

CHAPTER 3: FINANCIAL INSTITUTIONS

Commercial Banks

Commercial banks are usually one of the least expensive providers of loan capital. This source of financing will be most helpful for a business that has demonstrated it can operate profitably. Banks are most interested in financing firms that can show an ability to repay the loan. This usually means a company must have a strong positive cash flow or assets as collateral that can be easily liquidated. The evaluation will consist of a detailed analysis of the company's income statement, balance sheet, and cash flow statement. Factors such as the content of the business plan and experience of the management are also considered. If a business has no consistent operating history or cannot demonstrate that funds will be available to repay the loan, it may be difficult to procure financing using this method.

Payment terms are usually up to five years for loans from commercial banks. Most debt is secured, although some unsecured lines may be available. Personal guarantees are generally required resulting in exposure of the borrower's personal assets in the event of a business failure. Even if the business is formed as a corporation, the limited liability feature is superseded by a personal guarantee.

The interest rate on a loan is typically expressed as a percentage in excess of the prime rate. Prime is the rate the nation's largest banks charge their best customers. The prime rate itself will vary according to economic conditions; it is primarily dependent on the rate the banks themselves are charged by the Federal Reserve to borrow money. The percentage over prime that a customer is charged is based on the banker's perception of the risk taken by granting the loan.

Lending institutions have different policies towards risk. Some are inclined to follow relatively conservative lending practices; others engage in more creative banking practices. Banks borrow money elsewhere at a lower rate and lend it out at a higher rate; therefore, the commercial bank's primary concern is a borrower's ability to cover principal and interest repayments. Although bankers are interested in all financial aspects of a borrowing firm, hard assets provide their primary insurance if the business fails.

Commercial banks are among the largest sources of credit to small businesses. According to the SBA Office of Advocacy's 2006 report on small business lending activities, commercial banks had \$601 billion in small commercial and industrial loans outstanding as of June 2005. The rate of growth in small business borrowing slowed from the previous year; the value of all small business loans outstanding increased 4.1 percent; the largest increase came from the larger small business loans (\$100,000 to \$1 million). The smallest loans (under \$100,000) rose a meager 1.9 percent in spite of a huge increase in the number of loans.

http://www.sba.gov/advo/research/sbl_05study.pdf

The North Carolina Banking Commission currently regulates 108 state-chartered, commercial banks and 24 Trust Companies (or Limited Purpose Banks). Since 1994, the SBA Office of Advocacy has ranked the small business lending behavior of every commercial bank in each state to help depositors and borrowers identify the small-

business-friendly banks in their state. Four factors are used to rank the small business lending activities of each bank:

- Ratio of small business loans to total assets
- Ratio of small business loans to total business loans
- Dollar value of small business loans
- Number of small business loans.

The top North Carolina banks -- ranked according to the above criteria, and ranked by total small business loans (<\$1 million) issued -- appear on the following pages. It is important to note that banks that participate in SBA loan programs and that extensively utilize secondary markets have received artificially low rankings in the first table. Therefore, borrowers should also consult the list of SBA Preferred or Certified Lenders provided in the next section of this report.

Savings Institutions

Savings and loans (S&Ls) and savings banks primarily focus on the area of home mortgage lending. Savings institutions have not traditionally been aggressive in pursuing non-real-estate commercial loans such as lines of credit and unsecured loans. While state-regulated institutions can invest up to 15 percent of their total assets in commercial loans without making a special application to the Administrator of the NC Savings Institutions, the portfolios of most do not approach this limit. Savings institutions may be more aggressive in the area of commercial real estate loans, which are not included in this limit. These institutions can also provide indirect sources of business financing, such as home equity loans or second mortgages.

For the most current list of savings institutions in North Carolina, please contact:

NC Commissioner of Banks

316 W. Edenton St.
Raleigh, NC 27603
4309 Mail Service Center
Raleigh, NC 27699-4309
919.733.3016

<http://www.nccob.org/NCCOB>

– To view a list of state-chartered banks (both commercial banks and trust companies) visit <https://www.nccob.org/Online/brts/BanksAndTrusts.aspx>

– To view a list of commercial, savings banks and thrifts ranked by assets visit http://www.nccob.org/NR/rdonlyres/3E6C17A2-5607-4145-8157-9692479FA6A8/0/07Q1asst_dep.pdf

20 NC Banks ranked as being “Small Business Friendly”-- 2005

Small Business Lending (<\$1 mil.) Scored Small Business Lending (<\$100k) Scored

Bank Name	Total Small Business Lending-Friendly Score	Value of Small Business Loans (\$Thousands)	Number of Small Business Loans	Value of Micro-Loans (\$Thousands)	Number of Micro-Loans
Surrey B&T	87.5	\$91,429	1,271	\$91,429	1,271
Bank of NC	87.5	212,384	1,018	16,730	547
Yadkin Valley B&TC	82.5	255,936	3,168	52,932	2,221
American Community Bank	82.5	130,271	1,360	21,789	912
Bank of Granite Falls	80	321,999	3,342	57,020	2,174
New Century Bank	80	89,777	1,477	13,437	817
Four Oaks B&TC	77.5	105,047	746	105,047	746
Southern Comm. B&TC	77.5	286,062	3,512	61,300	2,766
Fidelity Bank	77.5	269,685	2,588	44,489	1,548
Mountain 1st B&TC	75	82,454	512	9,580	251
Alamance Bank	75	51,566	371	4,392	209
First-Citizens B&TC	72.5	2,448,378	60,443	478,350	52,421
First Bank	72.5	334,635	3,969	68,005	2,822
Capital Bank	72.5	252,057	2,259	48,931	1,545
Lexington State Bank	72.5	205,810	2,232	33,234	1,415
First TR Bank	72.5	92,566	789	11,862	502
First Gaston Bank of NC	72.5	55,440	518	7,665	301
Catawba Valley Bank	70	127,733	1,100	22,656	654
Cornerstone Bank	70	39,836	429	9,179	282
Crescent State Bank	70	103,744	748	11,942	403

*Note: Data is for 2005 (latest available). Select banks appearing may have since merged or been acquired.
 Source: SBA Office of Advocacy, *Banking Study* at http://www.sba.gov/advo/research/bk_05tnc.pdf. For methodology on all scoring ratios and how scores were derived consult the text file accessible at the SBA webpage.

Top NC Commercial Banks ranked on Small Business Lending – 2004

(Sorted by Total Value of Small Business Loans <\$1 million)

Small Business Lending (<\$1 mil.) **Small Business Lending (<\$100k)** **Small Business Lending (\$100k-\$1mil.)**

Bank Name	HQ State	Value of Small Business Loans (\$Thousands)	Number of Small Business Loans	Value of Micro-Loans (\$Thousands)	Number of Micro-Loans	Value of Mid-Sized Small Business Loans (\$Thousands)	Number of Mid-Sized Small Business Loans
BB&T Corporation	NC	2,524,362	23,713	\$586,400	17,828	\$1,937,962	5,885
Wachovia Corporation	NC	1,572,553	9,176	255,644	5,879	1,316,909	3,297
First Citizens Bancshares I	NC	1,326,656	14,322	318,753	11,165	1,007,903	3,157
Bank of America Corp.	NC	414,295	10,041	142,260	9,267	272,035	774
RBC Centura	NC	382,177	2,595	64,005	1,671	318,172	924
SunTrust Banks, Inc	GA	330,564	3,901	87,950	3,140	242,614	761
South Financial Group	SC	301,654	1,929	46,429	1,113	255,225	816
MBNA Corp.	DE	238,464	29,806	164,909	29,456	73,555	350
Fidelity Bancshares (N.C.)	NC	213,087	1,676	40,813	1,084	172,274	592
First Charter Corp.	NC	152,074	1,024	28,296	632	123,778	392
LSB Bancshares Inc.	NC	149,582	1,119	32,602	741	116,980	378
Citigroup Inc.	NY	144,697	27,223	141,150	27,212	3,547	11
Bank of Granite Corp.	NC	133,796	1,520	141,150	1,175	98,733	345
Southern Bancshares (NC)	NC	133,089	1,491	35,875	1,156	97,214	335
Wells Fargo and Company	CA	120,130	4,078	116,517	4,046	3,613	32
Capital One FSB	VA	112,904	35,172	112,754	35,171	150	1
Yadkin Valley Bank and Trust	NC	112,391	946	22,112	638	90,279	308
Regions Financial Corp.	AL	108,765	613	14,635	364	94,130	249
ECB Bancorp	NC	108,205	914	22,564	610	85,641	304
FNB Corp.	NC	107,072	728	22,036	488	85,036	240
First Bancorp.	NC	103,506	1,572	34,676	1,315	68,830	257
JPMorgan Chase & Co.	NY	97,464	7,492	92,165	7,480	5,299	12

*Note: Data is for 2004 (latest available). Select banks appearing may have since merged or been acquired.

Source: SBA Office of Advocacy, http://www.sba.gov/advo/research/sbl_05study.pdf

Non-Bank Lenders

Finance companies offer a growing alternative for the financing needs of small businesses. The major differences between banks and finance companies are the criteria used to evaluate borrowers and the level of risk the institutions are willing to assume. Finance companies usually assume higher risk and therefore charge higher interest rates than commercial banks.

Asset-Based Lenders

Over the past several decades, business lending by finance companies has increased at a faster rate than business lending by commercial banks. Increasingly, finance companies are providing asset-based lending services. Instead of focusing on a firm's historical operating record and cash flow, finance companies will lend money based on the value of the company's equipment, inventory, or accounts receivable. Asset-based lending is secured lending in which money is loaned using the borrower's assets as collateral. The lender's risk is mitigated by closely monitoring the quality and performance of the asset.

Asset-based lending is especially useful when the company confronts issues such as high growth or seasonal variations in business. In these environments, traditional unsecured lending is unlikely to satisfy all financing needs, and asset-based lending becomes a viable alternative. This method of lending is generally focused on providing secured working capital loans (with the amount that can be borrowed determined by established percentages of the advance against accounts receivable or inventory). By borrowing against its accounts receivable, a company can accelerate its cash collection cycle and improve its ability to purchase additional inventory to build sales. The resulting improvement in cash flow can be accomplished without giving up any ownership control.

In a traditional arrangement, the asset-based lender extends credit against 80 percent of eligible receivables (with the remaining 20 percent serving as a reserve). Eligibility is generally determined by the quality of the receivable. As the invoices are paid, the amounts received are applied against the borrower's loan.

Purchase order financing is another example of asset-based lending. This may be attractive to a company that has stretched its credit relations with vendors and has reached its lending capacity at the bank. The inability to finance raw materials to fill all orders would leave a company operating under capacity. The asset-based lender finances the purchase of the raw material, and the purchase orders are then assigned to the lender. After the orders are filled, payment is made to the lender, and the lender then deducts its costs and fees and remits the balance to the company.

The interest cost of this source of financing can be relatively expensive. Terms can be as low as prime plus three percent, but can also be as high as prime plus ten percent. Asset-based lenders usually require first liens on assets and almost always require personal guarantees. Lenders may also move quickly to liquidate collateral where necessary. The advantage of this type of financing is that it is available to companies with a strong asset base but with insufficient cash flow to qualify for a traditional loan.



Asset-Based Lender Members of the Carolinas Chapter of the Commercial Finance Association:

Bank of America Commercial Finance

Business Credit Division
101 South Tryon St., NC1-002-30-23
Charlotte, NC 28255
704.386.8956
<http://www.bankofamerica.com>

Lighthouse Financial Corp.

POB 3545
925 West Market St.
Greensboro, NC 27402
336.272.9766
<http://www.lighthousefinancialabl.com>

Branch Banking & Trust Co. (BB&T)

200 W. 2nd St.
POB 1245
Winston-Salem, NC 27101
336.733.2724
<http://www.bbandt.com>

Mellon First Business Bank

1 Bunker Hill Building
601 West Fifth St.
Los Angeles, CA 90071
213.489.1000
<http://www.mellon.com/mfbb>

Business Alliance Capital Corp.

214 Carnegie Center, Suite 302
Princeton, NJ 08540
609.897.8940 or 800.246.1089
<http://www.BACCORP.com>

National City Commercial Finance

35 Technology Pkwy. South, Suite 170
Norcross, GA 30092
770.613.5350 or 877.465.3439
<http://national-city.com>

CIT Commercial Credit

2 Wachovia Center
301 South Tryon St.
Charlotte, NC 28202
704. 339.2928
<http://www.cit.com>

PNC Business Credit

4720 Piedmont Row Dr., Suite 300
Charlotte, NC 28210
704.551.8509
<http://www.pnc.com>

The Commercial Finance Group

4733 Morning Dew Ct.
Charlotte, NC 28269
704.226.2455
<http://www.CFGroup.net>

Presidential Financial Corporation

1979 Lakeside Parkway, Suite 400
Tucker, GA 30084
800.563.6065
<http://www.presidentialfinancial.com>

GE Capital Solutions

<http://gecapsol.com>

RBC Centura

804 Green Valley Rd., Suite 104
Greensboro, NC 27408
336.443.6870
<http://www.rbccentura.com>

GMAC Commercial Finance

8801 J.M. Keynes Dr., Suite 360
Charlotte, NC 28262
704.510.2300
<http://www.gmaccf.com>

Wachovia Capital Finance

301 South College St.
NC0479
Charlotte, NC 28202-6000
704.383.1351
<http://www.wachovia.com>

HSBC Business Credit (USA), Inc.

227 West Trade St., Suite 2050
Charlotte, NC 28202
704.358.2015
<http://www.us.hsbc.com>

Specialized Asset-Based Lenders

A number of asset-based financing sources restrict their operations to various areas. For example, First Exim operates a specialized purchase order funding program for exporters and importers. The merchandise must be finished goods inspected prior to payment by a letter of credit and sold to a customer covered under a credit insurance policy. First Exim will actually purchase the goods from the vendor, supervise the shipping of the goods, and collect payment under the letter of credit from the customer. First Exim's inspection network covers 129 countries.

First Exim Financial Limited

343 West Main St.
Durham, NC 27701
919.682.8077
<http://www.firstexim.com>
Specialty: export/import businesses

Transcap focuses on light manufacturers and distributors. Transcap designed its program to provide all necessary inventory financing to its clients through letters of credit, cash, and other short-term financing options.

Transcap Trade Finance LLC

900 Skokie Blvd., Suite 210
Northbrook, IL 60062
847.753.9600
<http://www.transcaptrade.com>
Specialty: distributors/light manufacturers/assemblers/importers

Factors

Finance companies assist businesses that are expanding and experiencing a cash shortage by purchasing the business's accounts receivables. In factoring, the receivable is purchased at a discounted rate and the finance company pays the business immediately. There are two types of accounts receivable sales: recourse and non-recourse factoring. In a *recourse* transaction, the business retains part of the risk of customer default and is ultimately responsible for any shortfall. In a *non-recourse* situation, the finance company takes on all the rights and obligations of the receivable, including the risk of default by the customer.

Finance companies charge a fee that is usually 2 to 6 percent of the receivable. The calculation of this fee depends on the following variables: volume, size, and number of invoices; customers' credit; location of the customers; and length of time of payment. Some companies charge an additional fee if the customer is late on payment, while others have one flat rate. Upon payment by the customer, the remaining value (10 to 30 percent), minus the fee, is sent to the business.

There are two methods of factoring, called traditional and spot. With *traditional* factoring, the finance company obtains the rights to an entire stream of receivables. This is best for companies with at least \$1 million in annual sales. *Spot* factoring is the buying and

selling of a single order or account. Businesses that only use factoring for a limited time or purpose, such as seasonal employers, often prefer the spot factoring method.

It is important to keep in mind that, unlike banking, there are no regulatory agencies overseeing the business practices of factoring companies. Most factors will provide prospective clients with a list of former and current clients as well as references from local lending institutions.

Factor Members of the Carolinas Chapter of the Commercial Finance Association:

Accord Financial, Inc.

POB 6704
Greenville, SC 29606-6704
864.271.4384 or 800.231.2757
accord@accordfinancialus.com
<http://www.accordfinancialus.com>

BB&T

Commercial Loan
200 S College St, 2nd Floor
Charlotte, NC 28202-2005
704-954-1000
<http://www.bbt.com/bbt/business/products/commercialfinance/factoring.html>

Bay View Funding

523 Pawley Dr.
Charlotte, NC 28214
704.820.0098 or 704.820.0539
gwatts@bayviewfunding.com
<http://www.bayviewfunding.com>

CIT Group

2 Wachovia Center / 301 South Tryon St.
Charlotte, NC 28202
704.339.2847
<http://www.cit.com>

Capital Factors (Capital Business Credit LLC)

One Brixham Green
15800 John J. Delaney Dr., Suite 300
Charlotte, NC 28277
704.364.0002
<http://www.capitalfactors.com>

GE - Capital Solutions

Business Financing Solutions
44 Old Ridgebury Rd.
Danbury, CT 06810
203.796.1000

Riviera Finance

8307 University Executive Park Dr., Suite 228
Charlotte, NC 28262
704.510.0112 or 800.693.7157
<http://www.rivierafinance.com>

Leasing Companies

A typical lease involves three parties: the seller of equipment (vendor), the one who will use the equipment (lessee), and the leasing company (lessor). The leasing company buys the equipment from the vendor and leases it for a specified period of time to the business owner. Leases are best used by businesses that cannot afford the initial capital cost to buy the equipment. Usually nearly 100 percent of the cost of the equipment can be financed, and no down payment is required.

There are also certain tax benefits to leasing that are dependent on the structure of the lease. There are two types of leasing arrangements: capital and operating. In a *capital* lease, the lessee (person taking possession of the property) assumes the obligation to purchase the equipment under the lease. This is generally regarded as a form of



medium-term debt financing. Both the value of the asset and the related debt are recorded on the lessee's financial statements. Under an *operating* lease, the lessee pays a fixed monthly payment for a specified period of time, after which there exists no further obligation, and the lessor retains ownership of the equipment. Neither the asset nor the debt is recorded on the lessee's financials.

Usually the leasing company will require small business owners to personally guarantee the lease. Typically a leasing company requires that a business be in existence for two years and have a strong cash flow history. There are leasing companies that work with new businesses if the owner has strong personal resources and good personal credit. Terms range from short-term to long-term depending on the underlying asset.

For more information please refer to the Equipment Leasing and Finance Association's (ELFA) website at [http:// www.ELFAonline.org](http://www.ELFAonline.org).

NC Members of ELFA Dealing in Small Market Transactions:

BB&T Leasing Corporation

POB 31273
Charlotte, NC 28231
704.954.1600 or 800.532.0354
<http://www.bbandt.com/leasing/>

Bank of America Leasing and Capital Group

121 West Trade St. / NC1-005-15-01
Charlotte, NC 28255
704.388.1999
<http://www.bankofamerica.com>

ePlus inc.

3548 Bush Dr.
Raleigh, NC 27609
800.552.8263
rtracy@eplus.com
<http://www.eplus.com/web/BaseRender.aspx?id=1>

First Citizens Bank and Trust Commercial Leasing

3127 Smoketree Ct.
Raleigh, NC 27604
Mailing: POB 29519, Raleigh, NC 27626
800.537.6888
<http://www.firstcitizens.com>
Specialty: Commercial Vehicles & Equipment

RBC Centura

3400 Croasdaile Dr., Suite 304
Durham, NC 27705
919.687.3750
<http://www.rbccentura.com>

Salem Group

465 Corporate Square Dr.
Winston-Salem, NC 27105
336.744.5999
<http://www.salemgroup.com>

Springs Leasing Corporation

POB 667817
Charlotte, NC 28266-7817
704.357.3020 or 800.622.1633
<http://www.springsleasing.com>

Vendor Capital Group

4191 Fayetteville Rd.
Raleigh, NC 27603
800.765.8644
<http://www.vendorcap.com>

Volvo Financial Services - North America

POB 26131
Greensboro, NC 27402-6131
336.931.4000 or 877.865.8623
<http://www.volvo.com/commercialfinance/na/en-us/>
Specialty: Truck Construction Equipment & Buses



Wachovia Leasing Corp.
101 North Cherry St.
Winston-Salem, NC 27102
336.735.6058

Non-Members with Special Purposes:

Alliance Capital Ventures (ACV)

8623 Tullamore Park Circle
Charlotte, NC 28226-2680
704.341.7654

<http://www.alliancecapitalventures.com>

Special Purpose: Venture capital leasing -- assisting companies who recently received venture capital to establish equipment lines.

Credit Unions

A credit union is a member-owned, non-profit institution formed to encourage saving and offer low-interest loans to its members. Members are usually people working for the same employer, belonging to the same association, or living in the same community. For a list of credit unions in North Carolina, please refer to the NC Department of Commerce's Credit Union Division Annual Report at http://www2.nccommerce.com/cu/pdf/2006_Annual_Report.pdf.

North Carolina Credit Union Division

205 W. Millbank Rd.
Suite 105
Raleigh, NC 27609
919.571.4888

<http://www2.nccommerce.com/cu>

North Carolina Credit Union League

4160 Piedmont Parkway
Greensboro, NC 27410
336.299.6286 or 800.822.8859

<http://www.nccreditunions.org>

Community Development Credit Unions (CDCUs)

CDCUs are member-controlled financial cooperatives that can effectively finance community-based entrepreneurs in low-wealth and/or minority communities. CDCUs are relatively easy to charter at the state or federal levels and can provide a full range of lending services with assets of \$5 million.

North Carolina has one of the highest concentrations of minority, community-based credit unions in the country. Fifteen active community development credit unions are located throughout the state, serving more than 33,000 members combined. For a complete list, consult: <http://www.ncmsc.org/Locations.html>. CDCUs are designed to stimulate economic growth in low-income areas by offering business and consumer



loans at reasonable rates of interest. Since 1991, over \$140 million in loans have been made to members across the state.

The North Carolina Minority Support Center was formed in 1990 to support the work of CDCUs throughout the state by offering technical assistance and providing capital support. The Center is the only statewide CDCU intermediary of its kind in the country.

North Carolina Minority Support Center

POB 2086

Durham, NC 27702-2086

919.530.1683

<http://www.ncmsc.org>