

Pawnee

How We Do Credit

Hint #1: Demonstrate that you understand the lessee and can recommend a favorable credit decision.

Look at every credit submission this way... If a copier salesperson walked into your office to sell you a copier you would expect them to demonstrate an expert knowledge about what they want to sell you...you would likely not buy from a salesman who knew nothing about the copier but it's name, right? If you submit a deal to us and demonstrate by an incomplete credit picture that you don't know your deal, the likelihood we'll buy (approve) deals from you is very low. You can demonstrate that you know and recommend your deal by doing the following:

Make sure the application is complete and legible. Remember, we analysts look at many, many deals each day including re-looking at prior submittals that were either incomplete when submitted or required additional information to help complete our decision. Be neat, complete and professional in your credit presentation. Incomplete submissions really hinder and bog down the credit process and your lessee's application will have a strike against it. Your credit presentation is a reflection on your firm and on your lessee, so take the necessary time to provide us a well-researched and complete credit submission. To the extent we can reduce or eliminate incomplete applications, time is saved at both your place and Pawnee and we both win.

Can you vouch for the vendor? Undoubtedly, you will be familiar with most of your vendors and have confidence that the vendor can provide not only the equipment requested but will be able to assure that the equipment will operate as agreed with the lessee. However, if you are not familiar with the vendor please get familiar before you submit the deal. You owe it to the lessee to make certain that the vendor is reputable and can perform. Generally, Pawnee doesn't consider vendors with less than one year of operating history or those who haven't established ratings on at least one of the business rating bureaus, such as D & B or Business Credit USA.

If you cannot vouch for the vendor because you have not had experience with them or particularly if they are contacting you directly with a first time "deal", do both of us a favor and proceed cautiously. Ask yourself "does this make sense" questions such as.. "Does the type of equipment vs. the type of business fit?" For instance, ice cream shops don't buy bobcats generally. "Does the type of equipment and the type of vendor make sense?" An example might be a heavy equipment vendor selling a computer system. Another question might be "Does the location of the vendor and the type of equipment make sense for this lessee?" For example, a lessee will customarily buy common office equipment, such as a telephone system or a copier, from a local dealer. They won't buy from a vendor who is across the country for this type of equipment unless there are very special circumstances. These sorts of "does this deal make sense" evaluations are helpful in avoiding fraud. If it doesn't make sense, get acceptable answers to these questions before proceeding and avoid possible embarrassment later.

Does the deal meet the broker guidelines for industry, equipment, geographic, time in business, and base credit-scores? Don't forget to check the Pawnee Broker

Guidelines to assure that the deal is a fit for Pawnee. Our guidelines are under “Broker Services” – “Broker Package” navigation bar on our homepage. Generally, we require a CBR, your choice of model, on all owners. The bureau should have been open for three years or more with a minimum of seven credit lines. We don’t consider corporate-only deals nor do we accept sale-leaseback or private party sale transactions. If the deal doesn’t meet the guidelines don’t submit it because we generally won’t consider it. However, we realize that there may be some instances where a deal may be a fit but you are not certain. On these occasions, please contact your Pawnee Regional Sales Manager directly. They can help you decide how to proceed.

Remember, we cannot do transactions for applicants who are not proficient in the English language nor for any persons who cannot prove they are long-term residents of the United States. This restriction is intended to assure that 1) the lessee or guarantors fully understand the lease document and 2) the lessee will be available to service the lease obligation for the full term of the lease. Further, all our equipment must be domiciled and must be retained in the United States. Make sure these characteristics are met prior to processing the application further and avoid possible hang-ups down the road.

Hint # 2 Anticipate questions by our analysts such as:

Are all the owners identified? This is sometimes not obvious from the application itself and it’s therefore important that you always ask this question of your applicant. Also, the name of the firm sometimes suggests that there are other owners. An example is a business named S&W Machine Shop. S&W suggests 2 owners – one whose name starts with S and another name that starts with a W. Another example would be a name like Abbott and Son, which could suggest multiple owners.

In other instances, the legal owner is not the real operator of the business and it is important that we know who has the experience and who will be managing the business. This circumstance is often true of minority owned businesses where one spouse may be the legal owner but the other spouse is the operator/manager. In these instances we need to know just who the operator/manager is and will require a credit bureau on them as well as the legal owner. Unfortunately, on some occasions we find that the real operator knows they have bad credit and submits their request through the name of the spouse with good credit. This will generally be discovered during the analysis process and only slow the decisions so try to avoid this pitfall up-front by confronting the applicant with these questions.

Is the equipment being requested consistent with the name and nature of the business? For instance, why would a retail ice cream store be seeking a bobcat? Don’t laugh, we see these sorts of requests more frequent than you might suspect. Undoubtedly, there is a “story” here that probably makes sense but without the story we are going to be confused and will always need further explanation before the deal will be considered. So do your lessee a favor by anticipating our review of the deal and don’t leave apparent questions unanswered. Address any “story” up-front and give us the answers when you submit deal.

Does the lessee have experience in the business/industry being proposed? In most instances, and certainly for start-ups, we require the PG to have a background in the business they are operating or intend to open. Many business failures are attributable to

the lack of experience in the line of business being presented. If no related experience can be gleaned from the CBR it would be necessary to interview the applicant and provide an explanation of the PG's logical business experience in the proposed business/industry.

It doesn't happen often, but from time-to-time, we see a PG who's only employment experience is as a Registered Nurse at XYZ Hospital or who is an 80 year old retired CPA who is starting an auto repair business...perhaps the submitting broker was asleep at the switch but each probably begs a bit more than the "experience" question, right? We decline these deals simply on the basis of "lack of related industry experience".

More importantly many of these inexperienced PG's are "fronts" for an experienced party who might be lacking in some credit qualities. When you suspect another operator please sleuth out the credit of the operator and if they are bad apples, decline the deal up front. If the real operator is simply a shallow credit and is truly seeking a second related party to lend credit support, we will consider this situation but we will need the operator as a guarantor. Request their guaranty and submit the entire credit picture for our credit team to evaluate.

Hint # 3: We look at credit submissions differently based on the size of the request.

In general, the smaller the cost of the equipment requested the less extensive the analysis and vice versa. For this reason, we only require an application, bank rating (or last 3 bank statements) and credit bureaus on all personal guarantors for requests up to \$30,000. Transactions \$20,001 - \$30,000 are limited to "higher quality credits" as defined in our Broker Guidelines and must be accompanied with a summary detailing any prior business experience and continuing outside income of the guarantors. Larger credits that do meet our desired criteria may be considered further with a one year financial package.

Hint # 4: While we only lease to businesses most of our credit decisions are based on the owners' personal credit history.

Since much of the business we buy is start-up business, we have little business history or information to pass judge on. As a result we principally consider the personal credit histories of the owners' as reflected on their personal credit bureaus. For this reason, it is extremely important that you pull and evaluate your applicants' bureaus prior to submitting the application to our offices. Here are a few insights into what we consider when looking at the bureau.

First, does the credit bureau have enough information on it to be a reliable basis for an evaluation?

As mentioned earlier, we require the applicant to have been in the bureau for a minimum of three years with seven trade lines shown. If it doesn't, the applicant will generally not be considered so avoid wasting any more time on these "shallow" bureau applicants. If you know of some legitimate reason that we should consider the applicant you should contact your Pawnee Regional Sales Manager to discuss the applicant prior to submitting the deal.

Next, check the credit bureau scores. The simple fact is that our portfolio tracking does support the predictive value of most of the credit models in use today. We prefer the Enhanced DAS model produced by Equifax and we also like the FICO/Beacon model. Nonetheless, we will consider any credit models that you provide us. Generally,

we're looking for DAS scores below 650 and FICO scores above 640. On smaller requests, DAS scores up to 750 and FICO scores down to 590 are considered. However, credit scores of themselves do not make our decision and we look deeper into the bureau for more reasons to make or reject the deal. Other factors considered are:

Open derogatories: This includes collection accounts, public record items and family/support obligations. The presence of open items over \$1,000 will most likely exclude consideration unless the analyst can logically assume the obligation is resolved or evidence of the payment is supplied with the application. It's also important to note, that we do not entertain personal guarantor's that are currently making payments under tax liens or consumer work out plans. Further, we are critical of student loan defaults and more often than not we decline applicants with any child/family support obligations that have negative payment histories.

Next, we look at the absolute number of derogatory items including any prior bankruptcy. We've found that the number of derogatories are a precursor to a "hard collect" applicant. A PG that repetitively gets in squabbles with his or her creditors simply isn't worth the collection headache. That said, generally three or more "material" derogatories does not weight well in our credit thinking. Therefore, if there are material derogatories on the bureau we will need a story of explanation or preferably evidence that they have been paid. Small medical collections are generally not considered unless they are very numerous and over an extended time period.

We do consider bankruptcies provided the bankruptcy occurred three or more years ago and the PG has re-established creditor relationships, particularly installment type debt. There are some occasions when a bankruptcy can be accounted for with an adequate story or explanation, such as a medical circumstance. We will not consider anyone who is in a bankruptcy plan, 7, 11, or 13, at the time of the application.

Another element closely evaluated is the amount and utilization of revolving debt. Many small businesses use personal revolving credit cards of the owners to finance the company's operations. For this reason, we evaluate revolving debt as a source of financing the business. This is particularly true of a start up transaction. We particularly consider bank or other finance type credit cards as a source of financing but do not consider trade cards, such as Sears or Conoco, etc. We even relate the amount of availability to the size of the request. While we don't have any fixed rules the simple rule here is that the larger the request the more credit we like to see available in the credit cards.

Incidentally, we don't consider home equity loans under the revolve category but we do consider availability under the home equity loan when examining for cash or liquidity to finance the business. Again, from our perspective, the greater the availability on the home equity loan the better.

The absolute amount of revolve is also important but of itself without consideration of the amount of availability is generally not reason for turning an applicant down.

In summary, we consider both the dollar amount outstanding and the dollar of revolve available. The best applicant will have low current revolving balances with high

availability and vice versa the higher the balance and lower the availability the less attractive the applicant.

Home ownership is very important in our consideration. We do not require home ownership. However, we like to see the guarantor's be homeowners particularly for larger lease requests. Obviously, greater length of time as a homeowner is a plus and positively influences our consideration.

Having a prior installment loan comparable to the requested lease amount is highly desirable. Guarantors who have previously satisfactorily handled installment debt comparable in size to the requested lease are favorably considered. The larger the request the more important it is to have a comparable. A request for a \$30,000 lease with no comparables whatsoever may require further financial information to help demonstrate that the applicant either has experienced debt at this level and/or has the capacity to service this level of payments.

Recent slow pays are significant in our consideration. Generally, we are quite liberal on "old" (meaning more than one year old), slow pays but extremely sensitive to slow pays in the last 12 months. We are also sensitive to the number of accounts that have had slow pays in the past year. Applicants with numerous recent slows or with some recent slows and a history of slows will not be considered. Recent slows are also considered relative to the credit availability mentioned previously. The combination of recent slows and limited availability on credit cards is considered evidence that the applicant has limited liquidity to service their obligations.

Guarantors overall debt owed and composite debt service are considered relative to the apparent ability to service the debt. For example the guarantor who is showing a very large overall debt and debt service but is also showing that the majority of the debt has been serviced for several years would not be looked at unfavorably. However, the same guarantor who doesn't show a history of serving that level of payments would be less favorable. Further, the relationship of debt service, including the proposed lease payments, vs. the availability of credit or cash is evaluated. The greater the ratio of credit plus cash to payments the more favorable the consideration. This ratio is a subjective evaluation tool for our application only business but the ratio is actually calculated for credits requiring a financial package. Some larger application-only packages, greater than \$20,000, don't provide enough information to make this debt service assessment and a financial package may then be requested to assist in finding the way to make the deal.

Finally, our analysts consider what write-up or supporting information adds value to the credit equation. For larger lease requests we look very favorably on information that can shed some insight on the operating capital availability; i.e. does the lessee have a line of credit established for the business, evidence of cash resources on the part of the PG such as savings or investment accounts that might provide future liquidity for the business and finally, we look very favorably on details about what we term "outside income". That is, most of our lessee's are small, closely held business, most often sole owners. It is very positive for a young business if a spouse has an income stream, usually through employment outside the business that can support the owner's personal obligations while the young business supports itself.

Hint # 5 Know how non-credit bureau information is considered by our analysts and use that knowledge to accelerate our decision and get the deal done.

We consider several non-bureau factors when making our decision.

The first factor is our subjective opinion regarding the liquidation value of the equipment to be leased. “Soft” assets, such as phone systems, POS systems, computers in general, etc. have limited liquidation value if repossessed. For this reason, we require a stronger credit file for “soft” equipment.

Second, as mentioned previously, the lessee’s available cash or liquid resources are critically assessed particularly for the start-up business. We require a bank rating which is an obvious source of information on cash. However, ratings are sometimes difficult to get from a bank and it may not be as helpful as having a copy of the past three months of the business’ account. Although not requested, information on the owners’ personal checking, savings or broker accounts can very favorably influence our decision.

For those applicants who are just opening their business, copies of statements of the owner(s)’ personal bank or broker accounts are great substitutes for the business account statements.

In general, we require that the information provided substantiates a low 4 depository balance with no NSF’s or Overdrafts for requests under \$15,000 and a moderate 4 or higher for larger transactions.

Third, we attempt to verify that the business is what it represents on its application as well as confirm it’s historical credit performance. We use a number of different business credit reporting agencies and Internet databases to assist in this portion of the analysis. Many of our brokers are now using the Internet at the pre-submittal stage to screen out those applicants who might be wasting everyone’s time or more importantly to enhance the application package they submit to Pawnee. Good supporting trade information is very helpful in facilitating the approval of your applicant.

Hint # 6 For larger lease requests we look very favorably on continuing “outside income” as a source of business or personal operating capital.

Starting up a business is a tough proposition and requires a commitment of not only the owner but often of the spouse as well. It is very positive for a young business for a spouse to have an income stream, usually through employment outside the business that can support the owner’s personal obligations while the young business supports itself. Evidence and commitment of continuing outside income from one or all of the guarantors weighs very favorably with our analysts. Outside income is often the difference between doing and not doing a larger transaction, particularly start-ups.

So there you have it. This is how we make credit decisions on all our applicants. Our analysts or marketing representatives look at every deal in this manner. Throughout this process we are looking for a way to get the deal done. Sometimes we can’t make a deal but nonetheless our history shows that we approve over fifty percent of all processed applications. Some of the approvals do call for terms different than originally proposed by the broker, but these modified term approvals are a result of our analysts working with

the broker to reach mutually agreeable terms that permit us to make a deal we couldn't have otherwise. Without this hands-on familiarity with each deal, many transactions would be routinely declined and that's what makes Pawnee Leasing different from many funding sources and is why we have been successful in doing difficult business for the past 22 years.

Hopefully information is helpful and will facilitate your process, improve your efficiency, and most importantly bring more deals to closure. But, you'll no doubt continue to have questions on specific deals. Because we don't (and can't) have a cut-in-stone approach to credit we expect questions, so please ask us. All of our credit analysts are available to respond to questions on specific deals that you might have in process with us. Our Regional Sales Managers are available to help you with pre-submittal questions. We think that this "human credit process" permits us to approve a wider range of credit worthy applicants and weed out the inherent weaknesses in a pure scoring credit model approach.

One of the nice things that I routinely hear in my contacts with our broker customers are the many compliments about the efficiency, completeness and accessibility of our credit team. We generally turn deals in under four business hours so you can give your vendor and lessee client's quick responses. We do all we can do to provide a complete and detailed approval to insure that you do not have surprises when the transaction moves into our funding area and finally, our credit team is directly accessible to you to discuss their decisions or dialogue about an application.