THE INSURANCE AGENCY OWNER'S GUIDE TO

BORROWING FOR AGENCY GROWTH

BEST PRACTICES FOR ACCESSING CAPITAL TO INVEST IN YOUR AGENCY

AGILECAP

BORROWING FOR AGENCY GROWTH

As the economy and the business climate move closer to normal, agency owners are focused on growing their businesses and their revenues. This guide examines growth trends in the industry, strategies for finding the right lender, and ways to position your agency for successful borrowing.

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AGILECAP

As a specialty lender, focused only on insurance agencies, AgileCap helps agency owners access reliable funding in order to buy, grow and invest in their business. When you're ready to move on any growth plans, we provide funding that's fast, flexible and customized to your agency.

AGILECAP

SECTION 1

SMART APPROACHES FOR INVESTING IN YOUR AGENCY

Adaptations made to agency operations during the pandemic are helping agency owners to reshape, strengthen and build their businesses for the future. Many agency owners are focusing on four strategic investment areas to boost their growth in 2022: technology, hiring, marketing and acquisition. In an industry already dedicated to responsiveness and customer service, innovations in these four areas will help agencies meet and exceed the higher, post-pandemic expectations of both clients and staff.

TECHNOLOGY

Technology advancements have made remote work possible and simplified customer support. Ongoing investment in tech can increase an agency's efficiency and optimize customer interaction. Consider investing in:

- **Video conferencing technologies** that allow seamless virtual interaction and enhance client outreach.
- **Software that digitally records customer interactions and account changes** to facilitate virtual and remote operations.
- **Upgrading AMS and CRM systems** to increase agency productivity and build agency value by improving prospecting, sales, marketing and operations.
- **New client-centered apps and platforms** that strengthen interpersonal relationships, and support customized, timely service and 24/7 accessibility.
- **Training staff on new systems** to deliver seamless agency operations and polished client interaction.

MARKETING

Effective agency marketing these days involves direct outreach (see sidebar for the marketing tactics agencies are using most often). **For best results, agencies should develop content that engages and educates their prospects, and tells their agency story in a way that distinguishes it from its competition.**

Agencies that truly stand out understand client needs and dig deep to explain the unique qualities that differentiate their products, services and people. **Investing in a relationship with a marketing expert can improve your agency's results.**

MARKETING

Post-COVID, agencies are focusing on marketing their business through:

40% social media

22% email

42% video marketing

24% SEO

21% Influencers

14% Podcasts

EMPLOYEES

Agencies are amping up recruitment and retention:

- 36% connecting with prospects using new marketing channels
- 29% offering enhanced compensation and benefits
- 18% searching for talent beyond their geographic area

ACQUISTION

An acquisition advisor can be an invaluable partner if you choose to grow your agency through the purchase of a book or agency.

AgileCap Advisors can help you navigate the buy/sell process, anticipating:

- the due diligence timeline,
- assorted checklists,
- legal and seller expectations.

We keep the process on-track, deal with any unforeseen complications, and represent your best interests always.

Contact us to learn more.

TALENT/STAFF

People are the lifeblood of any insurance agency. In today's highly competitive job market, agencies are investing in ways to retain existing staff *and* connect with prospective employees. Those investments include:

- **Ongoing training** that increases staff tech fluency and expands skill sets.
- **Intangible benefits like remote offices and flexible schedules** that increase an agency's appeal as an employer.
- **Providing remote employment opportunities** can open the geographic candidate pool and help retain any staff who might be considering relocation.
- **Hiring skilled part-time talent or freelance consultants** can expand in-agency expertise.

GROWTH THROUGH ACQUISITION

Investing in the acquisition of a book or agency continues to be a strong growth strategy. Throughout the pandemic, M&A deal activity remained steady across all sectors of the industry. With 40% of independent agencies reporting that they're planning on a perpetuation in the next 5 years, opportunties to purchase are out there. But heightened activity from big players, like equity firms, will likely continue to exert an influence on the market. Agency owners looking to acquire should be prepared to navigate a competitive market with elevated valuations. If you're interested in acquiring, keep the following in mind:

- **Evaluate opportunities** – not every deal is the right fit. Focus on strategic growth.
- **Acquisitions should expand product offerings or increase markets served.**
- **Vision, strategy, persistence and patience pay off.**
- **Unknowns - like changing tax policies -** can make an acquisition's value unpredictable.
- **Investing in expert help** can simplify this complex process (see sidebar).

When you're ready to invest for growth in your agency, start by exploring funding resources. There is a range of lenders available, and it's important to understand what each type of lender offers your agency. Read on to learn more.

SECTION 2

CHOOSING A LENDER - THE LENDING LANDSCAPE

Insurance agency owners have options when borrowing for growth, and different lenders will be the right fit for different goals. "The Lending Landscape" is the array of available lending options. Lower rates are always desirable, but they're often accompanied by longer, slower funding processes that involve more approvals and more paperwork. This chart highlights the differences between lenders and helps target the most suitable ones for your agency's current funding needs*.

LESS EXPENSIVE ← → MORE EXPENSIVE

SLOWER FUND DELIVERY ← → FASTER FUND DELIVERY

		BANK	SBA	SPECIALTY LOANS (eg: AGILECAP)	CREDIT CARDS	CASH ADVANCE/ MERCHANT LOANS
REQUIREMENTS	MINIMUM FICO	700+	mid-600's	550	550+	low
	YEARS IN BUSINESS	Can be difficult for start-ups	2 years	2 yrs or relevant industry experience	Based on personal credit	Not an issue
DETAILS	RATES (%APR)	5 –9%	5 – 7%	6 –12%	14 – 29% Average	20 – >1000%
	FUND DELIVERY	45 – 90 Days	45 – 90 Days	24 hr term sheet; 10 days for funding	1 – 5 business days	Next Day
	TERM	Up to 25 years	3 – 10 years	1 – 10 years	Use only as needed	Varies widely
	COLLATERAL/ GUARANTEE	Business & Personal Guarantee required	Business or Personal Assets required	Commissions as collateral	Personal Guarantee required	Personal Guarantee required
APPLICATION	DOCUMENTS	Lots of paperwork required	Hefty paperwork required	Streamlined documentation	Little paperwork required	Very little paperwork required
	FEES	Can be lower than SBA; Strict requirements; Possible annual fees	2 – 3.5% Possible annual fees	2.5 – 5% One time, up-front fees	Many fees Steep fees for non-performance	Variable Daily or weekly; front or back end fees
CONDITIONS	BANKRUPTCY	NO	NO	YES	NO	VARIES
	PRE-PAY PENALTY	POSSIBLE	POSSIBLE (depends on terms)	NO	NO	VARIES
	PARTIAL BUYOUT	YES	NO	YES	NOT APPLICABLE	NOT APPLICABLE
	ADDITIONAL INFORMATION	Want well established businesses; If you qualify, they're less strict about how you spend the money.	Downpayment required; Must have $1 for every $3 loaned; Must fully document spending.	Flexible paydowns, IO's, Steps; Customized lending; Partner buyout.	They'll pull your personal credit to open the loan, but reports can be on your business credit.	**Buyer beware!** Read your terms and conditions; Not all structured the same.

* Lender information is constantly changing. Information presented is correct at time of publishing. Check with lenders for most current information.

SECTION 3

20 QUESTIONS TO ASK A LENDER

There's a wide range and deep pool of lenders out there. Start by narrowing the field by thinking about your agency's financial needs and which type of lender within the Lending Landscape is most appropriate for you at this time. Then find and compare individual lenders to determine which one is the best fit. Being comfortable with your lender is important because he/she will essentially become your agency's partner for the duration of any loan(s).

The following questions will be helpful in narrowing the range of options and determining if a particular lender is right for you and your agency. These questions focus on the borrowing process, the relationship you'll have with the lender, what they'll expect of you and your agency, and what you can rely on the lender for.

Ultimately, it's important that the lender you choose understands and supports the insurance industry and your vision for your agency's growth and success.

BORROWING TIP

The process of speaking with a lender will go much more smoothly if you're clear about your agency goals and financial needs upfront. Spend time clarifying that for yourself first. If you have business partners (even partial owners), make sure they're aware of your growth and borrowing plans, since they'll need to be part of the loan application process at some point.

Ask these questions...

About the Application and Loan Process

1. What's required of me and my agency in order to start the loan process?
2. What's the minimum credit score you'll accept from a borrower?
   Every lender requires a different minimum credit score to assess your eligibility. SBA lenders like credit scores of 620-640. Banks want 700+. Specialty Lenders can loan at around 550, and may offer lower rates for credit scores of 720+.
3. What are your interest rates?
4. Can you explain your borrowing process, the steps involved, and the timeline?
   Make sure you understand the process and how long each step will take. Does the timeline match your plans? Who needs to approve the loan inside the lender's organization? What is the typical approval timeline and what issues might cause delays?
5. Do you work alone or are you part of a lending team?
   A lending team is great. But everyone on the lending team should understand the insurance agency business model. If they do, you can contact anyone at any time with questions about your application, underwriting, and funding.

6. Do you work on commission?
   You want a responsive lender, so you can pick up the phone and get an answer. Even if you just need to run something by them. You want everyone on the lending team to be equally willing and able to answer your questions. If your point person is on commission, you may not be able to deal with others. They may be hands-off since you're "not their client."

7. How many years have you worked with insurance agency owners?
   Is this lender an expert in insurance agency business loans? Will they understand how to collateralize your loan appropriately? If you're buying a book or agency, can they refer you to resources like lawyers or brokers? Can they advise you in performing thorough due diligence? Do they understand the unique complexities of insurance agency buy-outs and lending arrangements?

8. Can you fund complex structures like a partial buy-out of a partner?

About your personal and agency financials

9. What financial records do you need me to provide upfront?

10. What should my annual revenue or commissions be in order to qualify for a loan? Does it matter how much of my agency's revenue was contingency-related (rather than being solely from insurance commissions) in the past 2-3 years?

11. What are your restrictions on the amount of money I can borrow?

12. Am I required to have accounts at your bank, or move my accounts to your bank, in order to get a loan?

13. Will you need to put a 2nd mortgage on my home or other asset?
    Some traditional lenders will mortgage your home as a condition of funding an intangible acquisition like an insurance agency.

About what happens after your loan is funded

14. How will I make my payments?
    Some lenders will have you pay directly, by ACH, or by check, others will take a direct payment from your carriers.

BORROWING TIP

Understand that, while you're interviewing lenders, they're essentially interviewing you, too. Depending on the lender you speak with, they might have questions about the length of time you've been in business, your personal and business credit scores, what you plan to use as collateral for your loan, and how you plan to use the funds - some lenders may even want to see a business plan with projections. It's smart to be prepared with answers and documents. See page 10 for more information on Putting Your Best Foot Forward with a Lender.

BORROWING TIP

It can be very helpful to work with a lender who knows the insurance industry and has worked with agencies before. Lenders who understand agency commission structure and can handle unique funding situations like partner buy-outs and acquisitions can serve as an advisor and partner to you in your agency growth plans.

15. **What are your fees, including those related to loan maintenance and payoff?**
    Be sure you know if and how much they charge for all fees. Does the lender charge closing fees? Are there fees for early payoff or pre-payments? Do they charge monthly or annual servicing fees? What other fees might you expect to be charged?

16. **Will you hold any reserve funds (to be used in the event of a missed payment)?**
    Some lenders will require this as a form of assurance that you won't miss any payments. It results in a lump sum of working capital (it can be an amount that's equal to up to 3 months worth of loan payments) that sits, unaccessible to you and your agency.

17. **Will you require any information from me quarterly or annually?**

18. **Will you sell my loan?**
    It's important to know who'll manage your loan once it's funded. Is it the lender you've come to know and trust during the application and funding process? Or will it be a different lender altogether? Every loan requires annual check-ins with your lender. Will those be with the lender who knows your agency business, your growth goals, and you, or someone else?

19. **Can you handle repeat loans?**
    You may want to continue to grow your agency. Can this lender fund your future growth? They now know you and your agency well. Can you turn to them for future funding? Can they make the growth you've envisioned happen?

And last, but certainly not least...

20. **How do you see yourself in relation to my agency business?**
    If a lender says anything other than "We see ourselves as your partner", keep searching.

SECTION 4

HOW MUCH DEBT CAN YOUR AGENCY AFFORD?

Your Debt Service Credit Ratio (DSCR).

Borrowing for agency growth is a big decision, especially if you're already carrying debt. You need to make sure that you can afford to pay off any borrowed money and still have adequate cash flow to run your agency.

Using this Debt Service Credit Ratio (DSCR) calculation, will help you quickly determine if your cash flow is sufficient to cover loan payments, so you'll be able to repay your debts while still growing your business.

Grab a calculator and your financials:

Be sure to include ALL sources of revenue from your business.

ANNUAL REVENUE

ANNUAL BUSINESS OPERATING EXPENSES + **ANNUAL DEBT PAYMENTS (including interest)**

= **DSCR**

Remember to include rent/leases, payroll, marketing, utilities, and ALL of your costs of doing business.

In order for the calculation to be useful, you've got to factor in ALL of your existing business debts, including credit cards, lines of credit, outside notes, bank loans AND interest on all debts.

FOR EXAMPLE:

$100,000

$60,000 + **$20,000**

= **1.25**

What does your DSCR mean?

The ratio of your annual income to your expenses and debt payments gives a sense of how much of a cash cushion you have to put towards paying off your debt (plus interest) while keeping your agency in full operation. Ultimately, your DSCR tells you whether your business's cash flow will support paying off your loan in full, with interest, on time, and still allow you to run your business.

Here's what your number indicates:

DSCR **> 1** Means you have a **positive cash flow** so you can repay your debt and have cash left to run your business.

DSCR **= 1** Means your **cash flow is exactly enough** to repay your debt but you'll have no cushion left to run your business.

DSCR **< 1** Means you have a **cash flow deficit** so you will not be able to repay your debt.

If your DSCR indicates that your business cash flow won't support taking on additional debt, there are steps you can take to tune up your business finances so you'll be better positioned to borrow for growth:

1. **Reduce your existing debt.**
Make it a priority to pay more than your minimum payments so you can pay down your current debt more efficiently.

2. **Reduce your existing expenses.**
Take a look at your Profit and Loss Statement, and speak with your accountant about ways you might reduce your rent, marketing, staffing or other costs of doing business. Consider re-negotiating contracts for large expenses.

3. **Boost your revenues without incurring more debt.**
Consider ways to increase your business offerings so you can achieve consistent, reliable, increasing income.

SECTION 5

HOW TO PUT YOUR BEST FOOT FORWARD FOR A LENDER

Lenders want to clearly understand your agency's business structure and financial profile, and the ownership's personal financials and credit scores. Your books should demonstrate a profitable and well-run company. Clear and complete documentation suggests an agency is organized and is a good credit risk. This increases a lender's confidence in you as a prospective borrower.

WHAT DOES A LENDER LOOK FOR?

Lenders seek borrowers who clearly demonstrate business growth, strong client retention, and consistently prompt payment of debt obligations. To assess an agency's suitability, lenders look at what's called "The 5 C's of Credit":

• **Character** is assessed using business and personal credit scores for everyone with a 20% or higher ownership stake in your agency. Credit scores indicate how you manage credit and how reliably you repay debt.

• **Collateral** is any valuable asset used to secure a loan. In the case of insurance agencies, which may not have tangible assets, a specialty lender like AgileCap can consider the value of the agency book of business as collateral.

• **Capital** is a down payment from savings, investments or assets. The ability to put some of your own capital into a deal suggests that you've managed your finances responsibly. Demonstrating that you're putting "skin in the game" on a deal, suggests a lower likelihood of default on loan repayment.

• **Capacity** to repay a loan means the amount of debt you're carrying is appropriate given your assets, revenue, and/or revolving credit.

• **Conditions** are right for a loan when an agency's average commission revenue growth trends in a positive direction.

TAKING THE FIRST STEPS

When you're ready to strengthen and build your agency, positioning it for growth, there are a range of options for funding. Many lenders offer financial products with varying terms, rates, and qualification requirements. Understand your goals and the needs of your agency, and begin assembling your qualifying documentation now so you'll be ready when you find the right lender.

Contact AgileCap today to learn more.

DOCUMENTS

Every lender has their own list of required documents, but you can generally expect to be asked to provide:

- Personal and business credit scores (for owners with 20% or higher stake)
- Bank statements (past 2+ years)
- Personal and business tax returns (2+ years)
- Proof of annual revenue
- Proof of business ownership and years in business

AGILECAP

As a specialty lender laser-focused on insurance agencies, AgileCap helps owners access reliable funding that supports acquisition, growth and investment.

While traditional lenders can be slow to fund or require extensive paperwork, our insurance agency funding is fast, flexible and customized.

A free, no-pressure 30-minute consultation with an experienced Lending Advisor can equip you with the information you need to quickly access financing.

Contact us for more information.

AGILECAP

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