The 5th Annual

National Home Care Cooperative Conference

A Project of CDF

Home Care Financing

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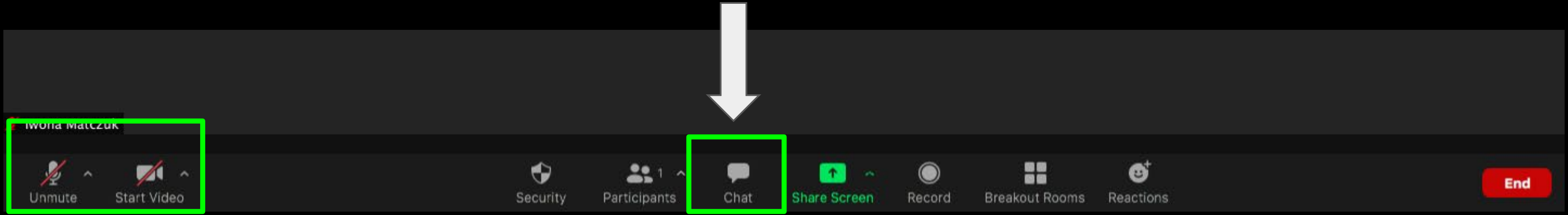
Fund For Jobs Worth Owning

We’ll be using the chat function for discussion questions



Make sure to be on mute during the presentation

The Fund for Jobs Worth Owning

The Fund for Jobs Worth Owning supports the growth and development of employee-owned businesses while creating and sustaining jobs worth owning.

FJWO is a 501(c)3 nonprofit loan fund and supporting organization of ICA Group, the leading expert on employee ownership and oldest coop developer in the U.S.

ICA GROUP

Fund For Jobs Worth Owning

The Fund for Jobs Worth Owning

We provide supportive, patient, non-extractive financing for cooperatives, and for innovative, scale-oriented projects like shared service networks to grow the sector.

We also help organize capital for employee ownership conversions and initiatives.

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The Fund for Jobs Worth Owning

The Fund for Jobs Worth Owning offers:

- Flexible and complementary capital
- Lines of credit and working capital solutions
- Funding to establish a member loan program

We typically invest in:

- Projects that are surrounded by strong technical assistance systems
- Projects affiliated with an industry strategy for coop scale and collaboration
- Projects for lower income people, marginalized and minoritized communities

Topics

- **“Why take out a loan?”**
- **Types of financing:**
  - Debt vs. equity
  - Types of loans
  - Loan interest rates
  - Length of loans, terms
  - Down payments
  - Personal guarantees
- **Loan application process:**
  - Business model
  - Financial projections
  - Cooperative contributions

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Brief Group Discussion:
Why Take Out a Loan?

Why might you need a loan?

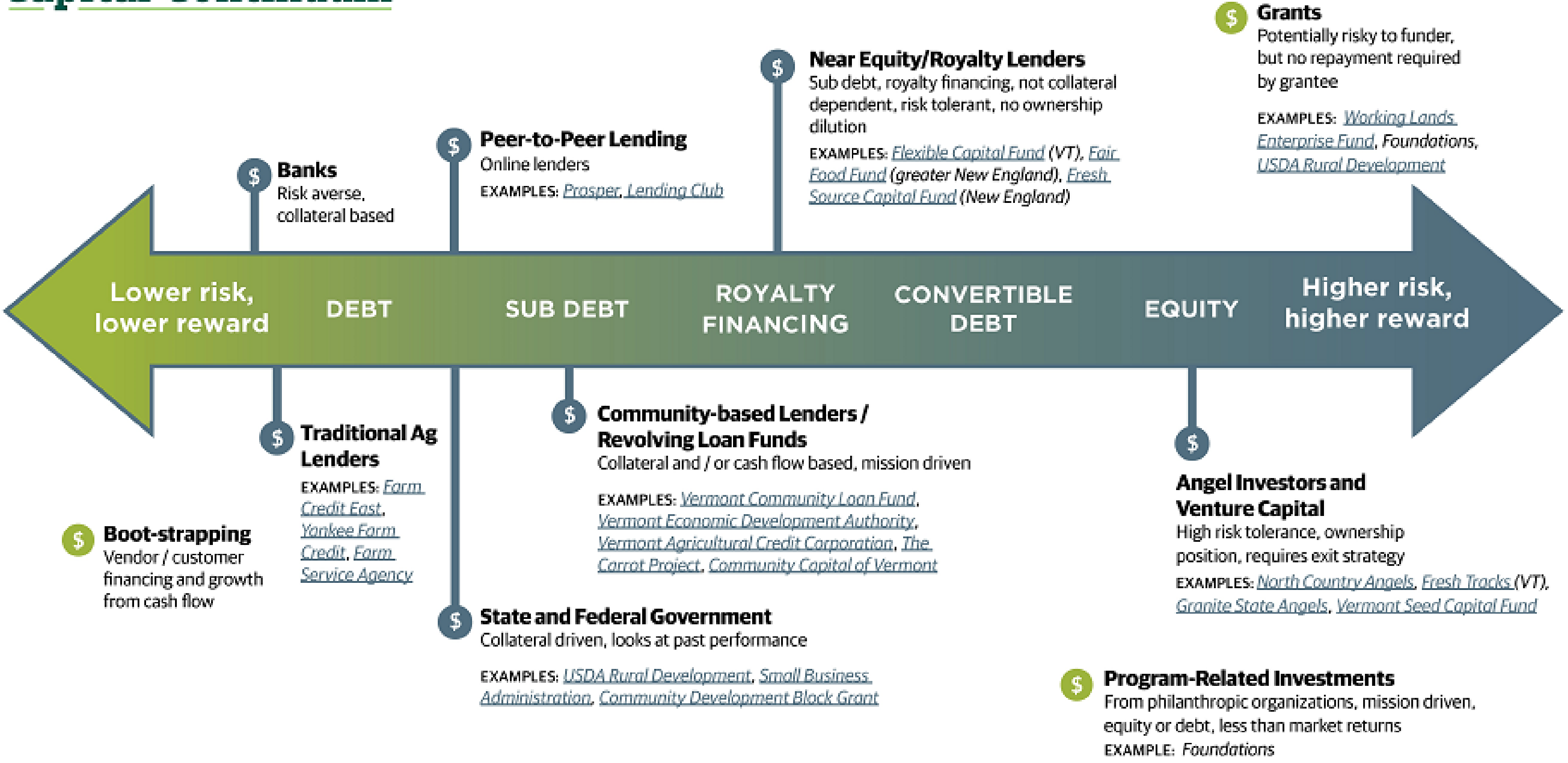
- **Credit history:** Building a relationship with a bank with successful small loans
- **Cash advance:** Accessing cash short-term when you know it's coming in soon, but the check hasn't arrived yet from your customer, etc.
- **Finance:** Purchasing equipment, real estate, bulk inventory, PPE, etc. where you can pay over time, instead of paying all the cash upfront yourself
- **Peace of mind:** Paying fees to have access to cash if and when needed

Why might you need a loan?

- **Growth:** Doing something to expand like buying marketing services, sales support, a new company, resources to set up a new office, etc.
- **Refinance:** Negotiate with lender or change lenders to adjust the terms of existing debt to help save money or improve ability to make your payments
- **Restructure:** Giving the business resources and time to make major changes because it can no longer continue on as-is

Types of Financing

Capital Continuum



Line of Credit

- **Uses:**
  - **Cash advance** (working capital)
  - **Peace of mind** (cushion)
  - **Credit history** (relationship with bank)
- **Function:**
  - Not usually for a specific purchase or use; more like a credit card
  - Draw down from approved limit as you need to, only paying interest on what you use; entire balance is usually paid off at least once per year
  - Can be a good place to start with debt; easier to get approved for than a term loan as it based on your current operating cycle as evidenced by your history in business
  - 6-7% interest paid based on what you actually use each month and for how long
  - Annual fees for renewal even if you do not draw down a balance

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Term Loan

- **Uses:**
  - **Growth** (with necessary business planning)
  - **Finance** (hard assets, bulk inventory, PPE)
  - **Refinance** (existing debt payments around what you can afford)
  - **Restructure** (with turnaround planning)
  - Credit history, too (small $ loans)
- **Function:**
  - Usually for a specific project coming in at a cost that you know about
  - Receive cash as lump sum upfront; pay back over time with interest on balance outstanding
  - 7% rate for traditional business term loans; more for deferred loans, etc.
  - Loans often repaid over 5-7 years
  - Fixed, regular monthly payments

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Down payment requirements

- **Most lenders will not provide ALL of the money needed for a project.**
  - Traditional, conventional lenders might only loan 50-60% of the total value. So, if you needed $100,000, you would need to come up with at least $40,000 yourself from savings, friends and family, community, etc.
  - SBA-backed loans still require borrowers to put down 20%+
  - CDFI coop lenders are very flexible here requiring 5-10% or less
- **This is also known as the ‘loan-to-value’ ratio**

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Personal Guarantees

- **Are individual contracts borrowers make with lenders in order to access a loan.**
- **May or may not place liens on your assets.**
- **Are a way for lenders to keep you at the table, working on the business when if things go south**
  - Traditional, conventional lenders typically require ‘full and unlimited’ personal guarantees from all owners on a business loan with liens on all personal assets.
  - SBA-backed loans require the same unlimited guarantees from all 20%+ owners.
  - *CDFI coop lenders are very flexible here, often not requiring personal guarantees at all, or splitting them among owners and not placing any liens on assets in the process*

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Loan Readiness & Application Process

Loan application process

- **Let's talk first! Loan officers want to build a relationship with you. You don't need to have everything figured out for the first meeting!**

- **Then, you'll need:**
  - Business planning
  - Financial projections
  - Cooperative contributions

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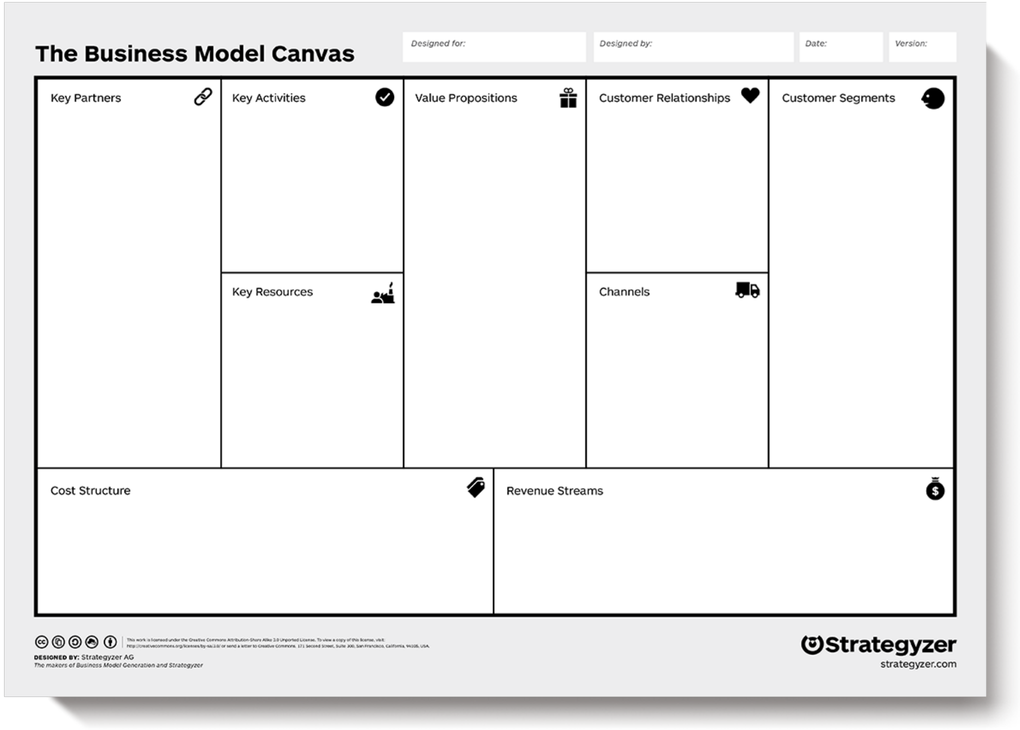
Loan Readiness

- **Business plan - the basics:**
    - Business strategy, value proposition
    - Customers, market, competition
    - Operations, processes, team
    - Costs structure and revenues
- **Sources and uses - the deal:**
    - SOURCES: What is the total amount of capital needed? What sources are already committed, and what sources are envisioned for the remaining capital needed?
    - USES: What are all the different project costs? Are they well thought out?
- **Investment proposal - the ask:**
    - What amount is being requested from this particular lender?
    - What terms can the business afford to make repayment on? Does the lender offer them?
    - What other lenders or investors are involved, and what are they offering to new entrants?

Sources & Uses - Term Loan

Sources	
Term Loan	$ 95,000
Cash Reserves	$ 5,000
Total Sources	**$ 100,000**
Uses	
Business Acquisiton	$ 75,000
Transaction Costs	$ 5,000
Working Capital	$ 20,000
Total Uses	**$ 100,000**

Business Plan



Investment Proposal - Term Loan

Example:

- **Seeking $90,000 in new long-term debt to refinance existing debt balance that is coming due.**
- **Existing debt is at 6.5%; would need to stay close to that**
- **Interest-only payments for first six months also desired**
- **Looking for a term of at least 5 years; 7 years would give us more breathing room as we grow**
- ***Attached is the growth plan showing our expectations and repayment***

Cooperative contributions - Term Loans

- Investments of time and planning
- Investments of the cooperative's own cash and savings
- Investment of personal assets or guarantees of owners as security

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Investment Proposal - Line of Credit

Example:

- Seeking revolving line of credit with $50,000 limit
- Average monthly payroll is $25,000; want about a month as cushion
- Why? Payments from major clients can unexpectedly come late or require follow-up; but, minimal bad debt because payments always come in at some point
- We would expect to draw at least four time per year, but perhaps up to once a month sometimes
- We could commit to paying down quarterly

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So, where does this get you?

1. **Make application to lender for amount of financing, repayment terms**
2. **Lender does their ‘due diligence’ and ‘underwriting’ by:**
    a. Reviewing your business model
    b. Reviewing financial projections
    c. Considering your request vs. what you (and potentially other sources) can contribute
3. **If lender interested in investing, they provide a ‘term sheet’:**
    a. Amount they are willing to invest (if everything else pans out)
    b. Interest rate they would charge
    c. Term of loan they would offer
    d. Any other fees they would charge
    e. Any conditions or ‘loan covenants’ they would require

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So, where does this get you?

4. Once you accept term sheet, additional underwriting will occur

5. Eventually, you'll get to 'commitment' or 'approval' where the terms have all been approved, and you can start working on closing

6. Next you'll draft and review the loan documents with the help of a lawyer

7. At closing, you'll sign document and the funds will be distributed!

(Next time we can talk more about maintaining your loan, communicating with your lender, and navigating the challenges of growth and repayment.)

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Thank You!

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