Commercial loan

Documentation required to process it

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The following information checklist is designed to make you aware of all the issues that a bank, private lender or government lender will investigate and evaluate in the process of reviewing your loan application. While there are many references to real estate in this checklist, understand that banks are asset-based lenders and will require collateral (usually real estate) as a secondary source of repayment. It will help your application a great deal if you have this information pre-packaged, in a three ring binder with appropriate table of contents and tabs set-up for ease of use by the loan officer.

1. Letter requesting funding and stating exactly all the requirements, time frames, payback methods and collateral for the project.
2. Completed commercial application for each principal.
3. Three years tax returns of all principals, with schedules.
4. Current financial statements for the principals (signed).
5. Brief resumé of the borrowing entity, development company, management company, and each principal.
6. Authorization to release credit information.
7. Two banking references for the borrowing entity.
8. Letter stating use of funds (if a refinance).
9. Copy of warranty deed of the property.
10. Copy of tax receipts on property.
11. Copy of purchase and sale contract.
12. Copy of previous title policy.
13. Current annual property operating data form.
14. Cash flow analysis including pro-forma income & expense statements.
15. Current balance sheet and profit & loss statement on borrowing entity.
16. Copy of articles of incorporation and borrowing resolution.
17. Copy of joint venture or partnership agreement.
18. Brief history of business and of each principal.
19. Verification of balances of existing liens on property.
20. Interim statement and two years operating statements on property (signed).
21. Two years corporate or partnership tax returns with schedules
22. Copies of all leases and rental agreements
23. Colour photographs of property.
24. Sample lease agreement.
25. Sample sales contracts.
26. Current rent roll (signed).
27. Demographics study report.
28. Business or property appraisal (signed and dated within 6 months)
29. Copy of property survey.
30. Zoning letter.
31. Marketing plan.
32. Aerial photograph of property.
33. Availability of utilities, and water letters.
34. Drawing of floor plans or renderings.
35. Cost breakdown of land costs and development costs.
36. Complete description of property and project.
37. Executive summary of project.
38. Signed agreement for financial services.
39. Contracts with joint venture partners/architects/contractors/operators.
40. Copies of patents, trademarks, copyrights, service marks, etc..
41. Any additional contracts, vendor agreements, joint marketing agreements, government contracts, etc. that can verify future cash flow. ❐

Note: Use the above as a checklist. Remember, not all the above will apply to every project.

Using IP assets
to finance your business

World Intellectual Property Organization (WIPO)

Can your SME use IP assets for financing?
In recent years, there is growing awareness that intellectual property (IP) assets can be monetized. There are various ways to do so. IP can be sold, licensed, used as collateral or security for debt finance, or it can provide an additional or alternative basis for seeking equity from friends, family, private investors (the so-called "business angels" who invest in unquoted small and medium-sized enterprises (SMEs) and often also provide experience and business skills), venture capitalists, specialized banks and some times even from regular banks. In addition, in most countries, the Government provides encouragement and support to high-tech start-ups and other innovative SMEs through grants, guarantees, subsidies and/or soft loan schemes, which are provided via various public funding institutions and banks that directly or indirectly recognize the importance of IP assets. As an owner/manager of an SME, therefore, it is important for you to look after the IP of your SME not only as a legal asset but also as a financial instrument.

Using IP assets to finance your business
The investor/lender, be it a bank, a financial institution, a venture capitalist, or a business angel, in undertaking an appraisal of the request for equity assistance or loan, will assess whether the new or innovative product or service offered by the SME is protected by a patent, a utility model, a trademark, an industrial design, or copyright or related rights. Such protection is often a good indicator of the potential of your SME for doing well in the marketplace. On occasions, a single powerful patent may open doors to a number of financing opportunities.

Ownership of IP rights over the creative output or innovations related to the products or services that an enterprise intends to market, guarantees a certain degree of exclusivity and, thereby, a higher market share if the product/service proves successful among consumers. Different investors/lenders may value your IP assets in different ways. A clear trend, however, is developing towards an increasing reliance on IP assets as a source of competitive advantage for firms.

As the owner/manager of an SME, you must therefore take steps to understand the commercial value of the IP assets of your SME, and ensure their proper valuation by professionals if need be. Above all, make sure to include the IP assets of your SME in your business plan when presenting it to potential investors/lenders.

Securitization of IP assets
Lending partly or wholly against IP assets is a recent phenomenon even in developed countries. Collateralizing commercial loans and bank financing by granting a security interest in IP is a growing practice, especially in the music business, Internet-based SMEs and in high technology sectors. In principle, these assets can be any claims that have reasonably predictable cash flows, or even future receivables that are exclusive. Thus securitization is possible for future royalty payments from licensing a patent, trademark or trade secret, or from musical compositions or recording rights of a musician.

At present, the markets for IP asset-based securities are small, as the universe of buyers and sellers is limited. But if the recent proliferation of IP Exchanges on the Internet is an indication, then it is only a matter of time before all concerned will develop greater interest and capacity to use IP assets for financing business start-ups and expansions. As more cash flows are generated by IP, more opportunities will be created for securitization.

Importance of proper valuation of IP for obtaining finance
While securitization appears to be gaining ground, conventional lending remains the main source of external finance for most SMEs. The practice of extending loans secured solely by IP assets is not very common; in fact, it is practised more by venture capitalists than by banks. Your IP assets stand a greater chance of being accepted as collateral if you are able to prove their liquidity and that they can be valued separately from your business. You also need to show that your IP assets are durable, at least for the period during which you have to repay the loan, and marketable in the event of foreclosure or bankruptcy. This is why it is critical to obtain an objective valuation of the identified assets from a competent valuation firm. The value of IP management processes that identify, log, track and quantify your IP assets becomes increasingly important in the Internet economy. This is one more reason for you to increase in-house awareness of the extent and value of IP asset holdings, including trade secrets, which might be used to collateralize a loan.

The valuation of IP is highly subjective. While well-founded valuation methodologies exist, they are either considered to be too subjective or are not generally understood by most people. However, the increasing use of royalty streams arising from licensing to determine the value of IP is a welcome development in enhancing the acceptability of IP assets as valuable assets providing security for debt financing and equity participation.

As an SME, it is therefore important to keep this aspect in mind while seeking financial assistance and while developing your business strategy and business plan. ❐