WELCOME BACK!

We are glad you’re back reading our bi-monthly Client Bulletin designed especially for ProfitStars Commercial Lending Clients.

In this issue, we’re pleased to welcome our new Group President, Terry Renoux. Terry comes to us from the Banking side of the business and you’ll see the introductory letter from him on page 2.

In addition, we are continuing our 5 Keys to Exploring Risk Mitigation Through A/R Financing Article Series. Be sure to Check out “Key #2”, along with continuing details on our webinar series with the ICBA. Read on for more.

Lastly, we’re announcing a webinar this week with Independent Banker on Uncovering Hidden Loan Profitability. You won’t want to miss this!

*Thank You and Enjoy!*
Dear Valued Client,

As the newly appointed Group President of the Lending Solutions business, I first want to thank you for being a valued partner of our ProfitStars team.

As a 30-year Banker, I clearly understand the challenges each of you face daily in the banking business of 2011 versus the good 'ole days. Being a banker back before the inundation of regulations we all face today, it was clearly an easier time. I will say though that technology has assisted us all in becoming more efficient, even in times of new regulations.

The one element of our business that has not changed is that we are a customer-driven industry. That was, and is, the paramount differentiator from “Us” and the other guy. That is a major reason I agreed to help lead this business for ProfitStars. I believe our commercial lending solutions are customer-driven and allow you to differentiate yourself from the bank down the street and certainly the larger nationwide banks.

I have called on many businesses in the past and listened to the owner say, “I just can’t see enough value in what you are offering to make me to move my primary business and accounts to your Bank.” Our BusinessManager product is the value proposition to cause your customer to make that move. BusinessManager is also the product that keeps your current customer “sticky” or hard for them to consider moving elsewhere because you offer a unique service to them.

If you already fund customers using BusinessManager, we look forward to helping you prospect for new businesses in your market and move them from your competitors. If you are thinking about using BusinessManager or have used the service in the past and haven’t used it in a while, we can help you grow your commercial bank again using our service as the “Differentiator.”

My kindest regards,

Terry B. Renoux

Group President | ProfitStars Lending Solutions | trenoux@profitstars.com
Exploring the types of information that are critical to success in all forms of asset based financing

“Information is the currency of democracy.” - Thomas Jefferson
“My sources are unreliable, but their information is fascinating.” - Ashleigh Brilliant

These two quotes sum up both the benefits and challenges of the information age. As our ability to communicate has increased at an incredible rate during the last 20 years of banking, so has the risk of falling prey to inaccurate information. During the course of any debtor/creditor relationship, both parties will rely on the use of information. Creditors depend on accurate and timely data in order to make reliable decisions regarding everything from initial approval to terms and structure, to daily credit management and even pricing. As we explore the world of asset based lending, the questions becomes; How much information do we need, and what types of data will most improve our ability to manage the relationship?

Through the use of electronic transfer, more and more bankers are now depending on information that comes directly from their client’s accounting system via extracted reports. Whether it involves accounts receivable, accounts payable or inventory, this is typically the most reliable source and also reduces the risk of human transcript error – but it is not foolproof. In this article, we will explore the types of information most asset based lenders require and methods they use to validate that information after receiving it.

Before initiating any revolving credit relationship secured by receivables and/or inventory, it is critical to understand the nature of the business and the life cycle of every sale. It is recommended that the lender obtain sample transactional documents from purchase orders to invoices and any others that support the sales and payment cycle. It is also important to understand whether every business sale is similar or whether they vary widely, with different debtor terms, conditions etc. Once you understand the nature of the sale for any given business, you are more prepared to determine which pieces of data you will want to see when monitoring the relationship.

When accepting data in electronic form, such as when using it to populate a borrowing base, it is also important that your documentation reflect that method of invoice transfer. In other words, does your existing documentation define invoices whether in “written or electronic form?” Also, do your lending practices require a business owner to electronically validate the accuracy of their data – at least to their knowledge – before they hit the “send” key? Even though your processes will call for you to verify invoice and inventory data either before or after funding, it still helps to have the customer make this statement of validity prior to sending information. With that foundation explored, here are the types of information you would typically request:
Information to obtain prior to funding (in addition to normal financial data):

- Accounts receivable aging
- Accounts payable aging (to study the possibility of contra accounts or affiliate relationships)
- Customer lists (w/ explanation of any that may enjoy special terms of sale)
- Sample purchase order or sales agreement
- Sample invoices
- Physical inventory reports

Information obtained daily, weekly or monthly depending on the funding relationship

- Newly generated invoices
- Credit memos
- Back up documentation for larger invoices (as determined during initial underwriting)
- Any information specific to the industry (ex. Transport – Bill of Lading, Medical – Claim reconciliation reports)
- New customer information (especially in cases where verifications are being performed)
- Regular physical inventory reports or summaries

Special Note: Importance of periodic information obtained by direct visual verification

One word of caution – Never get too comfortable with information coming across your desk from a client. Once a month, once a quarter or at least semi-annually, pay a visit to their offices and see firsthand how things are going. Take the tour and get to know their key employees. Take the client to lunch and talk about their goals for the business. Transactional data can help to guide your daily funding relationship, but it is not a replacement for active face-to-face discussions. Engage the business owners and have them tell you about conditions in their industry, goals for the next quarter, and general trends they feel are impacting their business.

All of the information listed above will arm you and your lending staff with the tools necessary to understand the business and to comply with internal bank policy. It will also help your lenders to anticipate upcoming changes in business cycles and new business opportunities. When asset based lending is performed properly, these clients become some of the closest relationships in the bank. By using electronic exchange of data, you will be able to efficiently monitor that relationship without overwhelming your own staff. You and your clients will both have used the “Information Age” to assure future business success.

If you’d like more detail, download the full story from our Knowledge Center. Be sure to catch Keys 3-5 in the upcoming issues of our bulletin.

Check out our new webinar series titled “Demystifying Asset-based Lending” on page 5 of this bulletin.
In our last issue, we announced that BusinessManager was a now a Preferred Service of the ICBA. This new relationship brings an opportunity to educate ICBA member and non-member banks about the benefits of asset-based lending, and how to improve ABL operations if you’re already using a system today. Our highly successful webinar series is still going on with the following schedule:

Click on a date to register.

- Methods for controlling and monitoring the payment stream when providing receivables funding solutions **Wednesday, November 16, 2011, 2 p.m. EST**
- Maximizing both effectiveness and efficiency when attempting to monitor asset based financing relationships **Wednesday, December 14, 2011, 2 p.m. EST**
- Developing solutions that adapt well to a changing financing environment – protecting yourself against unseen issues **Wednesday, January 25, 2012, 2 p.m. EST**

In addition, we have posted past webinars on our [Knowledge Center](#) for you to listen to at your convenience. Those include:

- ProfitStars Lending Solutions, our new partnership with the ICBA, and an introduction to navigating the current ABL financing landscape
- Establishing a beacon to guide your lenders in the field of asset based finance
- Exploring the types of information that are critical to success in all forms of asset based financing

[Click here](#) to access the recordings on our Knowledge Center
#1

**Business Description:**
Transportation/Trucking: specializing in short-to-medium semi-hauls.

**Lead Source:**
- ProfitStars Business Development Manager
- The business had been on BusinessManager at another bank
- Business had grown beyond the legal lending limit of previous BusinessManager bank

**Benefit to the Business:**
- Business owner credits BusinessManager for saving his business 8 years ago
- The demand of daily cash flow needs are satisfied by daily funding on A/R
- Debt adverse business. Business is debt-free on the short side and close to debt-free on the long side

**Benefit to the bank:**
- New, large, credit on the bank’s portfolio yielding 8.25%+
- In addition to BusinessManager, the bank acquired additional business loans valuing over $700K

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#2

**Business Description:**
Commercial Truck Tire

**Lead Source:**
- Bank referral
- Seven-year customer of the bank

**Benefit to the Business:**
- Business has growth opportunity and is able to take advantage of discounts when buying in bulk
- Business will be less cash-flow stressed when purchasing 100-200k in tires
- The business owner can now manage cash rather than managing debt
- The business owner can now focus on what he does best, sales

**Benefit to the bank:**
- The bank was able to pay off LOC and reduce inventory exposure
- With average outstanding projected to be 600-800k, yield to bank will 9-10%
- The bank feels it is in a more secure position with the structure of BusinessManager being able to monitor the business on a “real time” basis
- The bank is more comfortable with a self-liquidating line like BusinessManager than an evergreen LOC
#3

**Business Description:**
Commercial door, frame, hardware and toilet partition provider

**Lead Source:**
- New bank customer as a result of telemarketing
- Company has been in business since 1995
- Steadily growing company with opportunity for additional growth acquired from competitors by superior quality and service
- Traditional lines with two large banks were maxed
- AR turns had stretched over the past year or two creating increased cash strain

**Benefit to the Business:**
- Day 1 funding enabled the business to pay off both LOC’s and catch up on payables
- Put company in position to take supplier discounts previously missed and leverage discount with another major supplier on large quantity orders
- Company plans to phase in small price increase to offset BusinessManager investment
- Plan to use monthly reserve sweep to set aside for year-end bonuses which previously had to come from LOC

**Benefit to the bank:**
- Strong relationship with the business by providing a viable solution to allow them to grow when no one else could
- Anticipated 11% gross yield with approximately 30% in compensating deposits
- Bank is able to use real time information through BusinessManager to allow for closer monitoring while preventing another evergreen situation for the business
- Bank anticipates a line increase will be needed within the next several months as a result of bids the company is now pursuing

#4

**Business Description:**
Oil & Gas Field Services – Drilling Chemicals and Frac Fluid Treatments

**Lead Source:**
- ProfitStars Inside Sales referral sourced via strategic marketing campaign
- 4-year old business experiencing significant growth due to the Eagle Ford Shale energy play
- The annual sales are expected to grow from $1.5M to $4M, and without a line of credit the business would have to turn-down business opportunities
- The cash flow was tight, but their existing bank could not offer any working capital solutions

**Benefit to the Business:**
- Instead of waiting 65 days for receivables to turn, BusinessManager provided immediate cash flow. This allowed the business to re-invest in the operation, increase inventory, bid on additional jobs and grow top & bottom line numbers.

**Benefit to the bank:**
- Owner moved all of his personal & business accounts to his new bank
- Average outstanding Business Manager line balance of $350,000
- Risk Mitigation: Verification phone calls, A/R credit insurance, lockbox remittance and 10% reserve funds
- Anticipated yield of 10.59%

*All information provided is based on information provided by the bank and merchant. Actual performance results may vary.*
Regional Managers’ Perspective

Observations from the road

During my travels over the last month with BDM’s, I met with two banks on different ends of the spectrum. The first bank is located in the center of the Marcellus Shale natural gas play while the other is located in a small town in Kentucky. Both of these banks run very successful BusinessManager programs while concentrating in different industries at different size financial institutions.

The bank in the Marcellus Shale play is a $1 billion asset institution that has been using the BusinessManager program since 1998. Two years ago, they had an outstanding A/R balance of just under $1 million. Currently, their outstanding balance is just over $10 million. This bank has about 28 clients using the program and the portfolio turnover is 45 days or 8 times a year. This metric, and the resulting income, means the BusinessManager portfolio perform like an $80 million line of credit (LOC) portfolio. The return on the BusinessManager portfolio is in excess of 12% after cost of funds and all expenses. In talking to the President, EVP and Program Director, I asked them what they thought of the program. All three of them said they would not have been able to fund all of the businesses in their area without this program. They perform their due diligence, understand the client’s cash flow situation and want to participate in the growth of the natural gas industry in their region. They also want to do so in the controlled manner that BusinessManager allows.

The bank in Kentucky is a $100 million asset organization that has been using the program since 1996. The BusinessManager portfolio at the bank has averaged $4.9 million and also turned in 45 days, performing like a $39 million LOC portfolio. They have eight clients on in the portfolio with a yield in excess of 13% after cost of funds and all expenses. The program plays a large part of this banks overall commercial portfolio. The bank is in a strong financial position with total return on assets (ROA) of 2.1%. Without the BusinessManager clients, the total ROA is 1.4%. The profitability of the BusinessManager portfolio accounted for 37% of the bank’s net profit last year. I asked the CEO how and why he uses BusinessManager, and he told me it is a niche product and he recognizes when it is a good fit for the business. He said that it became clear to him during a BusinessManager Users Conference several years ago, when a client explained how the program helped him grow his business in a way that no other product could. He also saw the safety and soundness principals that, when monitored correctly, offer them the ability to fund deals that they could not under a traditional line of credit. Since then, all of the new commercial credit lines at the bank are placed on Business Manager.

The common thread within these two banks is that senior management understands how the program can help their customers achieve their growth goals through increased cash availability. While providing this service to their customers, they are doing it in a safe and controlled manner for the bank. It is also contributing strong returns for their banks in this low interest rate and low margin environment.
Your Source for All BusinessManager® Marketing Needs

ProfitStars Direct is the preferred provider of mission-critical marketing materials to help you generate interest in BusinessManager with business clients in your area.

Our online library of materials makes it easy to shop, choose, and customize. From collateral to postcards to advertising, we’ve done all of the work so that you don’t have to.

Log on to ProfitStarsDirect.com today. Once you’ve registered, we’ll customize any marketing piece with your bank’s name and contact information. Plus, we offer print services at competitive prices. Below are a couple of examples of the materials we have to offer.

Visit www.profitstarsdirect.com go to Marketing Creative Materials, then Business Services, then Commercial Lending to get started.

Customizable Postcards

THE SMALL BUSINESS DILEMMA:
Cash Flow
What could you accomplish if all of your customers paid within 24 hours?

Statement Stuffers

Smart Solutions
for real everyday businesses.

... and more!
Did you know that most community banks overprice their largest loans, and underprice their smallest? Truth be told, community banks that don’t know the profitability of every loan deal they make probably are.

Margin Maximizer from ProfitStars® helps you uncover hidden profitability through more disciplined, effective loan pricing and detailed portfolio analysis. It’s a solution that allows you to:

- Maximize the profitability of the customers you already have
- Win more large new deals
- Stop overpricing and underpricing
- Enjoy superior control and consistency

For more information on how Margin Maximizer can help your financial institution change course and become more profitable today, visit www.icba.org/IBwebinars to register for our upcoming webinar with Independent Banker:

Uncover Hidden Loan Portfolio Profitability
Thursday, November 17, 2011 • 1 p.m. CST

Visit our Online Knowledge Center to download a new whitepaper, listen to the webinar recording, and much more.