ALL NATIONS TRUST COMPANY

WHAT A LENDER LOOKS FOR

ALL LOAN PROPOSALS SHOULD CLEARLY ANSWER 5 QUESTIONS:

- HOW MUCH MONEY YOU WANT
- WHAT YOU WANT IT FOR
- WHEN YOU WILL PAY IT BACK
- HOW YOU WILL PAY IT BACK
- WHAT IS OFFERED AS SECURITY

KEY COMPONENTS A LENDER LOOKS FOR IN A LOAN PROPOSAL AND WHY:

MANAGEMENT:

Experience: Is there a work history in that particular industry.

Research: Does management appear to understand their business.

Support: If the direct experience from the owner is not there, training and support would be a benefit from someone directly involved in a similar business. Including relevant training or courses from Supplier, Mentor or educational institution or seminars provided in the industry.

Character: Management must consider the possible decline to the industry/business and be aware that the business operations or industry may not always perform according to plan. Be committed to the business operations during the down turns and see the business operation through.

CASH FLOW:

Cash flow is really just the difference between all the money you receive in a given period minus all the money you have to pay out. This difference represents the surplus cash from operations that is available to purchase capital assets and to service debt obligations.

INVESTMENT:

Investment, used in the context of a loan, refers to your equity in a business.

Loans are not intended to replace your own investment in a business. Borrowed funds are intended more to supplement your own investment. There are several very good reasons for the lender and you to have your own equity:

1) The more funds you borrow, the more that creditors have at risk in your business, the greater is the prospect of business failure.

2) If you have more debt outstanding that is realistic, your business will have to make heavier payments to survive.

3) A lender doesn't want to make it easy for you to walk away from your business.

   A lender is only successful if you succeed and, conversely, if a business fails, everybody gets hurt, especially the borrower. This is the dark side of borrowing and sometimes a lender does you a service if you are told that you need more equity.

4) The loan value of security to a lender is quite substantially less than the market value, purchase price, or the value of an asset working in a business that produces revenue.

   Anyone who has tried to buy an asset repossessed by a Bank or who has attended an equipment auction knows that resale values of seized assets are much lower than the owner originally paid for them. Lenders know this as well and therefore they will only finance a certain portion of the cost of these assets. Some guidelines are below offered for your consideration:

   a) Inventory: Usually the lower of 50% of cost or market value.

   b) Leaseholds: Usually 50% of cost.

   c) New or near new equipment (within 5 model years old): 65% of cost. Old equipment (over 5 model years old): 50% of cost.

d) Receivables: Usually 66 2/3% of any receivable where no portion is outstanding over 60 days past due.

e) Your equity also provides your opening working capital; the "walking around" money that you use to pay current expenses and operate with while the business builds up to a point that it commences to throw off cash flow.

At best, a lender will only lend a portion of your working capital and it must be seen that you have cash to meet expenditures. A good rule of thumb in retail is to see that you have enough cash on hand to pay 60 days expenses. However you may need more or less depending upon cash flow and the type of business you are in. You determine the level of cash reserves you require by completing a cash flow projection and allowing yourself enough room for delays in receipt of cash plus unforeseen expenses.

Understand the importance of equity from whatever source; contributed assets, cash, contributed grants, etc. Any lender knows why equity is important and if this is not reflected in your loan proposal the lender will again conclude that financial management needs to be improved and your loan application may be declined.

INDUSTRY:

In a large part, you are assembled to discuss industries, share your ideas and promote First Nations business. Lenders and any other creditor (such as suppliers) also have a keen interest in First Nations business.

Your loan proposal must explain your industry and position within that industry. You must assume that the lender has only a general knowledge of the industry and knows very little about your specific situation. Minimally, your loan proposal must explain the following:

1) Explanation of market and goods, products, and services provided by your business to that market. Demographic information is helpful to give indication of market size. Bear in mind the suitability of your business to the market which it serves. Show how the business is suited to the area.

2) Market share. Do you have a marketing plan? One of the great dangers in any operation is the prospect that similar businesses will open up within the same trading area. Being the "Firstest with the Mostest" can be an advantage. On the other hand it could also mean that no one else does that type of business in your area because it can't work or it could mean that others will later try to reproduce your business, in your area. Are there many barriers to entry in your type of business or can almost anyone

do it? A lender won't know any of these things unless your marketing plan tells them.

3) Competitive edge. If you have any competitors a lender needs to know what advantage you have or will create to capture, maintain, or increase market share. How are profit margins affected by competition?

4) General industry trends. Are there changes taking place within the industry and can you adapt, is it cyclical or steady? Is the industry in general decline or on the rise? Is there a trend towards rapid technological change or specialization, etc?

5) Sensitivities. Is the industry very sensitive to Government legislation or are there environmental concerns? How might these affect operating costs or how could revenues be impacted? How can you blunt the particular risks of your industry?

SECURITY:

Collateral is a back up source of repayment in the event of insolvency. The general level of loan advance that is available under for asset purchases is detailed in the "investment" section, above. To establish asset values, you may, at times, be required to pay for an appraisal.

Individual circumstances may permit a lender to provide more or less funding against value of various assets. Those circumstances would normally relate to the length of time in business, historical performance, and general other collateral which may be used to secure loans.

In most situations in lending to small business, personal guarantees are taken by lenders in addition to the security offered by the business itself. For Band operated ventures, a Band will quite often provide its guarantee of advances.

For businesses on reserve, the Band will also be required to pass a Resolution allowing the lender on reserve to gain access to collateral and to otherwise conduct business with the client.

It is likely to seem to you that a lender will want more security coverage than the amount of the loan suggests is necessary. As mentioned in the "investment" section this relates to the fact that security is worth much less in the hands of the lender than it is worth in the employ of the borrower.

Please note also that the term of repayment for the loan must fall well within the anticipated working useful life of the asset. This is so that you can establish an improved equity in your business assets and to ensure the lender that the loan will be paid off before the assets become obsolete or wear out through use.

Also, a well secured loan means a reduced risk for a lender and so better security on a loan usually means that you as a borrower should get more favourable terms in respect of interest rates or perhaps amortization.

INTEREST RATES/RETURN:
A lender needs to make a fair return on a loan arrangement with you.

Pricing of loans is based primarily on risk assessment and market rates and generally, the safer the loan, the lower the interest rate that can be charged.

Presently one can expect to pay between 10% to 12% for loans having an amortization period of 3 to 5 years. Rates are negotiated individually and also take into account the prospect of future business, etc.

When you assess a loan offer from a lender, consider all aspects of the offer and especially consider whether you can work with the lender and if the lender supports the Business Plan that you wish to enact. Above all else, you must feel comfortable with the loan arrangements and you must know that your business is important to the lender.