BANKING & FINANCE

Business Loans 101: What to Expect When Borrowing Money

Borrowed money is a great way for businesses to fuel growth without giving up equity. While there are always costs associated with this, accessing credit can be easier and more affordable than you might think. Here's the not-so-dirty secret that you probably already know: Commercial banks all want to earn your business. They simply need to understand it to provide the funding you're looking for.

A commercial banking relationship should be a win-win scenario. Your lender should take the time to truly understand your business, how and when cash flows in an out of the business, what difficulties you experience, and when they occur within your business and growth cycles. Access to debt capital can be the perfect tool to help your business perform on a new account, expand to a new market, move into a new building and more. Business owners can exert much more control over the lending process--and should.

It's not a bad idea to seek to understand your bank, just as they seek to understand your business. Once you choose your commercial bank and enter the new relationship, their goal should always be to say yes—within reason—and provide your business with the capital it needs. That's how both parties grow and build a sustainable relationship. Diving deeper into the loan process, though, there are some items you can keep in mind that may help to better understand how lenders assess loan requests. Here are just a few.

1. Borrowing need

This is a key consideration for commercial lenders and should also be considered for businesses looking to access debt capital. It's important to understand the true use of cash and the impact that use of cash may have on your business in the future. Because of this, banks typically seek to "match" a credit term with the useful life of the asset the funds are being used to purchase or finance.

For example, a new commercial building can help strengthen your balance sheet. For this reason, you may be able to find longer terms and longer amortizations for this type of financing. A revolving line of credit secured with short-term assets, such as accounts receivable or inventory, is on the other end of that spectrum. These items are typically collected or sold in a very short timeframe, and therefore, the cash received from sales or collection would be used to pay down the line immediately. Businesses can find themselves in trouble when using a short-term facility, such as a line of credit, to purchase a long-term asset, such as real estate or a vehicle. As a result, line of credit funds could potentially be unavailable for use to support cash flow if the business finds itself in a crunch.

2. Historical financial performance

Commercial lenders will typically ask to review the last two-to-three years of business financial statements, as well as financial statements for the business owners.

As you'd probably guess, they're looking for profitability and sufficient historical cash flow to show that a business can comfortably make payments on any new credit. However, trends will also be taken into account. Think about revenue trends, profit margin trends, trends in retained earnings and balance sheet leverage, and more. Trends in the right direction will provide an additional level of comfort and even suggest that this assessment of past performance may be the most conservative approach.

What about the times when historical performance is not the best indicator of future performance? Banks want to hear that story, too. Perhaps financial trends over the past few years have been moving in the wrong direction. If there are other strengths to deal, this shouldn't stop the process. It will, however, prompt some additional conversation about what future projections look like and why. As a business owner looking for additional funding after a downward trend, try to clearly articulate what has changed recently that will lead to a better performance.

3. Collateral

This is always an important component of a commercial lending conversation. Providing collateral for business credit facilities can help you obtain better terms, lower rates, and approvals in situations where you otherwise may not be able to access the credit you need. Collateral can come in many forms such as real estate, equipment, accounts receivable, inventory, or even cash. In situations where a business credit request may be under-collateralized, personal collateral of the owners can also be considered. Having collateral to back up the total amount of debt, or more, can help mitigate other areas where a credit request may be lacking, and vice versa.

While these are just a few of the items considered when seeking an approval for commercial credit, they're key pieces of the puzzle. It's also important to note that there is no magic formula for a credit approval in the commercial financing space, and this differs greatly from consumer finance. While procedures and lending guidelines are in place and will always be used, mitigating factors are often considered to offer additional strength in one area when weakness may exist in another. For example, if cash flow is tight but collateral coverage is strong, an approval may still be warranted. If a business has declining revenue trends due to a temporary economic cycle, but also has a strong balance sheet with increasing retained earnings year-over-year, an approval may still be warranted.

As a business owner, first and foremost, seek out a banker that wants to understand you and your business well. Your commercial banking partner should be a trusted partner who brings ideas to the table to help your business thrive today and far into the future.

Member FDIC. Equal Housing Lender.

For additional information, visit homestreet.com/business or call (949) 221-0001.


Your business
is our business.

CALIFORNIA BANK & TRUST

Business Growth Strategies for 2019

By California Bank & Trust

With a vigorous economy in place, it's time to address your small business growth plan. Here in California, we've seen robust gains, with taxable sales rising significantly and unemployment falling to a record low in October 2018.

Think about these strategies that you can employ to further increase your business:

1. **Build an Email List**
Sounds simple, right? But many small businesses fail to track their customers' email addresses. An email list can help you to easily contact customers about sales, product or service information, and to invite them to special events you plan to host.

2. **Use a Customer Management System**
A customer relationship management (CRM) tool allows you to do business more efficiently. You can store contact information for your customers and prospects in one place. You also can make calls, send emails or texts, schedule appointments, add notes, and find out who's opened the latest email – all without ever leaving the system.

3. **Introduce a Customer Loyalty Program**
Customers like to feel appreciated. Reward them for their loyalty by offering discounts, exclusive deals, or free merchandise or services to build customer relationships that help you grow.

4. **Try Hosting a Webinar**
A webinar can be a great way to engage customers, offering them information they can use and share. It creates trust and a bond, which are likely to spur clients to return to purchase more of your products or services in the future.

5. **Diversify Your Offerings**
The coming year may be the time to diversify your product or service offerings to stimulate more growth for your business. Fresh offerings can gain new customers and boost sales from existing ones.

But don't stop there. Take a deep dive to better understand your business statistics, seasonal sales trends and customer demographics. Can you increase online sales with complementary products? Can you bring back holiday shoppers with special offers? Are you appealing to millennials through social media?

At the same time, it pays to know your strengths and weaknesses. A SWOT (strengths-weaknesses-opportunities-threats) analysis can help you respond to changes in the market, better position your company, and identify your customers' demographic information.

Finally, take another look at your cash flow and investments in light of recent economic developments. Did the business tax cuts increase your cash on hand? Consider using that cash to drive further growth. Use it to invest in technology upgrades, to drive customer acquisition, or to hire and retain quality employees.

Business is about connections, starting with the right bank. And growth depends on having a clear strategy, coupled with analysis and hard work. Visit www.calbanktrust.com/inyourcorner or call 1-800-CALIFORNIA for financial solutions that can help.

FIRST FOUNDATION

Planning to invest, or investing to your plan?

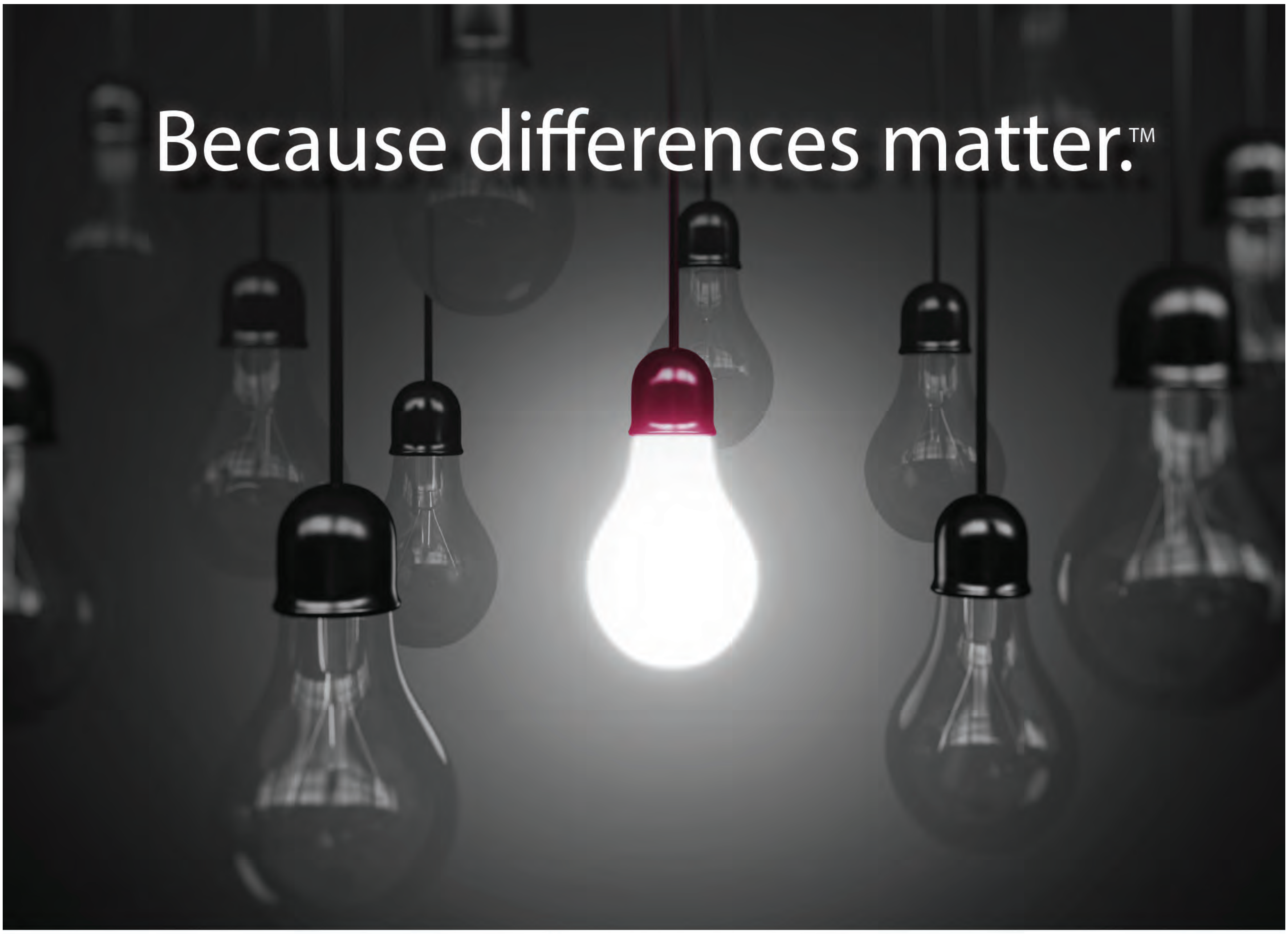
Daniel Fan, J.D., LL.M., CFP®, Senior Managing Director – Head of Wealth Planning

Many people use the terms wealth management and investment management interchangeably. This undoubtedly creates confusion and leads to uncertainty as to what your financial "advisor" does for you. Do they manage wealth or do they manage investments? Do they plan how you invest or do they invest to your plan? Many will say that investments are where the action is – researching, buying, and selling securities is what drives Wall Street and nothing is more action-oriented than Wall Street, right? Others will claim that wealth planning is more of a cerebral exercise consisting of evaluating the emotional –more touchy-feely – aspects of investing. Believers of this definition of wealth management espouse the merits of uncovering your psychological code before you can invest. It is cool in theory, but does it actually drive results? The answer is: it depends.

We have found that while most of our clients prefer we leave the talk about regression analysis, standard deviation, and Sharpe ratios at the door, they do indeed want to hear about their investments. It is not a subject they want replaced by conversations about hypothetical risk numbers or conversations on how to decode fear and happiness regarding money. After all, they too are tuned in to the news about the markets just like anyone, and they want to know about investment returns. Did they beat the market? Did their investments perform? Understandably they want to see measured results.

So, we are faced with somewhat of a dilemma – do we ignore the investments and focus on life goals (like so many of the automated investment platforms have done), or do we spend our time with clients showcasing investments and leave the touchy-feely stuff to the psychiatrists? We have opted to take a hybrid approach. We focus on wealth planning and investments, a term that we call "private wealth management."

Daniel Fan, J.D., LL.M., CFP®, is Senior Managing Director – Head of Wealth Planning at First Foundation Bank he can be reached at dfan@ff-inc.com or (949) 535-5351.


Because differences matter.™

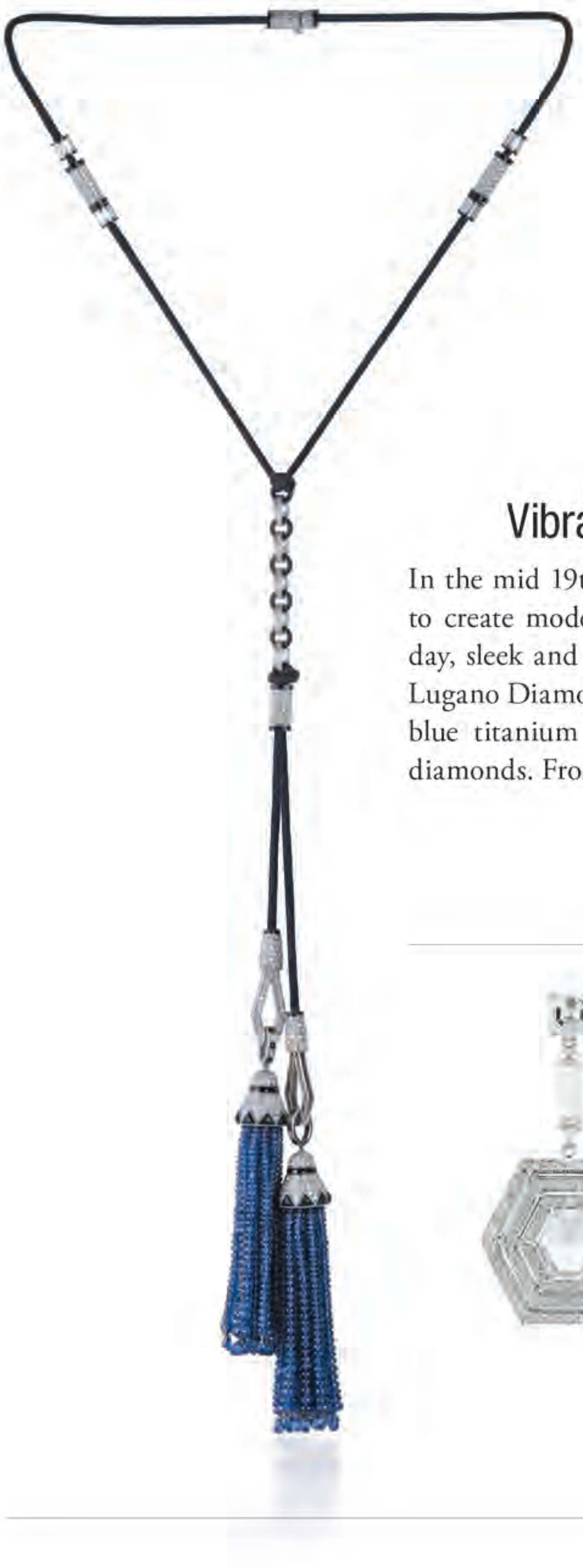
INNOVATIVE PIECES

BY LUGANO DIAMONDS

"We are what we repeatedly do. Excellence, then, is not an act, but a habit." Aristotle's words ring true. Excellence is not fleeting. It is a routine practice.

Moti Ferder, CEO and design director of Lugano Diamonds, believes reliability is key. ***"It is paramount we consistently create exquisite works of art. My clients expect stand-out, beautifully crafted, one-of-a-kind pieces of jewelry. It's critical to the success of our business we deliver, if not over deliver, with each bespoke piece."***

In the spirit of innovation, Lugano Diamonds presents exquisite pieces of jewelry.

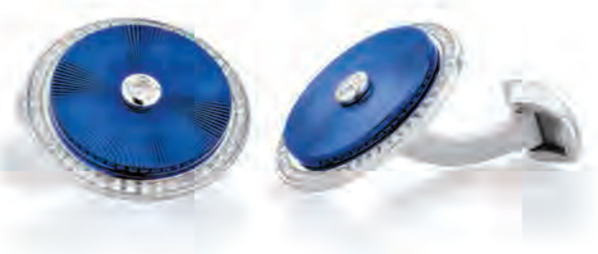


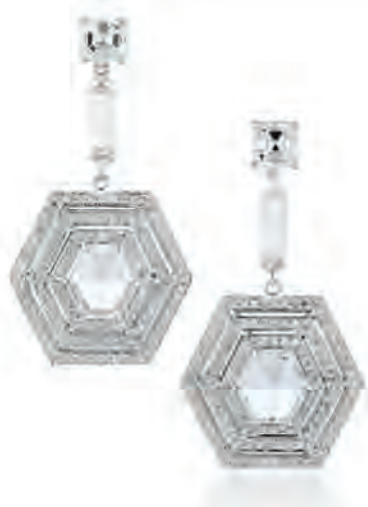
Lasso Your Dreams with Lugano

Commemorate with Lugano's Lariat Necklace. With this necklace there are no limits, and possibilities are abundant. This phenomenal piece is tremendous with carats and carats of astounding beauty. Nearly 20 carats of elegant black jade and 350 carats of Pacific blue sapphire beads are paired with more than 15 carats of briolette blue sapphires, culminating with close to 26 remarkable carats of round brilliant collection VS diamonds. Magnificent inside out.

Vibrant Blue and Titanium Pair for Success

In the mid 19th century, fashion accessories and jewelry joined forces to create modern and acceptable men's jewelry: the cufflink. To this day, sleek and colorful links add the final touch to a man's ensemble. Lugano Diamonds Blue Titanium Cufflinks offer a subtle burst of vivid blue titanium surrounded by elegant round brilliant collection VS diamonds. From board meeting to evening networking, these links will complement your confidence and astuteness.





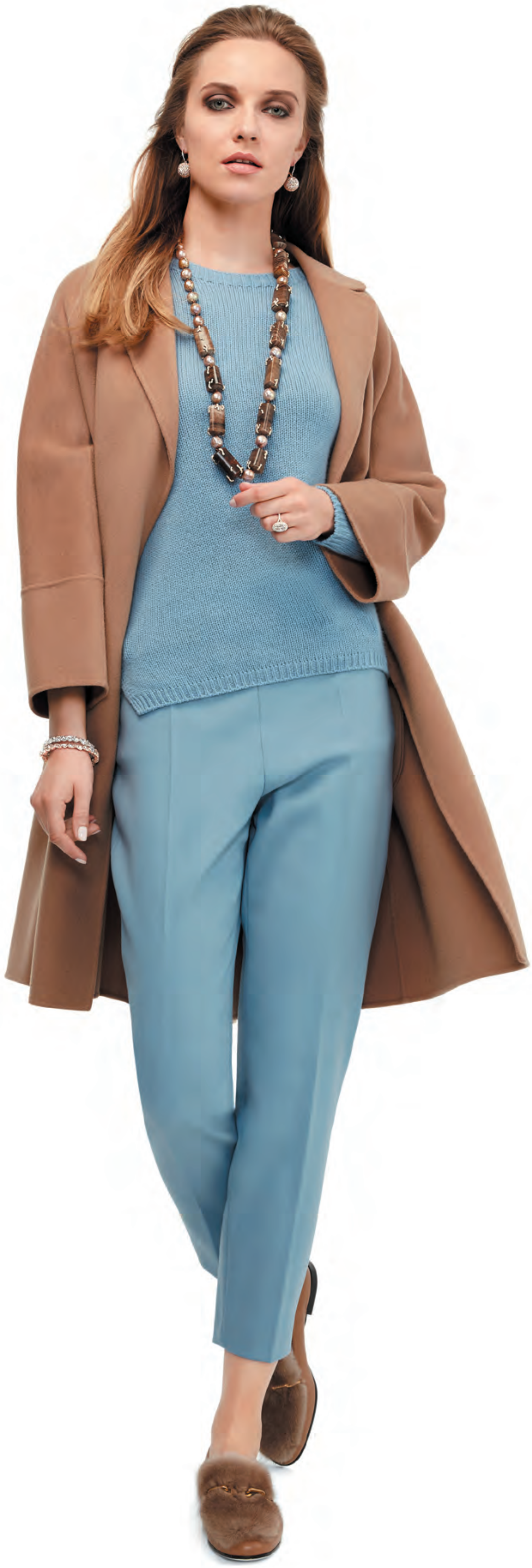
Polygons Aren't Just for Geometry

Your work style doesn't need to be subdued or expected. It should be exceptional. Lugano Diamonds Hexagon Drop Earrings are anything but expected. The drops dangle more than three carats of rare hexagon cut diamonds with outstanding color. Radiating from the centerstone are three hexagonal layers of round brilliant collection VS diamonds. Each drop is suspended from asscher and baguette collection VS diamonds, all accentuated in 18k white gold. Like you, these earrings offer their own presence and innovative approach.

LUGANO®
DIAMONDS

An experience as remarkable as our collection

We welcome you to view our stunning collection at the Lugano Diamonds Grand Salon located at 620 Newport Center Drive, Suite 100, Newport Beach, and our additional locations in Aspen and Palm Beach. Please call 866.584.2666 or email info@luganodiamonds.com for more information.



Cash Reserves – How Much Is Enough for My Business?

Money clichés are a dime a dozen, however, some of those financial catchphrases can truly be applied to your real life. One such saying is especially true for business owners. The saying "cash is king" legitimately represents the importance of liquidity for any business of any size. Cash is needed for everything involved to run your business.

There are many reasons a business can fail, but one of the leading factors is running out of cash. A safety net is imperative to successfully persist through common events like a significant decline in sales, a mainstay customer not paying an invoice, or even being able to maintain seasonality. Every business's safety net will be different and dependent on the volatility of the business or industry, therefore determining how much cash your business needs.

While liquidity is never a one-size-fits-all solution, all businesses must consider:
· **Proper forecasting will help accurately estimate your costs and reveal how much cash you have been using.** Many businesses can predict the capital needed with standard financial statements and by reviewing historical reports. One of the best ways to calculate your business's cash needs is to analyze historical spending patterns to sufficiently fund future plans. This will also help in assessing what you're trying to save your cash reserves for, such as funding a gap between your seasonal business cycles.

Forecasting should also be done to measure future cash flow projection. Review your historical financial reports and monthly budgets to adequately predict the next 12-15 months and assess your monthly or quarterly needs and spending. Always conservatively estimate your forecast as results often differ from your business plan, and oftentimes expenses are more predictable than revenue. Remember, the business's past performance is not always the best predictor of the future.

· **Upon figuring your future cash needs, you can then estimate how to fund your operating cycle.** With a strong projected financial statement, you can then choose how to grow your reserves and maintain business stability. It is in this stage that your relationship with a bank is essential as you can choose to pay down debt or pay off a revolving line of credit, sell assets you already own, apply for a loan or other line of credit, and more.

· **Balance is everything.** While liquidity that exceeds your safety net won't necessarily hurt your business, companies that are flush with excess funds can face some of the same consequences as those that are underfunded. Sometimes businesses with too much cash take on more projects or larger scale projects, over-hire, purchase unmanageable assets, or take larger financial risks that affect projected fixed costs. Upon figuring your future cash needs, you can also consider funding your future growth and capital requirements for the next stage of your business. Your relationship with your financial institution can also help you to protect your cash by investing it in a savings account, a CD, or a variety of sweep accounts meant to safeguard your business and invest your capital.

If your company finds itself in the enviable position of having cash beyond its forecasted needs, remember to be conservative in your spending. Holding considerable amounts of cash is an inefficient use of your capital. Despite ample liquidity, focus on sustainability. Protect your business from economic storms such as a decline in sales, natural disasters, or family emergencies.

How to Plan Ahead. The best time to seek an arrangement for your cash reserves is before you need it; access to capital will fund growth and scale your business up. It is crucial to take the time to fully know and understand your business and the numbers involved in it. Once you truly understand the numbers behind your operation, you can review and update your business plan, budget, and financial forecasts to glean the need-to-know information regarding the cash reserves needed for your business's long-term growth.

First Bank is available to help assess your current business needs, long-term goals, and various financing options ensuring a safety net is in place when you need it most. No business operates with an eye toward tomorrow quite like a family business. Let's look forward to success.

FIRST BANK

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For more information on how First Bank can assist your business and its financing needs, please contact Michael Perry, Business Banking Officer, at (949) 475-6375 or via email at Michael.Perry@fbol.com.

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WCGH WINTHROP COUCHOT GOLUBOW HOLLANDER
CORPORATE RESTRUCTURING AND BANKRUPTCY

A Debtor Need Not Be Broke to Reorganize Under Chapter 11 of the Bankruptcy Code

By Richard H. Golubow

Contrary to popular belief, a company can be solvent and still seek protection under the Bankruptcy Code. For example, assume a company is experiencing financial distress and is projecting things will get worse. The debtor is reasonably certain it will soon run out of money and be unable to pay suppliers current. Under these circumstances, a chapter 11 case may permit the debtor to sell its assets as a going concern to a stronger company, or restructure financially and operationally and avoid liquidation.

If you're a creditor of that debtor, you may be inclined to seek dismissal of the case, thinking that you're better off getting paid if the debtor is not in bankruptcy. While there are a number of grounds on which creditors can have a bankruptcy case dismissed, solvency alone, will not suffice.

Code §101(32) defines "insolvency" (for entities other than municipalities and partnerships) as the "financial condition such that the sum of such entity's debts is greater than all of such entity's property, at a fair valuation." Code §109(d), which lists chapter 11 eligibility requirements, is not premised upon a requirement that the filing entity be insolvent.

Code §1112 provides a creditor may move to dismiss the chapter 11 case for "cause" and provides a long list of examples of "cause." Solvency of the debtor is not on the list because the main purpose behind reorganization provisions of the Code is restructuring and rehabilitation, not liquidation.

To defeat a motion to dismiss, the burden of proof is on the solvent debtor to show that its filing was in good faith. The court will perform an intensive fact review of the totality of the case to determine if the filing is acceptable or in bad faith.

Generally, a solvent debtor can survive a motion to dismiss where it faces reasonably imminent serious financial difficulties that can be addressed in a chapter 11 case. Some examples include: existing and worsening litigation crisis of massive dimensions; to eliminate unprofitable contracts that threaten going concern value; imminent loss of an essential asset for its ongoing business; or, impending debt maturities under conditions of severe credit uncertainty.

In short, insolvency is not required to file a chapter 11 petition. What is required is a valid reorganization purpose, which may include orderly liquidation and maximization of assets recoverable to satisfy unsecured claims.

It is important that a debtor understand its options when faced with imminent financial difficulties. The use of an attorney experienced in bankruptcy and financial restructuring is critical to this understanding.

About the Author:

Richard H. Golubow, is a founder and managing partner of Winthrop Couchot Golubow Hollander, LLP, a law firm devoted to complex bankruptcy, insolvency and financial restructuring. For more information, contact Mr. Golubow at (949) 720-4135 or rgolubow@wcghlaw.com.