



Arizona SME Financial Planning Program

DISCUSSION DOCUMENT

JERRY HANNA CLEARFLOW GROUP US INC.

Key Questions for Finance- Lending

1. What is the size of the company
2. Is this a new operation or expansion
3. How many years in business
 1. In Arizona
 2. In US
 3. In Canada
 4. In Mexico
4. Is this a:
 1. local operation
 2. national based
 3. International based
5. Is the business registered in:
 1. USA - EIN
 2. Arizona – Arizona Corporations Division

Key Questions for Finance- Lending

1. Are you :

1. A USA Resident
2. Resident Alien
3. Foreign Investor

2. Do you have a:

1. Social Security Number
2. Employer Identification Number (EIN) – SS4 Form
3. Tax Identification Number (TIN) – W7 Form
4. Request for Tax Identification Number – W9 Form
5. Approved Visa Application – (i.e E2 Investors Visa, B class Visa , etc.) * Seek legal assistance for appropriate Visa type
6. A permanent residence in Arizona
7. A Commercial site for operations or Home-based business

Key Questions for Finance- Lending

5 - What Financial services are needed

1. Merchant services
2. Credit Card
3. Line of Credit

6 - What are the funds for:

1. Asset purchase
 1. Building
 2. Fleet
 3. Operational Equipment
 4. Acquisition
2. Cashflow injection for startup- short term support
3. Operational line – long term support
4. To build credit history

Key Questions for Finance- Lending

7- What is the size of the \$ need

8- What collateral do you have

1. Cash / Cashflow (receivables)
2. Equipment
3. Land
4. Building

Challenges to borrowing/credit

Although foreign banks/ credit lenders such as Credit Card companies, lease companies etc. may have the same name in the US i.e CIBC Canada and CIBC US, TD Canada and TD ABB, Visa, Amex, the federal/state rules which govern the banks and credit lenders are not the same and you cannot expect to just transfer all of your infrastructure to the US Bank and be ready to go the next day. REMEMBER, you are now in a new country and you must follow THEIR RULES!

COVID 19 has had huge economic impacts globally. This impact has also influenced the way banks and credit companies lend monies to not only local US based companies, but to foreign investment companies as well. The amount of bankruptcies and creditor protection situations has in some cases totally shut down any new lending from certain lending institutions.

The purpose of this presentation is to provide education for SME's to the challenges of today's lending market and perhaps provide some resources and mechanisms to minimize frustrations as SME companies plan to move into the growing Phoenix Arizona marketplace.

Challenges to borrowing/credit

Merchant Services:

- Merchant service companies are typically not a function of the lending institution and are independent companies. Due to this fact they are not required to follow the same operational guidelines as the lending institution. Although you may have a good relationship with your bank, the Merchant services company can accept or decline your application as they see fit.

-Requires in most cases

- Social Security number / (TIN) Tax Identification number
- EIN verification
- Business name
- Business address (Home based or Commercial)
- Knowledge of currency types

Challenges to borrowing/credit

Credit Cards:

- Credit jurisdiction is regionalized by country, having a good credit card history in your home country is not necessarily transferrable to the US Credit Card company even if you are applying for a credit card with the same parent name. i.e Amex in Canada vs Amex in US.

Credit Card companies are also not a function of the lending institution and are independent companies. Due to this fact they are not required to follow the same operational guidelines as the lending institution. Although you may have a good relationship with your bank, the Credit Card company can accept or decline your application as they see fit.

-Requires in most cases

- Social Security number / (TIN) Tax Identification number
- EIN verification
- Business name
- Business address (Home based or Commercial)
- Good credit history

Challenges to borrowing/credit

Lease companies:

- Credit jurisdiction is regionalized by country, having a good credit history in your home country is not necessarily transferrable to the US.

Leasing companies are also independent companies.

- Require in most cases
 - Social Security number/(TIN)Tax Identification number
 - EIN verification
 - Business name
 - Business address (Home based or Commercial)
 - Two to three years financials in the US
 - May require a guarantor based on age of the company
 - Good credit history

Challenges to borrowing/credit

Banks:

Unlike in Canada where there are 28 domestic banks and Mexico which has 48 banking companies operating in their country, the US banking system has over 7000 and is much more independent, Many are privately owned (shareholder based) institutions. As such their governing boards are more specific to their own operations although they must follow both Federal and State laws as it pertains to lending.

Most Banks have 2 levels of lending based on the amount of dollars lending and company size i.e Business banking category up to \$5 million and Commercial lending over \$5 million. Dollar figures may vary depending on the bank. Know your level of borrowing and work with the appropriate lending group.

- Require in most cases

- Social Security number/(TIN)Tax Identification number
- EIN verification
- Business name
- Business address (Home based or Commercial)
- Two to three years financials in the US
- Up to 5 years operational history in the US (foreign country operational history does not count in most cases)
- May require a guarantor based on age of the company
- Collateral against loan
- Personal Net worth statement
- Organizational chart of company
- Understanding of company operations/ business plan
- May require CV of Executive officers
- Good credit history

Bank Summary (examples based on independent review)

SBA- The U.S. Small Business Administration is a Federal program created on July 30, 1953 and works with organizations and private lenders to guarantee loans, assist with contracts, provide counseling sessions, and offer other support to small businesses. Not all banks are SBA members.

- SBA is not currently approving lending to Start Up companies (according to discussions with Senior lender from Chase bank)

- Chase Bank :

- Note that Chase Bank is not currently lending to any new “ Start Up” business either foreign or domestic currently as per SBA ruling
- Requires 2-year minimum US operational history with Financials (foreign operational history does not count)
- Checking/deposit account for 12 months prior to lending is beneficial
- Requires Social Security number
- Requires EIN
- Credit history review as is standard for all lenders

Bank Summary (example based on independent review)

CIBC Bank

- Open to supporting new business moving into the Phoenix region if the company has operational history with good credit . Canadian and other Foreign operations are considered.
- Checking/deposit account is requirement
- Can provide working capital funding and operational line of credit
- Will use associated Foreign company history as support for funding new US based operation
- Requires EIN Employer Identification Number
- Credit history review as is standard for all lenders
- Suggests getting a US credit card as well to assist in establishing credit
- Can coordinate Merchant service account for new SME operations
- Not in the business of acting as investor for startups either US or Foreign
- Business lending level up to \$3 million companies, Commercial lending \$3 million plus

Bank Summary (example based on independent review)

Prestamos CDFI, LLC (small business bank) a wholly owned subsidiary of CPLC

- Prestamos is a Community Development Lending Institution (CDFI), wholly owned by Chicanos Por La Causa, Inc., (CPLC)
- Provides micro loans from \$5000 to \$50,000 with reduced lending/credit requirements
- Small business loans from \$50,000 to \$500,000
- Loans available from \$500K to \$1 million
- Request a minimum 2-year tax credit history as part of overall package
- Considers credit revenue and other business history in foreign country when possible and appropriate
- Considers non-traditional collateral and other forms of guarantees depending on situation, each situation is different and considered separately
- Review and analyze cash flow as part of overall review
- Opportunity for equity investments and/or conversions from loan

Bank Summary (example based on independent review)

UMB Bank

- Open to supporting new business moving into the Phoenix region if the company has US operational history with good credit . Foreign operations are considered.
- Checking/deposit account for 12 months prior to lending is of benefit
- Allows for Personal Wealth option to establish credit history i.e Company puts up \$100,000 and the bank will loan against this amount for an established period then review for independent financing by the bank to the business
- Requires EIN Employer Identification Number
- Credit history review as is standard for all lenders
- Suggests getting a US credit card as well to assist in establishing credit

Bank Summary (examples based on independent review)

US Bank

- Requires 5-year minimum US operational history with financials (foreign operational history does not count)
- Checking/deposit account for 12 months prior to lending
- Allows for Personal Wealth option to establish credit history i.e Company puts up \$100,000 and the bank will loan against this amount for an established period then review for independent financing by the bank to the business
- Requires Social Security number or Tax Identification Number
- Not comfortable with lending to Start Up companies
- Credit history review as is standard for all lenders

Bank Summary (example based on independent review)

Enterprise Bank

- Fairly conservative for lending and not a good fit for new SME's expanding into Arizona or New startups
- Checking/deposit account is requirement prior to lending
- Requires at least 2 years of financial history prior to lending
- Will not use associated Foreign company history as support for funding new US based operation
- Requires EIN Employer Identification Number
- Credit history review as is standard for all lenders
- Suggests getting a US credit card as well to assist in establishing credit (requires Social Security #)
- Not in the business of acting as investor for startups either US or Foreign
- Business lending level up to \$3 million companies, Commercial lending \$3 million plus

What's new to assist lending to SME's

After interviewing several banks in the Phoenix area, it was very clear that “Risk” lending is not something that banks, and other lenders are willing to do. One comment directly from a senior lender at one of the key banks was “ **we are not an investor**” .

Lending institutions require various forms of tangible assets such as cashflow, equipment, real estate, personal guarantees etc. to provide funding to companies.

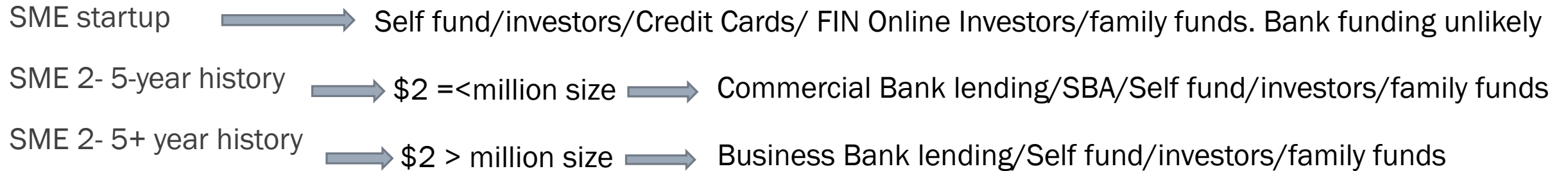
Until recently there was no avenue beyond borders to give lending institutions the ability to use out of country assets from foreign companies moving into Arizona.

As of September 25th, 2019 , the State of Arizona and the Province of Alberta signed an agreement to allow banks to utilize Assets from Alberta companies as collateral and to remove the risk from the banks so that they can hold judgement against these assets as a worst-case scenario.

This agreement is called the “ Reciprocal Enforcement of Judgments Arizona-Alberta.”



Currently Arizona is also in negotiations with other provinces in Canada to expand the opportunity for cross border business

Resources Process Flow Diagram (PFD)



*Note that the above scenarios may also require a guarantor

SME Foreign Company expansion to AZ:

- < 2- 5-year history  Self fund/investors/family funds. Bank funding unlikely
- > 2- 5-year history  Self fund/investors/family funds. Bank funding options limited but not impossible
 - May require some form of personal wealth support
 - May be asset lending-based options
 - Lending limits may be reduced until local history is built
 - May require guarantor
 - **Note; many banks currently do not support lending to Foreign Entity companies regardless of history and will NOT take foreign operations and time in business into consideration**

Summary

Business has always been an everchanging entity. The advent of COVID 19 has further complicated things so many factions of business such as relationship building , direct contact with clients, supply chains, employees, operations and of course access to funding.

There does not seem to be one answer and everyone including lenders are trying to mitigate as much risk as possible.

Some key points to note when it comes to lending are:

- Be prepared to be surprised. You may have an expectation based on how business once was received by lenders but believe me this has changed in just the last few months and until COVID 19 is under control it will continue to be more risk averse as more businesses struggle and even close their doors
- Know that just because you have a Credit Card in Canada or Mexico your acceptance in the US is not guaranteed. The Credit Card companies follow US rules and are not directly associated to your home country credit line. Case in Point You WILL need a US Social Security number to get a Credit Card from the US. You can get US\$ credit cards in your home country but this does not help your credit history in the US.
- Merchant services are also now very risk averse. Due to high levels of online fraud almost all Merchant services companies require a Social Security number as part of the application
- Note that Credit Card companies and Merchant services companies are independent of the bank and the bank has little to no influence in assuring your application is accepted.

Summary

- **Know your entry point to the bank.** This is determined based on the size of your company and the need for funding.
 - Banks and other lenders have different definitions of “Small Business”, “Commercial Banking or Middle Market,” “Commercial Real Estate” etc. For SME companies with revenue generally under \$1-3M and lending need is under about \$250k you will likely be talking to a branch person who may not have a commercial banking background and the application will end up being centrally processed with little room for a “story” on the business/strategy and very in the box underwriting with little exceptions. As the borrowing request increases, getting to a “commercial or business banker” adds expertise and ability to get more creative on lending.
- **Know your needs**
 - Working Capital (lines of credit to support A/R, Inventory), equipment (term loans), real estate (owner occupied is typical for a SME). Key is to match the asset type with the loan ie – match asset with liability. Short term asset = short term liability (line of credit) vs. long term asset = term loan to match life of the asset. On very small loans (<\$250k) the bank really isn’t going to worry as much about that and let’s lines of credit be used for vehicles, etc.
- **Be prepared.**
 - Have the appropriate business license's, Visas, business plan, company history etc. Many lenders are still working from home or remotely and having to chase paperwork just delays your getting funds

Summary

- **Foreign Companies** - investing/expanding into Arizona
 - Subsidiary of a foreign company opening or established in the US is more typical to a bank with foreign operations. Most banks do not support foreign company/affiliate lending. A US operation does not need to have history and the foreign entity can be used to support cash flow requirements as a guarantor to the US entity, Although the new Reciprocity Agreement is now law between Arizona and Alberta most banks are still extremely cautious in lending based on foreign collateral in Canada so the US entity needs to have the collateral support.
 - **Social Security Numbers**
 - Social Security numbers were never meant to be an identity card for lending although over time and development of guidelines this seems to have become the case. Without a SSN, the personal guaranty of the ownership isn't possible so reliance on the cash flow and collateral is important to the banks.
 - Credit Cards, Vehicle Loans, Merchant Services, Supplier Credit lines, Leasing companies are all now requesting a Social Security number as part of their approval process. This can be a challenge for a foreign company moving into the US.
 - Foreign company owners/executive officers with signing authority for a company can apply for a Social Security Number without having to become a US citizen. (see Resources page for link)

Summary

- Loans to Start ups

- Are possible but most banks require 2+ years of history. New US entities without a foreign company with cash flow history or start up in Arizona is tough but can be done with cash collateral. When cash flow isn't there or collateral, banks can do "Guarantor Underwriting" where the approval is based on the liquidity and /or outside income of the guarantor. For example, we can use guarantor underwriting that shows the guarantor has 2 years of total principal and interest on all debt obligations in available liquidity.
- There are Fin Tech online lenders who may do start ups but would require the personal guaranties of the owners and base approvals on small loans on the credit history mainly of the owner.
- Other sources of funding can be Asset Based Lenders like factoring companies who can lend directly on Accounts Receivables or on Purchase Orders. Not as "cash flow" focused as a bank and monitor their collateral closely and often have the funds collected sent to a lockbox they control and take their fees after the advance on the receivable up front to the borrower. Expensive but cheaper than giving up ownership to an investor until the business can show cash flow the banks are looking for.

Resources

AZDES- Veteran Business Services - Aryan@azdes.gov , North Office: (602) 255-4622

Arizona at Work - James.Montoya@phoenix.gov , Office: (602) 262-6845

Arizona Commerce – jimh@AZcommerce.com , Office: 602-845-1267

City of Phoenix Economic Environment , juan.batres@phoenix.gov , Office:(602) 495 7530

Firma Foreign Exchange Corporation – Tegan.Cassidy@firmafx.com Office:780.426.5971

SBA Finance- <https://www.sba.gov/>

Social Security- www.socialsecurity.gov

Funding agencies

CIBC Bank - Thomas.Doherty@cibc.com

CPLC - <https://cplc.org/econ/lending.php>

https://www.yodlee.com/fintech?_bk=fintech%20banking&_bt=458954847989&_bm=e&_bn=g

<https://cdfi.org/wp-content/uploads/2018/02/Arizona.pdf>

<https://www.prestamosloans.org/phoenix/>

*“Its always the **Start** that Stops You”*

Jerry Hanna

*“Action is the foundational key to all
success”*

Pablo Picasso

QUOTES FOR THE ENTREPRENEUR