



# Minneapolis Estate Planning Council

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ANCHOR  BANK®

# **Twin Cities Banking & Lending: Trusts, Estates and Passive Entities**

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# Presentation Overview

- Anchor Bank
- Twin Cities Economy from the Trenches
- Twin Cities Banking Environment
- Lending to Trusts, Estates and Passive Entities
- Helpful Strategies to Improve Access to Capital



- **\$1.4 Billion in assets**
- **Largest family owned community bank solely focused on the Twin Cities Market. 15 Metro offices.**
- **Celebrating 50 years in business in 2017 – commitment to remaining independent.**
- **Core Mission: Business and Private Banking to privately owned companies and their owners in the Twin Cities Metro.**
- **Generally – we are working with businesses with under \$100 million in annual revenue and credit needs under \$20 million (which is our legal lending limit).**

# Twin Cities Economy from the Trenches

Business owners we work with are:

- Cautiously optimistic about top and bottom line growth this year
- Considering previously deferred equipment and plant expansion
- Still holding cash reserves and limiting use of lines of credit and are cautious in leveraging their balance sheets

# Twin Cities Banking Environment

- Most Banks had strong years in 2013; Anchor had a record year in loan growth and profitability
- Banks continue to have record liquidity and are seeking to deploy those funds in higher yielding assets (loans)
- It is a competitive banking market right now – buyer’s market for commercial loans

# Lending to Estates, Trusts & Passive Entities

Banks treat non-individual borrowers the same way they treat individual borrowers. They look for the following:

- Evidence of the legal borrowing entity – the Bank wants to define and document the legal borrower.
- Outline repayment ability – where is the cash flow, will the requested loan be repaid from cash flow or sale of assets.
- Outline collateral for the loan
- Outline any personal or corporate guarantors

# Borrowing Entity - Documentation for a Trust

- First page and signature page of the trust agreement showing that the trust exists and has been signed by the grantor as well as by the trustee.
- Bank may want to get a Certificate of Trust, especially when the transaction involves real estate.
- Bank may also want to get an opinion letter from the borrower's attorney stating that the trust was validly created under state law and is still in force and effect and has not been revoked.
- Pages setting out the trustee's powers documenting that the trust has the authority to enter into the lending transaction.



## **Borrowing Entity: Documentation for Estates**

- Letters Testamentary / Letters of General Administration
- First page and signature page of the Will if there is one
  - Pages setting out the personal representative's powers documenting that the PR has the authority to enter into the lending transaction.

# **Borrowing Entity: Documentation for Entities**

- Copy of the Articles of Incorporation/Organization, Statement of Qualification
- Copy of the Bylaws or Partnership Agreement
- Copy of other control documents that may exist

## **Repayment Ability – Cash Flow**

- Evidence of Borrower and/or global cash flow to yield minimum Debt Service Coverage of 1.15x
- Debt Service Coverage: Net income + non cash expenses such as depreciation/amortization divided by debt service

# Securing the Debt - Collateral

- Pledge of assets (assuming powers permit) should be signed by the authorized party on behalf of the entity.
- Banks look for loans to be fully secured on a discounted collateral coverage basis
- Advance rates on various collateral:
  - Cash, Cash Equivalents in a Securities Account 100%
  - Bank deposits 100%
  - Mutual Funds, Publicly Traded Stocks on NYSE, ASE and National Over the Counter, 70%
  - US Government obligations with maturities < 5 years, 90%
  - US Government obligations with maturities > 5 years, 80%
  - Marketable Securities, Non Listed 0%
  - Real Estate (residential & commercial), up to 80%

# Personal & Corporate Guarantees

- Banks prefer Personal Guarantees on loans; Personal guarantee is not affected by whether a trust/entity exists or not – it goes to the individual, not the trust/entity.
- Corporate guarantees from operating companies or other entities that have income, assets and/or cash flow are also viewed favorably

# Helpful Strategies to Improve Access to Capital

Help the Bank and your client by structuring a loan request with the following strengths clearly identified:

- Borrowing Entity identified and documented
- Cash Flow to amply cover the requested debt service
- Collateral to fully secure the loan
- Personal or Corporate Guarantees to enhance the structure and lower the risk profile

# Thank you!

If you have additional questions please do not hesitate to contact us.

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