's website (www.sba.gov) or the Money Smart page on the FDIC's website (www.fdic.gov/moneysmart) to identify local and online resources.



Reports

Reporting functions available through online banking systems have grown in importance over the years. Today, most banks have online banking capabilities to produce reports in various formats that are compatible or can be synchronized with accounting software such as QuickBooks. Some reports provide spending charts by categories of payees or vendors that are manually or automatically classified.



Slide 23, Participant Guide page 20

Reconciling Accounts


Reconciling accounts is good practice from both a financial-management and risk-mitigation standpoint. Here are a few tips for reconciling your accounts:

- Reconcile accounts monthly at a minimum. However, with online access, you should **monitor account activity frequently**, perhaps daily, as a cybersecurity measure. You should keep paper or electronic copies of your account statements—and download those statements at least annually, as most online records are only available for a limited number of years.
- Work with your bank immediately if you have difficulty balancing bank statements with your records, or if you find

discrepancies. Banks provide online banking platforms or other mechanisms to allow you to **report any suspicious or erroneous transactions** as soon as you identify them.

- Verify that the amount paid for a check matches the **amount for which it was written**.
- Retain reports from remote-scanner software.

Section I:
Banking Services

 **Revisiting Exercise 1:
Banking Service Needs**

Go back to your **list of banking services** (page 11 in your Participant Guide) and look at the fictional bank fee schedule (page 16 of your Participant Guide).

1. Column 1: Add/review services needed now.
2. Column 2: Add/review services you may need for the next 6–24 months.

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Note: Instructors may decide how much time they will spend discussing the types of banking services needed by the case study's entrepreneurs or the participants' own business. This can be a to-do item after the training.

Slide 24, Participant Guide page 20

Revisiting Exercise 1



How will your banking service needs change over the next two years? Go back to the list of bank services for your business and the case study entrepreneurs on pages 10 and 11 of the **Participant Guide**. Review the **sample fictional bank fee schedule** on page 16 of your Participant Guide (see page 22 in this guide). Has your thinking changed?



Slides 25—26, Participant Guide page 21

Key Points to Remember: Banking Services

In the first section of this training, we learned the following:

- **Build banking relationships early on.** It pays off when you need services that are responsive to your business needs.
- Choose a bank based on an assessment of its **customer service, technology, and services available for small businesses.**
- Take advantage of multiple ways to **access your funds** and **ensure your transactions are secure.**
- Consider the **features and risks** associated with different types of **accounts and business services.**
- **Increase your business efficiency** through banking services such as payroll, cash management, and merchant processing.
- **Reconcile accounts regularly** to protect yourself from errors and fraud.

Section I:
Banking Services

Key Points to Remember

- Build banking relationships early on.
- Choose a bank based on an assessment of its resources, including customer service, technology, and services for small businesses.
- Ensure the ways to access your funds and transactions are secure.
- Consider the features and risks associated with savings and checking accounts, and business debit cards.
- Increase your business efficiency through banking services such as payroll, cash management, and merchant processing.
- Reconcile accounts as a cybersecurity measure.

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Section I:
Banking Services

Key Points to Remember (continued)

Resources

- Find financial and credit training at www.sba.gov or www.fdic.gov/moneysmart.
- Tips marked with the star icon
- Go back to Exercise 1 (What banking services do I need? What should I look for when searching for a bank?) as needed.

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Note: Instructors, this is an opportunity to recap everything learned in Section I of this training.

Useful resources from **Section I:**

- Financial and credit training information at www.sba.gov or www.fdic.gov/moneysmart
- Tips marked with the star icon
- The list of questions in **Exercise 1:** What services do you need? What should you look for in a bank?

SECTION II: Financing Options and Sources

35 minutes

SECTION II: Financing Options and Sources

- Financing Options
- Financing Sources
- Financing Readiness
 - Five C's of Credit
 - Loan Readiness Checklist
 - Understanding the Cost of Financing

Money Smart for Small Business: Banking Services Available for a Small Business 27

Slide 27, Participant Guide page 22

Small business owners typically need to borrow money to buy equipment, pay suppliers and employees, and finance their operations. You borrow to make long-term investments and address short-term cash flow challenges.

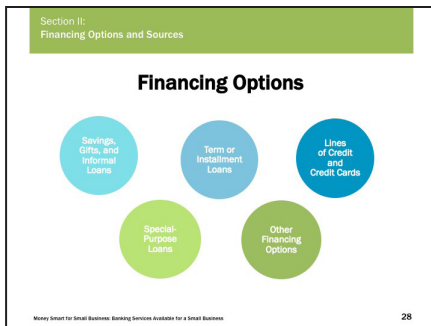
This segment of the training will help you understand the financing options available from different sources so that you can better evaluate any choices presented to you.

Note: On this slide, we can see a summary of what we will cover in Section II of this training. In the first part of Section II, we will learn about types of financing available for small businesses.

Slide 28, Participant Guide page 22

Financing Options

Most small businesses can finance operations in many ways, some of which we will discuss in more detail during this section of the module. While not all-inclusive, these financing options and sources will help you determine your borrowing needs and understand financing options from various providers. No matter what option you use, you should have a plan outlining the source of revenue that you will use to make scheduled payments. Each financing scenario has its risks, and the cost of financing is not just the interest but all costs that will accrue until you pay off your debt.



Slide 29, Participant Guide page 22

Personal Savings, Gifts, and Informal Loans

According to the U.S. Census Bureau's 2012 Survey of Business Owners, personal savings were the top source of start-up capital. Entrepreneurs often use their own savings, receive gifts, or get informal loans or investments from family, friends, or other individuals to start and grow their business. Payments toward informal loans must be part of the business cash flow until they are forgiven or paid off, and gifts may be accounted as business capital. For more information or guidance, consult with an accountant.

Section II: Financing Options and Sources

Financing Options

- No. 1 form of financing used by start-ups
- Gifts may be counted as business capital*
- Payments toward informal loans or investments by family, friends, or other individuals must be part of cash flow

Savings, Gifts, and Informal Loans

*Consult with an accountant.

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Section II:
Financing Options and Sources

Financing Options

Loan amount is \$1,500

Monthly payment is \$120

You will pay off in 15 months

Term or Installment Loans

- Funds received once loan is approved (one disbursement)
- Set amount and period of time
- Repaid in installments with interest
- Purpose: financing purchase of assets
- Secured by asset to be purchased
- New application required for additional funds

Money Smart for Small Business: Banking Services Available for a Small Business

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Slide 30, Participant Guide page 23**Business Installment Loans**

While credit lines typically are used to meet short-term cash flow requirements, business installment term loans generally are used for investments such as purchasing a vehicle, equipment, or real estate. Installment loans involve a one-time disbursement of funds, followed by regular repayment of principal and interest over a fixed period of time. Installment loans are often secured by the asset they are used to purchase. Term loans mean predictable payments for businesses, but unlike lines of credit, a business may have to submit a new application to borrow additional funds.

The amount borrowed is repaid over a set period, generally in monthly payments established based on the amortization of the amount borrowed and the interest rate. For equipment and vehicle loans, the length of financing is tied to its useful life. For commercial real estate loans, the terms are typically longer. In some cases, borrowers may wish to pay off their loans early, so be sure to ask about any prepayment penalties when you are loan shopping.

To protect its interests, the bank will record financing of real estate, equipment, inventory, plants, and machinery in county or state records and maintain an ownership in such collateral until the loan is repaid.

Section II:
Financing Options and Sources

Financing Options

Lines of Credit

Lines of Credit and Credit Cards

- Generally secured
- Used to finance any business expenses
- Requires annual credit review and renewal based on performance (length, tax returns, personal and business credit reports)
- No lump-sum disbursement at opening
- Monthly payments based on outstanding balance

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Slide 31, Participant Guide page 23**Business Lines of Credit**

Business lines of credit or revolving business lines of credit can be used to address operational expenses that may arise. Small businesses can use this type of credit line to meet short-term needs such as inventory purchases, funding accounts receivables, and unexpected expenses. A term loan is more appropriate for long-term investments.

Credit lines are generally secured with business assets such as accounts receivable, equipment, or business-owned real estate. Small lines of credit may also be available for overdraft protection on a business checking account.

Typically, the borrower is required to make monthly payments on outstanding balances. To reinforce the purpose of the credit line (that is, for meeting short-term needs), lenders may have a resting requirement built into the credit


line contract. This means that, for some portion of a year, the credit line must not be in use at all—for example, for 30 days. Per the contract with the lender, credit lines may be available as long as the borrower remains in good standing and is subject to ongoing monitoring of his or her credit performance and periodic credit review.

Most credit lines have variable interest rates tied to an index. A common index used is the prime lending rate. A margin above the prime rate is set for the duration of the credit.

A business line of credit is more like a small business credit card than a small business loan. Unlike a small business loan, no lump-sum disbursement is made at account opening that requires subsequent monthly principal payments on a set term.

Section II:
Financing Options and Sources

Financing Options Business Credit Cards



Lines of Credit and Credit Cards

- Requires full payment of balance at the end of the grace period (month) to avoid paying interest.
- Rarely reported to consumer credit bureaus unless account is delinquent.
- Can be issued for various authorized users[®]

*Liability for unauthorized use of credit cards can be greater for business credit cards than for consumer cards.

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Slide 32, Participant Guide page 23

Business Credit Cards

Credit cards allow you to make purchases using a credit line offered by the bank issuing the card. These cards have a grace period in which no interest is incurred if payment is made in full by the due date. Paying your business credit card balance in full and on time may help **build your company's credit history** and help you avoid paying interest on purchases. Not all business credit cards may report your on-time payments to the consumer bureaus for your personal credit benefit. However, if you pay your cards late, those late payments are more likely to be reported. Ask your card issuer.

Choose a credit card after carefully evaluating the interest rate (usually higher than other financing options), fees, terms, and rewards or benefits. Consider discussing your business credit card financing needs with your bank.

Additional **cards can be issued for authorized users**, but this presents a business risk because these users are not responsible for making credit card payments. Your liability for the unauthorized use of credit cards can be greater for business credit cards than for consumer cards. Before requesting a card, read the contract and speak with the bank about your responsibilities. If you have a card that you are not using, store it in a secure place.

Detailed information about your personal and business credit histories or scores is covered in the Money Smart for Small Business **Credit Module** module.

Note: The MSSB **Building Strong Business Credit** module provides detailed information about how to use credit cards to build credit history and how closing trade lines can affect personal and business credit scores. Consider teaching the MSSB **Banking Services and Credit** modules.

Section II:
Financing Options and Sources

Financing Options

- Agricultural:** for crops, livestock, or farm machinery
- Manufacturing:** for the equipment needs of manufacturing companies
- Loan guarantee programs for **veterans and military members**
- Loan guarantee programs **exporters**
- Disaster** loans for small businesses affected by natural disasters

Special-Purpose Loans

Money Smart for Small Business: Banking Services Available for a Small Business 33

Slide 33, Participant Guide page 24

Special-Purpose Loans and Loan Guarantee Programs

The following are types of commercial loans and loan guarantee programs based on the purpose and the type of borrower:

- **Agricultural loans:** for the production of crops, fruits, vegetables, and livestock; the purchase or refinancing of farmland, machinery, and equipment; the purchase of breeder livestock; and farm real estate improvements (for example, facilities for the storage, housing, and handling of grain or livestock).
- **Manufacturing loans:** for equipment loans and leases for manufacturers.
- **Veteran and military member loan programs:** for current and former service members; business loan guarantee programs available through the SBA.
- **Exporter loans:** for export companies; loan guarantee programs available through the Export-Import Bank of the United States (EXIM Bank), the U.S. Department of Agriculture, and the SBA.
- **Disaster loans:** for small businesses affected by natural and other disasters. The SBA directly administers emergency loan programs. To qualify, a business must be located in a designated disaster area as determined by the Federal Emergency Management Agency with presidential approval.

Section II:
Financing Options and Sources

Financing Options

- Leasing:** helpful to test leased equipment (maintenance cost may be included); lifetime costs higher than Buying
- Financing inventory:** loan secured by inventory; usually used to meet fluctuating seasonal cash needs
- Factoring:** selling accounts receivable at a discount to third parties
- Credit card sale loans or merchant cash advances:** upfront funds in exchange for a portion of future merchant processing revenue
- Financing receivables:** advances on credit specifically secured by accounts receivable

Other Financing Options

*Mostly available to larger businesses.

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Other Financing Options

- **Leasing:** Leasing is an option for equipment that you need but it might be expensive; it requires less cash or credit up front. You can test leased equipment, and its maintenance cost may be included in the lease payment. Also, lease payments may be a tax-deductible expense. However, the lifetime cost of leasing is higher than buying, and equipment depreciations may not be tax-deductible. Consult with an accountant and/or an attorney before signing a lease.

- **Financing inventory:** This type of financing helps businesses with cash needs resulting from seasonal fluctuations. For example, before a peak selling season, apparel manufacturers borrow to finish goods and build inventory for sale to retailers that remit payment after the season ends. In general, the amount of receivables securing a loan will be greater than the loan amount because of accounts that are not collectible and inventory that may be discounted or damaged. Your bank can tell you the maximum it will lend to your business if the loan is secured by inventory.
- **Factoring:** This is a financial transaction in which a business sells its accounts receivables to a third party at a discount. The seller gets immediate cash rather than waiting for customers to pay their invoices. Factoring is referred to as “accounts receivable factoring,” “factoring financing,” or “invoice factoring.” Factoring is not considered a loan. Because of its significant costs, business owners should carefully assess this type of financing.
- **Credit card sale loans or merchant cash advances:** Businesses with regular credit and debit card sales can establish an arrangement with a merchant cash advance firm to provide upfront funds in exchange for a portion of its future merchant processing revenue until the obligation and associated fees are repaid. Under such an arrangement, the business uses a merchant processing company to make the contracted repayment to the merchant cash advance firm. Usually such repayment is structured as a percentage of daily merchant processing revenues. Companies offering these products are generally not federally regulated financial institutions, and the fees involved can be high compared to traditional lending alternatives. Given those issues, business owners should carefully assess this type of financing.
- **Financing receivables:** These are mostly available to larger businesses. Banks use two basic methods to provide advances on credit specifically secured by accounts receivables:
 1. The borrower periodically informs the bank of the amount of receivables outstanding, and the bank advances the agreed percentage of those receivables. Payments to receivables are made directly to the borrower, who then remits them to the bank to apply all or a portion to the loan.

2. The lender receives copies of invoices, as well as shipping and delivery receipts, and advances the agreed percentage of outstanding receivables. This sometimes requires the borrower's customer to send payments directly to the bank.

Slides 35–37, Participant Guide page 24

Government Programs for Small Businesses


- The **Small Business Administration** guarantees repayment for a certain portion of the lines of credit and term loans that participating lenders make and service, allowing them to approve loans they otherwise would not. In addition, the SBA Microloan Program provides direct loans and grants to eligible nonprofit microlenders so that they may provide loans of up to \$50,000, business training, and technical assistance to newly established and growing small businesses. Finally, certain borrowers, such as veterans or victims of disasters, may be eligible for special SBA loan programs (see the **Special-Purpose Loans** section on page 34 of this Instructor Guide). See www.sba.gov.
- The **U.S. Department of Agriculture (USDA) Rural Development** provides grants, loans, and loan guarantees designed to help creditworthy rural businesses and agricultural producers obtain needed credit. These programs serve to save and create jobs. Search for “business programs” at www.rd.usda.gov.
- The **U.S. Department of the Treasury** has multiple initiatives, including programs for state-sponsored small business initiatives, to help banks and nonprofit lenders create small business programs. One is the Community Development Financial Institutions Fund (see the **Financing Sources** section below). Search for “small business programs” in the Resource Center section of www.treasury.gov.
- The **U.S. Department of Commerce's Minority Business Development Agency** has a national network of Minority Business Development Centers and domestic and international partners that provide minority entrepreneurs with technical assistance and access to capital, contracts, and new market opportunities to create jobs. See www.mbda.gov.

Section II:
Financing Options and Sources

Government Programs for Small Businesses

SBA Guaranteed Lending Programs

- Participating lenders make and service term loans and lines of credit for which the SBA extends a guarantee of repayment.
- Guarantee allows lenders to approve loans they would not otherwise be able to make.
- The SBA Microloan Program provides direct loans and grants to eligible nonprofit microlenders to make loans of up to \$50,000.



www.sba.gov

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Section II:
Financing Options and Sources

Government Programs for Small Businesses

- U.S. Department of Agriculture: grants, loans, and loan guarantees
www.rd.usda.gov
- U.S. Department of the Treasury: grants to support small business lenders and technical assistance providers
www.treasury.gov
- U.S. Department of Commerce's Minority Business Development Agency: technical assistance to entrepreneurs through a national network
www.mbda.gov

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Section II:
Financing Options and Sources

Government Programs for Small Businesses

- State and local governments operate their own programs to foster entrepreneurship in underserved communities.
- Local and federal government agencies usually have an **Office of Small and Disadvantaged Business Utilization**, which helps small businesses get government contracts.

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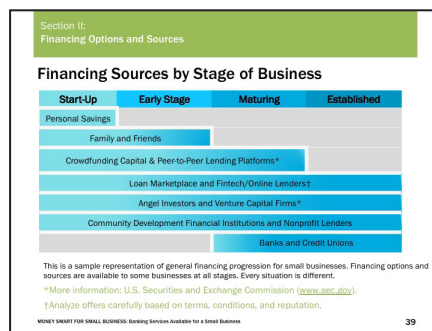
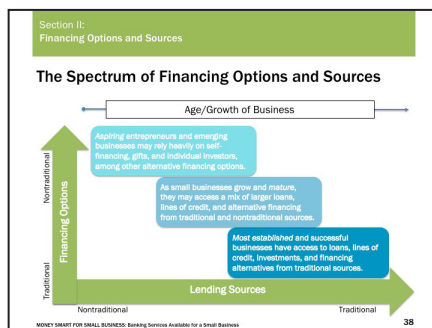
- **State and local governments** operate their own programs to foster entrepreneurship in underserved communities. Some state and local agencies offer loans directly to small businesses as part of their economic development mandates, in addition to operating loan guarantee programs that are implemented by participating private sector lenders.
- Local and federal government agencies usually have an **Office of Small and Disadvantaged Business Utilization**, which helps small businesses get government contracts.

Slides 38–39, Participant Guide page 25

Financing Sources

The Spectrum of Financing Options and Sources

The sources of financing presented in this section represent a general progression of small business financing needs, but businesses may access different financing options from various sources at any stage. Most start with self-financing and noninstitutional debt before they need or can access financing from traditional financial institutions.



Self-Financing, Family, and Friends

In the early stages of business development, many entrepreneurs rely on their own resources, investments from individuals, and nontraditional financing. Self-financing is the top form of financing used by start-ups. It gives you complete control of your company. Investing your money into the business and taking all the risk may appeal to lenders for future borrowing. Investing your funds often provides necessary funding for a business to start and operate until it is in the position to obtain outside investment dollars and to borrow from financial institutions.

Crowdfunding and Peer-to-Peer Lending Platforms

Crowdfunding refers to a financing method that involves raising money by soliciting a number of small individual investments or contributions from people anywhere in the world with access to the internet (countries have different limitations on crowdfunding). There are various types of crowdfunding, such as reward crowdfunding, in which individuals provide funds

in exchange for rewards, such as products being developed or created by the business. Another type of crowdfunding is equity crowdfunding, in which individuals provide funds in exchange for equity in the business. Crowdfunding websites in the United States are a popular method for soliciting donations for artistic endeavors such as films and music recordings. According to the U.S. Securities and Exchange Commission (SEC), the general public can participate in early capital-raising activities for start-ups and young businesses. Peer-to-peer lending is a type of crowdfunding that connects small businesses with individuals who lend smaller amounts of money.

Loan Marketplaces and Fintech/Online Lenders

Loan marketplaces are online platforms that allow borrowers to consider different types of financing from a variety of sources including banks, credit unions, merchant cash advance providers, and online lenders.

Nonbank online lenders provide loans to businesses via internet platforms or direct marketing. These lenders fund loans through various avenues, including loan sales to investors, securitization, or debt from financial institutions. Many of these providers have digital application platforms and use sophisticated technologies to make lending decisions quickly, but their rates could be higher than traditional lenders such as banks, credit unions, and community development financial institutions (see below).

Potential borrowers should carefully assess the benefits and risks involved with any type of financing and request all the terms and conditions before signing any contracts or agreements.

Angel Investors and Venture Capital Firms

Angel investors or venture capitalists provide funds in exchange for ownership in your business. Such investors expect to understand the structure and potential of your company from a business plan. If you are considering an investor, work with trusted advisors to identify legitimate financing offers, and evaluate the pros and cons. The SEC regulates venture capitalists and their private equity firms. Venture capitalists are generally interested in larger, scalable businesses.

Community Development Financial Institutions and Other Nonprofit Lenders

Community development loan funds (CDLFs) are typically nonprofit, organizations that provide loans and development services to individual consumers and small business customers. Some CDLFs may pursue the Community Development Financial Institution (CDFI) Certification, which the U.S. Department of the Treasury provides to private financial institutions dedicated to delivering responsible, affordable lending, microenterprise, and small business development services to low-income and underserved communities. CDFIs include regulated institutions, such as community banks and credit unions, as well as nonregulated institutions, such as loan and venture capital funds. Only certified CDFIs can apply for awards offered by the Treasury's CDFI Fund. CDFIs and CDLFs may have more flexible underwriting than traditional lenders because they are created to incentivize and foster development in distressed areas and communities. Visit www.cdfifund.gov for more information.

Banks and Credit Unions

According to the Federal Reserve System's 2018 Small Business Credit Survey loans, lines of credit or cash advance application trends are changing. In 2016, 51 percent of small business firms (nonemployer) sought financing at large banks, versus 49 percent in 2018; 47 percent applied to small banks in 2016, versus 44 percent in 2018. The percentage of applicants to credit unions has been a steady 9 percent, and around 5 percent to CDFIs. Applications to online lenders grew from 19 percent in 2016 to 32 percent in 2018. Banks and credit unions are considered traditional lenders. They obtain funds for lending from their depositors and must follow government regulations to ensure that they operate in a safe and sound manner and in compliance with consumer protection regulations. Banks and credit unions have refined lending processes with structured credit policies that reflect principles generally embodied in **The Five C's of Credit** section (see page 47). Understanding the five C's helps prepare a business to apply for credit.

Section II:
Financing Options and Sources

**Exercise 2:
Small Business Financing
Checklist**

Go to page 27 in your Participant Guide.

1. As a group, complete the checklist to help Rosa and Albert. Make additional assumptions as needed.
2. Complete the checklist individually as it applies to your business. Come back to the list after the training if you are not currently considering financing.

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Note: Instructors should direct participants to their guide to read additional information about the case study and remind participants that Albert already has a business bank account; however, the SBDC counselor thinks that he may benefit from establishing a more personalized relationship with a local bank that is an SBA lender and has more flexible products for small businesses.

The case study should be used to complete a checklist for the entrepreneurs, which serves as a practical opportunity to explain how to apply the checklist to the situation of each participant. There is also a blank checklist available in **Appendix 1** for class participants to use for their own businesses.

There are two copies of this form: one for the participants to complete on behalf of Eco-Grow Solutions during **Exercise 2**, and another, attached as **Appendix 1**, for the participants to complete for their own business.

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Exercise 2: Small Business Financing Checklist

15 minutes (a 15-minute break may precede this exercise).



Below are a few more details about the business options Rosa and Albert are considering. Feel free to make assumptions if you think the information provided is insufficient to help them make a decision. Later, use the checklist to evaluate offers that you may be considering, or work with other class participants as directed by the instructor.



Albert mostly leveraged his savings to launch his nursery, but he also has some personal loans from a bank and a personal credit card that he used for his business. He is not familiar with nontraditional or nonbank financing services. Last year, the nursery had a few slow months, and, as a result, he took a pay cut. This caused him to fall behind on some personal credit card bills and to miss one mortgage payment on his home.

Since that time, Albert brought in new inventory and purchased advertisements in local media outlets. This has helped his sales recover, and his customer base is now growing. Albert is still getting caught up on his personal debt, and his personal credit score took a hit because of last year's financial troubles.

Rosa has never used credit; therefore, she does not know much about financing options, and she has no personal or business credit score.

Together, Rosa and Albert are seeking \$100,000 to finance production of the new technology and product demonstrations, and to attract paying customers (the technology has only been in testing sites thus far). They seek help from a Small Business Development Center (SBDC) counselor, who introduces them to a local bank and to a certified community development financial institution (CDFI). The bank is an SBA lender that provides flexible products for small businesses, while the CDFI offers business development, technical assistance, and training, in addition to microloans.

Rosa and Albert visit the local bank first and learn that the bank can help in two ways:

1. The bank will provide a business account with convenient terms and waive some fees by offering a bundled small business package that includes low-fee merchant services.
2. The bank will provide a business credit card to help Albert establish a business credit history.

At this time, the local bank is not able to offer a \$100,000 loan because of Albert's cash flow problems, his lack of collateral or guarantors, and his inability to demonstrate that the business is able to pay back the loan. In addition, Albert has a blemished personal credit score and does not have a business credit score. Also, Rosa does not have a personal credit history.

After their visit with the bank, Rosa decides to contact an online company that advertises quick financing for businesses. Rosa submits an application and receives a response within 24 hours with an offer in terms that she does not fully understand; however, she is excited about the quick turnaround time and easy application process.

The terms offered by the online lender include a \$4,000 origination fee, which is 4 percent of the gross loan amount of \$100,000; and a \$10 monthly administrative fee with payments of 20 percent of daily business receipts until payment is completed (this is simply an example; it does not represent an average offer by online companies. The offer does not imply a disbursement in 24 hours).



Task 1: Analyze the online lender offer by using the **Small Business Financing Checklist** in page 28 of your Participant Guide.

Next, Rosa and Albert turn to the CDFI, which is a nonprofit lender. After working with the CDFI for three weeks to submit the required loan application documentation, they learn that the CDFI will be able to provide expansion financing of \$50,000 at a slightly higher interest rate than they were hoping for.

These are the terms offered by the CDFI: 12 percent APR, 60-month amortization, and a \$150 refundable loan application fee if the loan is approved. Rosa and Albert must decide to select one of the current financing options available or spend the next few months building and improving their credit histories and obtaining additional sources of revenue.

Task 2: Analyze the CDFI offer by using the **Small Business Financing Checklist** in Appendix 1. Make any needed assumptions to provide a recommendation to Rosa and Albert.

Task 3: Reproduce the **Small Business Financing Checklist** in Appendix 1 to analyze the terms of any financing that you are considering for your business if applicable.

Small Business Financing Checklist

The purpose of this tool is to encourage entrepreneurs to work with bankers, small business counselors, and technical assistance providers or other expert advisors to help them make informed decisions when seeking financing and before signing financing agreements or loan contracts. There are two copies of this form: one for you to complete for Eco-Grow Solutions during Exercise 2, and another, attached as Appendix 1, to analyze the online financing offer to Eco-Grow Solutions, or to analyze offers for your own business.

Financing Options Checklist	
1. Business Financing Opportunities	
a. Is your small business eligible for a federal, state, or local government loan guarantee or other small business program?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
b. Which lenders offer such programs?*	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
c. Have you conducted a reputational search of the lenders from which you are seeking financing, or have they been recommended by trusted advisors?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
<i>Note: Seek expert advice to evaluate all financing options.</i>	

Financing Options Checklist	
d. Do the lenders offer business training , or have you asked for their recommendations for technical assistance?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
2. Financing Agreement/Loan Contract	
a. Have you discussed potential financing terms with the lenders, including rates, duration, and covenants to expect in a loan agreement?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
b. Have you felt pressured by any lender to make a quick decision on accepting and signing financing documents without understanding them? <i>Note: Insist on enough time to get the information and advice you need.</i>	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
c. Are the lenders available to answer your questions ? Do you have their customer service contact information?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
d. Do you have a certified public accountant, business mentor, or other professional who can help you review the documents ?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
3. Loan Cost	
a. Do you understand the loan repayment schedule and breakdown of the principal and interest amounts due over time?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:

Financing Options Checklist	
b. Are any financing options short-term (less than six months)? If so, have you analyzed other options carefully by comparing the costs of different loans?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
c. Do you know the interest rate on each proposed loan, whether it is variable or fixed, and how it is calculated into your payments?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
d. What other loan fees —including origination, late, or prepayment fees—are there?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
e. Do you understand the total amount required to pay off the loans at any time during their terms?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
4. Payment Terms	
Do the loans require monthly payments or a different type of schedule (for example, daily or weekly)?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
5. Type of Financing	
a. Are the offers a loan, a merchant cash advance , or something else? <i>Note: An advance is not debt but provides upfront funds in exchange for a portion of future credit and debit card sales.</i>	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:

Financing Options Checklist	
b. If obtaining an advance, are you aware of the repayment process, restrictions, and total cost?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
6. Ability to Repay	
a. Do the lenders require information to assess your ability to repay the loans ?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
b. Are the lenders asking how you will repay the loans ?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
c. Do you know if your projected cash flow will accommodate projected loan payments?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
d. Do you understand what happens if you are unable to repay the loans?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
e. Do you understand the risks of losing property that you pledge as collateral if you don't repay the loans?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:

*State or federally sponsored small business programs and loans may have convenient terms. Check the SBA website (www.sba.gov) and state and local government websites to identify programs that apply to your line of business or business ownership structure. This checklist may help you assess such opportunities.



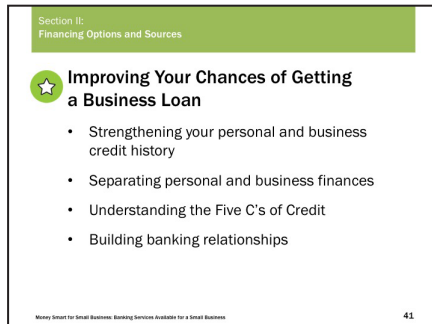
Slide 41, Participant Guide page 33

Improving Your Chances of Getting a Business Loan

A bank has many types of customers, including depositors and borrowers. Depositors put money in the bank to keep it safe, make deposits and payments, perform other financial transactions, and earn interest. Borrowers take money out of the bank in the form of loans and repay them with principal and interest payments. Essentially, the bank lends depositors' money to borrowers and is responsible for ensuring that borrowers make their loan payments.

Various factors play an important role in obtaining a loan from a bank. We will briefly discuss four:

- Strengthening your personal and business credit history
- Separating business and personal finances
- Understanding the Five C's of Credit
- Building banking relationships (see this topic in **Section I**)



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Personal and Business Credit History

When deciding to approve a business loan or line of credit, lenders will generally consider the credit history of the business owners along with the financial performance of their business. They will typically use a personal credit score to evaluate a loan applicant. Many different credit score models exist. A number of financial institutions use FICO® credit scores that consider one's payment history, debt burden, length of credit history, types of credit, and recent credit inquiries. FICO® credit scores range from 300 (lowest) to 850 (highest). To evaluate your loan application, lenders may use your personal credit score to:

- assess whether to extend credit;
- help determine how much credit to extend; and
- establish the interest rate they will charge for a loan.

Because entrepreneurs often have to assume the responsibility of financing their business—particularly during the start-up phase—personal credit history is extremely important. Entrepreneurs should, however, aspire to establish a positive



business credit history as they grow to bolster their financing and other opportunities over time.

In many circumstances, cash flow analysis is the most important factor that lenders consider. Determining the ability of the business to meet its future debt payments involves looking at business revenues and expenses. Another key factor is the business's history of meeting trade credit obligations to suppliers.



Your personal credit score reflects how well you manage money. A low score may indicate that you have not paid your loans or other bills on time, which can be a red flag to lenders about your ability to run a business successfully.

If you have no credit score or a low one, you can take steps to establish or improve it. For information on approved credit counseling agencies, visit the U.S. Department of Justice's website (www.justice.gov/ust/credit-counseling-debtor-education-information), and explore the Consumer Tools section of the Consumer Financial Protection Bureau's website (www.consumerfinance.gov/consumer-tools) for self-paced education resources and information on organizations that can help you.

In addition, you should consult with your trusted business advisor about SBA programs (see www.sba.gov), and check the **For More Information** section of this guide, as well as the Money Smart for Small Business **Credit Module** module.

Section II:
Financing Options and Sources

Improving Your Chances of Getting a Business Loan

Keep business and personal transactions separate

- Avoid comingling
- Maintain accurate bookkeeping*
- Consult with a tax advisor

Remember Albert

*Follow a proper protocol to transfer funds (ask your bank about how to generate a record of activity).

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Keep Business and Personal Transactions Separate

You should not use personal accounts for business purposes. Keeping separate savings, checking, and credit card accounts is necessary for accurate record keeping; it is also essential for tax reporting, and it may be legally required depending on your corporate structure. Keeping accounts separate is easier with online banking and business accounting software.

If you know you plan to seek financing in the next one to two years, consult with your tax advisor or accountant. Showing no net profit or consecutive losses on business tax returns could make it difficult for a business to demonstrate its ability to pay back the loan (although the lender does add back noncash

Note: Consider referring participants to the **MSSB Record Keeping, Financial Management, Tax Planning and Reporting, or Risk Management** training modules.

Note: Instructors could bring one or two examples of a loan application to add more details or complement the checklist. They could conduct the case study discussion with the full group and allocate additional time to address questions specific to some of the participants' situations. Alternatively, instructors could organize participants into smaller groups to discuss how the checklist applies to their situation.

expenses such as depreciation when assessing your ability to repay). Lenders require documentation to support their analysis. Requested documents vary depending on the loan amount and the underlying collateral. Every effort to keep orderly business and personal records pays off, particularly when you are seeking financing.

The case study entrepreneurs demonstrate the consequences of mixing personal and business transactions: Albert from Eco-Grow Solutions was not in the best position to seek the amount of financing he was expecting from a bank because he had used personal credit cards and loans for his business. Albert did not have separate business and personal records and finances.

Section II:
Financing Options and Sources

**Improving Your Chances of Getting
a Business Loan**

The Five C's of Credit:

1. Capacity: ability to repay a loan
2. Collateral: security to repay the loan
3. Credit History: credit performance of the owner(s) and the business
4. Conditions: terms of loan and business environment
5. Character: integrity, reputation, references

How do you self-rate on each C?

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The Five C's of Credit

To take the appropriate level of risk and ensure loan repayment, lenders follow core strategies that are reflected in their policies. These principles are known as the Five C's of Credit: capacity, collateral, credit history, conditions, and character.

1. **Capacity** is the cash flow that the business needs to demonstrate it can repay a loan. Lenders want to know what revenues you will use to repay the loan and whether those are documented in your financial statements and tax returns.
2. **Collateral** is a form of security you provide the lender by pledging an asset you own—such as your equipment or inventory—and agreeing it will be the source of repayment if you cannot repay the loan. When you default on a loan that involves collateral, the lender has the right to foreclose or repossess the asset used as collateral. Most lenders view seizing collateral as undesirable and therefore evaluate the adequacy of cash flow carefully to avoid it.
3. **Credit history** refers to the credit performance of the owner(s) and the business. Lenders evaluate information obtained from business and consumer credit bureaus, as well as internal financial institution information, such as performance on accounts that the owner(s) and business currently have. They consider information such as credit scores, inquiries, and utilization, as well as delinquency and judgments.

4. **Conditions** involve a variety of qualitative and quantitative measures, including the conditions of the loan (how will you use the money—to expand or to purchase equipment or inventory?); local, industry, and economic conditions; and the competition your business faces—all of which could affect your financial projections and ability to repay.
5. **Character** refers to mostly qualitative measures such as your personal integrity; business reputation; and references provided by your customers, vendors, past lenders, and other business partners, including your social media reputation and online customer reviews (however, trends and data on the use of social media and online reviews in bank credit underwriting guidelines are still unavailable or too new to assess). Character is also reflected in your personal and business credit histories.

You can explain much about how you fulfill the five C's in a business plan. Lenders want to know that you not only have a great idea but also know how to execute it.

Lenders look for a business plan that includes:

- accurate financial statements, including tax returns, a balance sheet, income statement, and cash flow statement showing how borrowed money will be repaid;
- an overview of the company that highlights the owner's experience (if you don't have management experience, consider finding a partner or employee who does);
- an explanation of the company's products or services;
- an operations plan; and
- a marketing plan.

All of these documents should focus on how your company will achieve your revenue goals and explain how it differs from the competition.

Section II:
Financing Options and Sources

Exercise 3: Loan Readiness Checklist

Go to page 36 in your Participant Guide.

1. As a group, complete the checklist to help Rosa and Albert. Make additional assumptions as needed.
2. Complete the checklist individually as it applies to your own business. Come back to the list after the training if you are not currently considering a loan.

Money Smart for Small Business. Banking Services available for a Small Business.

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Note: There are two copies of this checklist: one for the participant to complete for Eco-Grow Solutions during **Exercise 3**, and another, attached as **Appendix 2**, for the participant to complete for their business.

Slide 45, Participant Guide page 36

Exercise 3: Self-Assessment Loan Readiness Checklist

15 minutes



Go back to the details about Rosa and Albert's business that we discussed in **Exercise 2** on page 27 (page 40 in the Instructor Guide) so that you can help determine whether they are ready to pursue a loan with the bank. Make assumptions as needed.



Later, use the **Loan Readiness Checklist** on page 37 (page 50 in this guide) to determine whether you are ready to pursue a loan.

Now we are going to use a tool that may help you determine whether you are ready to pursue a loan for your business based on the documentation and other information that lenders usually require.

Because financing decisions affect the success of your business, it is important to ensure that you are ready to take out a loan and that you understand the costs of your borrowing options. We anticipate that you may not have answers to all the questions in this exercise at this time; therefore, you are encouraged to revisit the tool after this training. Any incomplete or pending answers can become action items on which to consult with your support network before going to a potential financing source. You can reach out to local technical assistance providers such as the SBA initiatives mentioned earlier in this training, or to business owners who use the products, services, or lending products that you are considering.

The following checklist includes questions that you can ask yourself during the loan-shopping process. It also includes blank space to record additional questions and notes as appropriate for you and your business.

Self-Assessment Loan Readiness Checklist

Considering these questions can make it easier when you apply for a loan. If you don't know the answer to a question, don't worry! Lenders will generally work with you to get the information needed to evaluate your application. Provide detailed explanations where appropriate. If your business ownership is divided among various people, each owner should complete the checklist questions marked with an asterisk (*). There are two copies of this checklist: one for you to complete for Eco-Grow Solutions during Exercise 3, and another, attached as Appendix 2, for you to complete for your own business.

PERSONAL INFORMATION

- 1.* Do I have the past 2–3 years of **personal tax returns**? Am I delinquent or indebted to the U.S. government?

Note: If you are delinquent or indebted, this could be a disqualification for participating in government programs.

Yes ☐ No ☐ N/A ☐
Explanation/Plan of Action:

- 2.* Do I know how much **cash** and the **value of personal assets** that I have contributed to my business (i.e., owner's equity value on the balance sheet)?

Yes ☐ No ☐ N/A ☐
Explanation/Plan of Action:

- 3.* Have I reviewed my **personal credit reports** for inaccuracies? What is my personal credit score?

Yes ☐ No ☐ N/A ☐
Explanation/Plan of Action:

- 4.* Do I know **what payments my business I can afford** toward a business loan considering all my other income and expenses, and whether I can afford to cover any business shortfalls?

Yes ☐ No ☐ N/A ☐
Explanation/Plan of Action:

BUSINESS INFORMATION

5. Do I have a full and short version of a **business plan**?

Note: Lenders typically expect 5–10 pages.

Yes ☐ No ☐ N/A ☐
Explanation/Plan of Action:

6. Do I have the past 2–3 years of **business tax returns** (including supporting schedules)?

Yes ☐ No ☐ N/A ☐
Explanation/Plan of Action:

7. Do I have 1–2 years of **business financial statements** and other financial projections, including cash flow? (If not, tax returns generally suffice for smaller business applicants)

Yes ☐ No ☐ N/A ☐
Explanation/Plan of Action:

Loan Readiness Checklist

8.* Do I have documentation of **business ownership** and changes to ownership over time, if applicable? What percentage of the business belongs to each business partner?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

9. Do I know what **corporate structure** my business is registered as (LLC, Sole Proprietor, C-Corp, S-Corp)? Do I have my business incorporation documentation?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

10. Do I have a **succession plan** or life insurance policy?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

11.* Have I reviewed my **business credit reports** for inaccuracies?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

12. Do I have all other information and documentation that the lender has requested?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

INFORMATION THAT HELPS DETERMINE THE APPROPRIATE LOAN AMOUNT AND TYPE

13. Do I constantly need money to cover production/service costs that my **cash flow** can't cover?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

14.* Do I have an existing **relationship with** one or more **bankers or lenders**?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

15.* Do I know how much money I seek to borrow? Have I ensured that the **amount is sufficient for its purpose**?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

16. Type of Loan

a. What type(s) of loan(s) do I need (installment, line of credit, etc.)? Can I explain in detail why I need a loan?

Yes ☐ No ☐ N/A ☐
 Explanation/Plan of Action:

Loan Readiness Checklist	
b. Is the loan for working capital or other short-term expenses?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
c. Is the loan for purchasing a computer or technical equipment ?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
d. Is the loan for covering expenses until my customers pay their invoices?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
e. Is the loan for fulfilling a large order ? <i>Note: You must itemize the proposed use of loan proceeds for the lender's consideration.</i>	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:
17.* What assets will I use as collateral [†] for the loan? Will adding business assets, extending personal guarantees, or having a cosigner assist in getting approval for the loan?	Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Explanation/Plan of Action:

[†]A cross-collateralization agreement is when collateral for one loan is used as collateral for another loan. A cross-collateralization clause in a loan contract stipulates that the property used as collateral for the original loan may also be collateral for any other loans that the customer takes at the same institution. This collateral could include personal assets to satisfy business debts. Talk to an attorney who specializes in financial contract law to understand the full extent of your liability before signing any financing agreements.

Note for instructor about cross-collateralization: One example could be if a customer purchases a car with a consumer loan secured by the car that includes a cross-collateralization clause. This creates a right for the lender to use the purchased car as collateral for that loan and potential future loans. If the car loan is paid off after four years but the customer stops making payments toward his business credit card debt that is secured with a personal guarantee, the lender can legally repossess the car to pay off the credit card debt because of the cross-collateralization clause.



Slides 46–47, Participant Guide page 40

Key Points to Remember: Financing Options and Sources

Consider the following important takeaways from the second section of this training:

- **Types of financing** available for your business include self-financing, angel investors or venture capitalists, crowdfunding and peer-to-peer lenders, lines of credit, and installment loans.
- Understanding the features of traditional **lines of credit and installment loans** can help you evaluate other financing options that you are considering.
- Your business may qualify for **government programs** such as loan guarantees from the SBA, USDA, and various state and local governments, depending on the purpose of the loan, revenues, and other characteristics such as business location and ownership.
- **Financing** accounts receivable, leasing, inventory, factoring, and merchant cash advances are alternatives that should be carefully evaluated and may not be available at banks.
- Your **chances of getting a loan** may improve by (a) understanding how lenders use your personal and business credit histories, (b) understanding the Five C's of Credit, (c) maintaining separate personal and business records, and (d) **preparing to apply for a loan** before contacting the lender.

Useful resources from **Section II**:

- References to government resources and programs
- Items marked with the star icon
- **Small Business Financing Checklist** (helps you ask the right questions of potential financing sources and determine the risks and benefits of each option)
- **Loan Readiness Checklist** (helps you prepare to pursue a bank loan and determine the appropriate type of financing based on your business life cycle, the purpose of your loan, etc.)

Section II:
Financing Options and Sources

★ **Key Points to Remember**

☑

- Types of financing include your own savings.
- Understanding the features of different loan products helps you evaluate financing options.
- You may qualify for government programs, depending on the purpose of the loan and other characteristics.
- You should evaluate the benefits and risks of nonbank financing.

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Section II:
Financing Options and Sources

★ **Key Points to Remember** (continued)

☑

- **Improve your chances of getting a loan by:**
 - Understanding personal and business credit histories
 - Strategically developing the Five C's of Credit
 - Maintaining separate personal and business records
 - Preparing before contacting a lender
- **Resources**
 - References to government resources
 - Small Business Financing Checklist
 - Loan Readiness Checklist

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Section III: Avoiding Fraud and Scams

15 minutes

Slide 48, Participant Guide page 41



Businesses, whether large or small, need to avoid fraud and scams. Work with your bank and other advisors to mitigate these risks.

- **Establish secure online banking protocols.** Understand what authorization, viewing, and transaction limitations apply to any online service. For example, banks may set up secured access methods and issue electronic keys or provide security tokens—external devices that generate unique credentials or passcodes sent to you by email or text message—before you can conduct online transactions. The authorization process varies among banks depending on their adoption of new technologies. Part of the account access includes setting up levels of access for employees, contractors, or partners. Some financial transactions involving banks must still be made in person. Most financial companies are concerned with cybersecurity and security threats, but banks are subject to unique requirements that ensure the security and privacy of customer information.
- **Prevent forged checks.** If your business becomes a victim of online theft, the money may not be recoverable, and the bank may not be responsible for the loss. The Electronic Fund Transfer Act and the Consumer Financial Protection Bureau (CFPB) enforce offer protections to consumers, not businesses. Fortunately, in the case of check remote deposit capture, banks are required to implement additional processing for security and to document safeguards for protecting customers' personal account information. You also should closely guard tokens and passwords. Some businesses may consider purchasing insurance from a carrier that offers network security or privacy loss policies for digital theft.
- **Protect business debit cards.** Exercise caution when using debit cards to protect yourself and your business from fraud and losses. A dishonest employee could use the card fraudulently. Federal law provides many protections to consumer debit cards that do not apply to businesses, such as limitations on liability if a card is lost or stolen. While business credit cards may have some of these protections,

Note: Electronic payments are generally protected by federal consumer protection laws: The Electronic Fund Transfer Act (EFTA) (15 USC 1693) and Consumer Financial Protection Bureau's implementing regulation, Regulation E (12 CFR Part 1005), offer protections to consumers who use electronic fund transfers and remittance services from financial institutions or others. The EFTA and Regulation E define a "consumer" as a person and therefore do not apply to businesses. No federal laws offer similar protections to businesses.

debit cards do not. Because federal law doesn't protect business debit cards, it is important to understand the terms of your bank account agreement regarding liability for unauthorized transactions. State laws may provide some protections for commercial transactions. If you lose or misplace the card, notify your bank, review the transactions on your account immediately, and report any possible fraudulent activity. Also, you should closely protect personal identification numbers associated with your debit card.

- **Reconcile your accounts regularly.** You should reconcile your accounts monthly, or more frequently with online access, as a cybersecurity measure. Work with your bank immediately if you suspect any suspicious or erroneous transactions.

Many federal agencies strive to help you understand how to protect yourself and your business from cybersecurity incidents and fraudulent activities that compromise your company's proprietary information, customer information, and the integrity of your business assets, such as bank accounts.

The next section describes several security resources offered by two federal government agencies: the Federal Bureau of Investigation (FBI) and the Federal Trade Commission (FTC).

Section III:
Avoiding Fraud and Scams

Resources by government agencies to help you avoid fraud and scams
Federal Bureau of Investigation

- **Business Email Compromise:** scam targeted to companies that perform wire-transfer payments
- **Data Breach:** leak or spill of sensitive, protected, or confidential information
- **Denial of Service:** interruption of authorized users' access their own systems
- **Email Account Compromise:** scam to request payments to fraudulent locations
- **Malware/Scareware:** software intended to disable computer systems
- **Phishing/Spoofing:** forged or fake electronic documents
- **Ransomware:** payments demanded to access company's proprietary data

www.fbi.gov key word "small business"

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Slide 49, Participant Guide page 42

Federal Bureau of Investigation Resources for Small Businesses

According to the FBI, internet crime schemes result in millions of dollars in losses to victims through various methods:

- **Business email compromise:** A sophisticated scam that targets businesses working with foreign suppliers and companies that regularly perform wire-transfer payments. The scam involves compromising legitimate business email accounts through social engineering or computer intrusion techniques to conduct unauthorized fund transfers.
- **Data breach:** A leak or spill of data released from a secure location into an untrusted environment. Data breaches can occur at the personal and corporate levels and involve sensitive, protected, or confidential information that is copied, transmitted, viewed, stolen, or used by an unauthorized person.

- **Denial of service:** An interruption of an authorized user's access to any system or network.
- **Email account compromise:** A scam that targets the general public and professionals associated with a business, including financial and lending institutions, real estate companies, and law firms. Perpetrators use compromised email addresses to request payments to fraudulent entities.
- **Malware/scareware:** Malicious software intended to damage or disable computers and computer systems. Perpetrators sometimes use scare tactics to solicit funds from victims.
- **Phishing/spoofing:** Forged or fake electronic documents. Spoofing generally refers to the dissemination of email forged to appear as though it were sent by someone other than the actual source. Phishing, also referred to as vishing, smishing, or pharming, is often done with a spoofed email. It is the act of sending an email falsely claiming to be from an established, legitimate business to deceive the unsuspecting recipient into divulging personal, sensitive information, such as passwords, credit card numbers, and bank account information. These personal details are collected by directing people to visit a specified website solely set up to steal their information.
- **Ransomware:** A form of malware that targets human and technical weaknesses in organizations and individual networks that cuts off access to critical data or systems. Ransomware is frequently delivered through phishing emails, resulting in the rapid encryption of sensitive files on a corporate network. When the victim organization determines it is no longer able to access its data, the cyber perpetrator demands a ransom payment, typically in virtual currency such as Bitcoin, in exchange for regaining access to the data.

Other frequent instances of internet fraud, according to the FBI, include business, credit card, or internet auction fraud; investment schemes; Nigerian letter fraud; and nondelivery of merchandise.

You can find more on the most common complaints and scams, including information on internet crime schemes and prevention tips, in the annual reports of the FBI's Internet Crime Complaint Center (www.ic3.gov).

Section III:
Avoiding Fraud and Scams

Resources by government agencies to help you avoid fraud and scams

Federal Trade Commission

- Division of Consumer and Business Education works to help you learn how to avoid scams
- Common scams targeted to small businesses:
 - Pay for supplies that were not ordered
 - Donate to fake charities
 - Malware
 - Fake home-based business opportunities
- Resources:
 - Publications and blogs with tips to avoid scammers
 - Videos, workshops, and guidance on getting credit, fintech, cybersecurity

www.ftc.gov key word "small business"

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Slide 50, Participant Guide page 43

Federal Trade Commission Resources for Small Businesses

The FTC is another agency that seeks to protect consumers, including small businesses and nonprofits, by stopping unfair, deceptive, or fraudulent practices in the marketplace.

The FTC's Division of Consumer and Business Education works to help you learn how to avoid scams targeting small businesses, protect your business computers and networks, keep your customer and employee data safe, and protect your company's bottom line.

According to the FTC, scammers frequently target small businesses by using deceptive tactics to get them to pay for supplies they didn't order or to donate to fake charities.

Scammers also trick businesses into giving them access to the company network or downloading malware that can corrupt the business's computers. If you are a home-based business—or if you are in the market for a job, investment, or business to run in your off-hours or as an encore career—some very convincing promoters are out there who promise high returns, low risk, and golden opportunities just waiting for the right buyer. Take the time to ask questions that can keep you from getting ripped off. Go to www.consumer.ftc.gov/jobs for tips on how to avoid various types of scams.

Small business owners can protect themselves and their business from scams if they know how to spot them. Visit www.ftc.gov/smallbusiness for the following resources:

- "Small Business Scams," a publication based on FTC cases, includes the telltale signs of the most common scams targeting small businesses.
- "Protecting Your Business From Fraud" is a video that provides tips on avoiding scammers who try to get small businesses to pay for office supplies, business directory listings, or internet services they haven't ordered.
- FTC blog posts provide updates on the latest scams targeting small business owners. For example, the blog entry "Business buyer beware" alerts business owners to deceptive payment-processing practices and highlights specific cases. For more information about cases and proceedings, such as those related to fraudulent payment-

processing companies, a database is available in the Enforcement section of the FTC website (www.ftc.gov/enforcement).


The following are additional business guidance and workshops from the FTC:

- **Getting credit:** At www.ftc.gov/smallbusiness, you can find plain-language guidance on securing credit for your company by searching for “Getting Business Credit,” which explains your rights when seeking a business loan. The FTC is responsible for enforcement and education under the Equal Credit Opportunity Act, specifically for nonbank financial service providers such as car dealerships.
- **Fintech:** According to the FTC, fintech/marketplace lenders are typically nonbank financial platforms that leverage technology to reach potential borrowers, evaluate creditworthiness, and facilitate loans. Marketplace lending can provide an avenue for consumers and small businesses to quickly obtain loans that might not be available from traditional sources.
- **Credit and debit cards from customers:** By law, businesses must take steps to ensure that charges to customers’ credit cards, debit cards, phone bills, and other accounts are authorized. This also applies to mobile payments. It is illegal to bill customers for automatic shipments without their express consent. For more information about compliance standards for payments and billing, search for “mobile payments,” “credit card payments,” and “billing” at www.ftc.gov/smallbusiness.
- **Cybersecurity:** Technology is the backbone of many small businesses. From accounting, marketing, and human resources to promoting the business and conducting transactions with customers, small business owners depend on technology, even if it’s only a computer and phone. The FTC’s “Start With Security” resources (at www.ftc.gov/smallbusiness) are the centerpiece of the agency’s cybersecurity guidance for businesses, featuring ten lessons that any business, regardless of size or type, can learn from the FTC’s data security cases. For each lesson, the FTC has created a brief video to explain the principles in simple terms that everyone in your company can understand.

Section III:
Avoiding Fraud and Scams

Summary

- What final questions do you have?
- What have you learned?
- How would you evaluate the training?



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Note: Instructors are encouraged to complete this section with local resources and briefly review them during class—or invite representatives of those organizations to a networking session before or after the training. Useful local resources include the local Small Business Development Center, Women's Business Center, SBA district office, banks, CDFIs, local economic development organizations and chambers of commerce, and other organizations that provide financing and assistance to aspiring and existing entrepreneurs.

Slide 51, Participant Guide page 45

Summary

We have covered a lot of information. What final questions do you have?

For More Information

National Resources

USA.gov

www.usa.gov/business

This official portal of the United States government provides guidance and resources to help you start or finance your business, get government contracts, comply with business laws and regulations, and more.

U.S. Small Business Administration

www.sba.gov

Answer Desk: 1-800-827-5722

The SBA website provides resources, answers to frequently asked questions, and free online tools, including information on writing business plans, buying or selling a business, government contracting, accounting, attracting investors, cybersecurity, fundamentals of crowdfunding, customer service, and more.

SCORE

www.score.org

SCORE is a nonprofit that provides counseling, mentorship, and training, as well as free online resources such as templates for business, finance, and marketing plans; how-to guides; self-paced modules on financing, contracting, and cash flow management; and more.

America's Small Business Development Center Network

<https://americassbdc.org>

You can find Small Business Development Centers (SBDCs) at many colleges and universities. SBDC counselors provide business training and consulting, including business-planning and loan-packaging assistance, and can connect you with regional and local business resources and lending institutions.

Women's Business Centers

www.sba.gov/tools/local-assistance/wbc

This national network of centers is designed to level the playing field for women entrepreneurs, who still face unique obstacles in the business world. The network provides comprehensive training and counseling on a variety of topics in several languages.

Financial Literacy and Education Commission

www.mymoney.gov

1-888-My-Money (696-6639)

MyMoney.gov is the federal government's one-stop shop for financial education resources from more than 20 agencies.

Consumer Financial Protection Bureau

www.consumerfinance.gov

The CFPB Consumer Tools menu (see main navigation on the website) has useful information for entrepreneurs in two sections. "Money Topics" addresses frequently asked questions, key terms, and tools on consumer finance topics of interest, including bank accounts and services. Under "Guides," you will find self-paced guides on topics such as "navigating the military financial lifecycle."

Federal Trade Commission

www.ftc.gov/tips-advice

The FTC's Tips and Advice page includes a "Business Center" tab that has five sections: Advertising and Marketing, Credit and Finance, Privacy and Security, Selected Industries, and Protecting Small Businesses. Each section has videos, self-paced materials, guides, publications, and other information.

Federal Deposit Insurance Corporation

www.fdic.gov

The FDIC encourages bank lending to creditworthy small businesses. It also encourages small business owners with inquiries or concerns about the availability of credit to contact the FDIC Small Business Hotline at 1-855-FDIC-BIZ or www.fdic.gov/smallbusiness.

Resources for small business owners who want to conduct business with the FDIC are available at www.fdic.gov/buying/goods.

For more information about the Money Smart for Small Business curriculum and the Money Smart Alliance, and to learn about FDIC events, visit www.fdic.gov/moneysmart.

Local Resources

[To be completed by MSSB Training Host]

Slide 52, Participant Guide page 47–49

Post-Survey and Evaluation

We would like your feedback on this class.

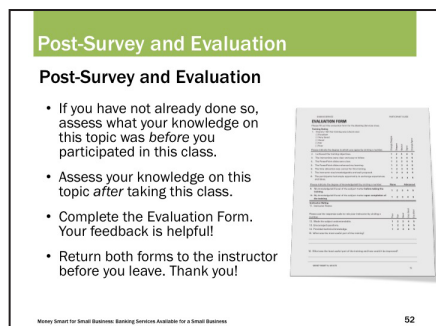
Please complete and return the **Evaluation Form** on page 49 of the **Participant Guide**.

What Do You Know? Form

The **What Do You Know?** form on page 4 of your **Participant Guide** allows you to compare how much you knew before the class with how much you have learned. Please take a few minutes now to complete the “After Training” column. Which statements do you agree or strongly agree with?

Post-Survey

Take a few minutes to complete the **Post-Survey** beginning on page 47 of your **Participant Guide**. Check to see how many answers you can provide after having attended this class.



Post-Survey

Now that you've gone through the training, see what you've learned.

1. Which of the following is NOT a banking service? Select all that apply.
 - a. Business checking account
 - b. Business debit card
 - c. Business credit card
 - d. **Real estate sales**
 - e. Financing receivables
 - f. Line of credit
 - g. Term loan
 - h. Cash management
 - i. Merchant services
 - j. Payroll processing
 - k. Financing fixed assets
 - l. Wealth management (SIMPLE IRA, 401(k), SEP)
2. The Electronic Fund Transfer Act and the Consumer Financial Protection Bureau, which is responsible for enforcing the act, offer protections to consumers, not businesses.
 - a. **True**
 - b. False
 - c. It depends
3. To help protect against fraud, most banks can link an operating account to a payroll account. The payroll account will have what's known as a _____.
 - a. Bond protection feature
 - b. **Zero balance feature**
 - c. Call provision feature
 - d. Checking account reconciliation feature
4. Positive pay services are a cash-management feature that many commercial banks offer to help protect your account from _____.
 - a. Overdraft, so that the balance always stays positive
 - b. **Being subject to Automated Clearing House (ACH) and check fraud**
 - c. The bank's failure
 - d. Running out of cash when you are a cash-based business
5. Most banks will not permit direct depositing for a business.
 - a. True
 - b. **False**
6. Which of the following is a cash-management service a bank might provide? Select all that apply.
 - a. **Online banking**
 - b. **Sweep account**
 - c. **Remote deposit scanner**
 - d. **Lockbox service**
 - e. **ACH debit processing**

7. Which of the following best describes a lockbox service?
 - a. A service that maintains records on paying employees
 - b. **A service in which payments to a business are mailed to and processed by a bank**
 - c. A service for accepting and processing online payments
 - d. A service that provides a secure place for business valuables, such as ownership documents
8. Which of the following best describes the term “loan guarantee”?
 - a. A promise that a bank makes to keep interest rates at a certain level over a contracted period of time
 - b. A promise to allow a borrower to back out of a loan if it does not suit the borrower’s needs
 - c. A promise that a borrower makes to receive a loan
 - d. **A promise made by a guarantor to repay a loan if the borrower does not repay it**
9. Checking accounts can be coded to sweep funds *from* or *to* a line of credit.
 - a. **True**
 - b. False
10. Select all that is true about FDIC deposit insurance.
 - a. **FDIC insurance covers all deposit accounts, including checking and savings accounts, money market deposit accounts, and certificates of deposit.**
 - b. **The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.**
 - c. The standard deposit insurance covers 401(k) investments in stocks, bonds, and mutual funds.
 - d. You need to purchase a private insurance policy for standard deposit insurance.

Evaluation Form

Please fill out this evaluation form for the Money Smart for Small Business Banking Services training.

Training Rating

1. Overall, I felt the training was (check one):

☐ excellent

☐ very good

☐ good

☐ fair

☐ poor

Please indicate the degree to which you agree by circling a number.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The PowerPoint slides were clear.	1	2	3	4	5
5. The PowerPoint slides enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this training.	1	2	3	4	5
7. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
8. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

Please indicate the degree of knowledge/skill by circling a number.

9. My knowledge/skill level on the subject matter before taking the training.	1	2	3	4	5
10. My knowledge/skill level on the subject matter after completing the training.	1	2	3	4	5

Instructor Rating

11. Instructor name:

Please rate your instructor by circling a number.

	Poor	Fair	Good	Very Good	Excellent
12. The instructor made the subject understandable.	1	2	3	4	5
13. The instructor encouraged questions.	1	2	3	4	5
14. The instructor provided technical knowledge.	1	2	3	4	5
15. What was the most useful section of the training?					

16. What was the least useful section of the training, and how could it be improved?

Glossary of Terms

Automated Clearing House (ACH): The ACH Network is an electronic fund transfer system that processes payroll, direct deposit, tax refunds, consumer bills, and tax and other payments. ACH Network operating rules and guidelines are published by the National Automated Clearing House Association (NACHA).

Automated Clearing House (ACH) debit and credit processing: ACH debits are when you provide your authorization to a company to arrange a payment from your bank account to the entity being paid. Direct payment of mortgages and loans are examples of ACH debits from your bank account. ACH credits are when you initiate the payment to be sent from your bank account to the entity being paid. Direct deposit of payroll and government benefit payments are examples of ACH credits that a business would pay to another entity.

Bundled accounts: Bundling is packaging multiple types of accounts together—such as a savings account or checking account with a certificate of deposit, credit card, individual retirement account, or consumer loan—to offer bank customers a convenient way to streamline their finances.

Consumer Financial Protection Bureau (CFPB): The CFPB is an independent agency of the U.S. government that protects consumers from unfair, deceptive, or abusive practices and takes action against companies that break the law. The CFPB provides information and tools that help consumers make financial decisions (www.consumerfinance.gov).

Business banking services: For the purposes of the Money Smart for Small Business Banking Services module, business banking services are all products and services available to businesses.

Business credit history: A record, sometimes also referred to as a business credit file or profile, of a business's ability to repay debts and its demonstrated responsibility in repaying debts (see **personal credit history**).

Debit block: A debit block protects your bank accounts from unauthorized electronic charges.

Disbursement: The spending, distribution, or payout of money.

Earnings credit feature: A daily calculation of interest paid on idle funds that is used to offset banking fees. This feature enables customers with larger deposits and balances to pay lower fees on their checking accounts.

Electronic Fund Transfer Act (EFTA): The U.S. Congress passed the EFTA in 1978 to protect individual consumers who engage in electronic fund and remittance transfers.

Fee schedule: A list of fees for applications or services provided by financial institutions.

FICO® credit score: A number used to predict how likely you are to default on credit obligations. Companies use credit scores to make lending decisions. FICO stands for the Fair Isaac Corporation.

Lockbox services: A service provided by banks for companies to receive payments from their customers. Business customers are directed to send payments to a special post office box instead of going to the company. The bank retrieves the payments and deposits the funds into the company's bank account.

Merchant processing company: A party that provides transaction processing for a business to accept credit and debit cards. Some banks act as their own card processors, while others sell the services of third parties. For example, banks may issue Visa or Mastercard credit cards, but Visa and Mastercard are card networks, and Total Systems Services provides merchant processing services.

Merchant services: A category of financial services used by U.S. businesses authorized by financial service regulators. Merchant services allow a business to accept credit or debit card transactions using online ordering or point-of-sale systems.

Personal credit history: A record, sometimes also referred to as a consumer credit file or profile, of an individual's history of managing credit. It includes information on individual credit accounts and those closed within a period of time.

Point of sale (POS): A term used for all applicable retail, store, checkout, or cashier systems that process the electronic transfer of payments (that is, credit or debit cards, or mobile payments) for goods or services.

Positive pay services: A cash-management feature offered by many commercial banks to help protect accounts from ACH and check fraud.

Prepaid/preloaded card: A prepaid card is used to access money that you load onto the card before using it.

Prime lending rate: Also called the base rate, this is an interest rate determined by individual banks based on Federal Reserve rates. The rate is used as a reference for many types of loans, such as those to small businesses and large corporations.

Real-time gross settlement: The Federal Reserve banks provide a real-time gross settlement system that enables participants to initiate fund transfers that are immediate, final, and irrevocable once processed. Depository institutions and other financial institutions that hold an account with a Federal Reserve bank are eligible to participate. This service is generally used to make large-value, time-critical payments.

Remittances: See **wire transfer**.

Second-chance checking accounts: These accounts are available for individuals who may have mismanaged a checking account in the past. Second-chance accounts don't have all the features of standard checking accounts and have higher fees and more restrictions than traditional accounts. They can help people rebuild their banking history and are more convenient than the alternatives of using check cashing and purchasing money orders.

Security token: A portable device that authenticates a person's identity electronically by storing certain personal information.

Settlement: See **real-time gross settlement**.

Wire transfer: Any electronic transfer of money from one person to another. Transfers made from the United States to other countries are considered "remittance transfers" under federal law.

Appendix 1: Small Business Financing Checklist

The purpose of this tool is to encourage entrepreneurs to work with bankers, small business counselors, and technical assistance providers or other expert advisors to help them make informed decisions when seeking financing and before signing financing agreements or loan contracts. There are two copies of this form: one for you to complete for Eco-Grow Solutions during Exercise 2, and this one here in Appendix 1, which you should complete for your own business.

Financing Options Checklist

1. Business Financing Opportunities

- Is your small business eligible for a **federal, state, or local government loan guarantee** or other small business program?
- Which lenders offer such programs?*
- Have you conducted a **reputational search** of the lenders from which you are seeking financing, or have they been recommended by trusted advisors?

Note: Seek expert advice to evaluate all financing options.

- Do the lenders offer **business training**, or have you asked for their recommendations for technical assistance?

2. Financing Agreement/Loan Contract

- Have you discussed potential **financing terms** with the lenders, including rates, duration, and covenants to expect in a loan agreement?
- Have you **felt pressured** by any lender to make a quick decision on accepting and signing financing documents without understanding them?

Note: Insist on enough time to get the information and advice you need.

- Are the **lenders available to answer your questions**? Do you have their customer service contact information?
- Do you have a certified public accountant, business mentor, or other professional who can help you **review the documents**?

3. Loan Cost

- Do you understand the **loan repayment schedule** and breakdown of the principal and interest amounts due over time?
- Are any financing options **short-term** (less than six months)? If so, have you analyzed other options carefully by comparing the costs of different loans?
- Do you know the **interest rate** on each proposed loan, whether it is variable or fixed, and how it is calculated into your payments?
- What **other loan fees**—including origination, late, or prepayment fees—are there?
- Do you understand the **total amount** required to pay off the loans at any time during their terms?

Financing Options Checklist**4. Payment Terms**

Do the loans require **monthly payments** or a different type of schedule (for example, daily or weekly)?

5. Type of Financing

- a. Are the offers a loan, a **merchant cash advance**, or something else?

Note: An advance is not debt but provides upfront funds in exchange for a portion of future credit and debit card sales.

- b. **If obtaining an advance**, are you aware of the repayment process, restrictions, and total cost?
-

6. Ability to Repay

- a. Do the lenders require information to **assess your ability to repay the loans**?
- b. Are the lenders asking how you will **repay the loans**?
- c. Do you know if your **projected cash flow** will accommodate projected loan payments?
- d. Do you understand **what happens if you are unable to repay the loans**?
- e. Do you understand the **risks of losing property that you pledge as collateral** if you don't repay the loans?
-

*State or federally sponsored small business programs and loans may have convenient terms. Check the SBA website (www.sba.gov) and state and local government websites to identify programs that apply to your line of business or business ownership structure. This checklist may help you assess such opportunities.

Appendix 2: Self-Assessment Loan Readiness Checklist

Considering these questions can make it easier when you apply for a loan. If you don't know the answer to a question, don't worry! Lenders will generally work with you to get the information needed to evaluate your application. Provide detailed explanations where appropriate. If your business ownership is divided among various people, each owner should complete the checklist questions marked with an asterisk (*). There are two copies of this form: one for you to complete for Eco-Grow Solutions during Exercise 3, and one here in Appendix 2, which you should complete for your own business.

Loan Readiness Checklist

PERSONAL INFORMATION

- 1.* Do I have the past 2–3 years of **personal tax returns**? Am I delinquent or indebted to the U.S. government?

Note: If you are delinquent or indebted, this could be a disqualification for participating in government programs.

- 2.* Do I know how much **cash** and the **value of personal assets** that I have contributed to my business (i.e., owner's equity value on the balance sheet)?

- 3.* Have I reviewed my **personal credit reports** for inaccuracies? What is my personal credit score?

- 4.* Do I know **what payments my business I can afford** toward a business loan considering all my other income and expenses, and whether I can afford to cover any business shortfalls?

BUSINESS INFORMATION

5. Do I have a full and short version of a **business plan**?

Note: Lenders typically expect 5–10 pages.

6. Do I have the past 2–3 years of **business tax returns** (including supporting schedules)?

7. Do I have 1–2 years of **business financial statements** and other financial projections, including cash flow? (If not, tax returns generally suffice for smaller business applicants)

- 8.* Do I have documentation of **business ownership** and changes to ownership over time, if applicable? What percentage of the business belongs to each business partner?

9. Do I know what **corporate structure** my business is registered as (LLC, Sole Proprietor, C-Corp, S-Corp)? Do I have my business incorporation documentation?

10. Do I have a **succession plan** or life insurance policy?

Loan Readiness Checklist

11.* Have I reviewed my **business credit reports** for inaccuracies?

12. Do I have **all other information** and documentation that the lender has requested?

INFORMATION THAT HELPS DETERMINE THE APPROPRIATE LOAN AMOUNT AND TYPE

13. Do I constantly need money to cover production/service costs that my **cash flow** can't cover?

14.* Do I have an existing **relationship with** one or more **bankers or lenders**?

15.* Do I know how much money I seek to borrow? Have I ensured that the **amount is sufficient for its purpose**?

16. **Type of Loan:**

- a. **What type(s) of loan(s)** do I need (installment, line of credit, etc.)? Can I explain in detail why I need a loan?
- b. Is the loan for **working capital** or other short-term expenses?
- c. Is the loan for purchasing a **computer or technical equipment**?
- d. Is the loan for **covering expenses** until my customers pay their invoices?
- e. Is the loan for fulfilling a **large order**?

Note: You must itemize the proposed use of loan proceeds for the lender's consideration.

17.* What **assets** will I use as collateral[†] for the loan? Will adding business assets, extending personal guarantees, or having a cosigner assist in getting approval for the loan?

[†]A cross-collateralization agreement is when collateral for one loan is used as collateral for another loan. A cross-collateralization clause in a loan contract stipulates that the property used as collateral for the original loan may also be collateral for any other loans that the customer takes at the same institution. This collateral could include personal assets to satisfy business debts. Talk to an attorney who specializes in financial contract law to understand the full extent of your liability before signing any financing agreements.

Thank you for presenting this module. Consider providing training on other Money Smart modules. Visit **www.FDIC.gov/moneysmart**.

Visit **www.fdic.gov/education** for information and resources on banking-related issues and to sign up for FDIC Consumer News, which provides practical guidance on financial services.

The FDIC Consumer Response Center at 877-ASK-FDIC (877-275-3342) is responsible for investigating all types of consumer complaints about FDIC-supervised institutions and for responding to consumer inquiries about consumer laws, regulations, and banking practices.



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