

AN ANALYSIS OF THE FACTORS
CONSIDERED BY COMMERCIAL BANKS IN
GRANTING CAPITAL LOANS
FOR A PROPOSED RESTAURANT

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Georgios P. Kostarides
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By
Georgios P. Kostarides

A THESIS

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ABSTRACT

This research is offered as a key to better understanding of banker and borrower relations. The importance of a satisfactory understanding in this relationship cannot be overemphasized. Wise management determines the success of the business and thus the banker's interest in management is of the utmost importance. From the viewpoint of the commercial banker, what is the fundamental difference between a successful and an unsuccessful operator? The answer is, that the borrower must have a definite program. In the light of the above, the banker is obligated to conduct a thorough investigation of the borrower's record.

In this study the writer embarks on a case situation in which he sets forth the proper methods and procedures a borrower must follow before he presents his case to the banker. In addition to the above this research accumulates a number of factors and procedures used by the banker when considering approval of the proposed loan. Although one banker's procedure may seem to be different from another's, the basis reasoning is grounded in the principles laid out by the American Institute of Banking, namely, "The Basic Credit Factors". With these "Basic Credit Factors" in mind and with all other necessary information presented by the borrower, the banker then proceeds to tailor the loan for his client.

Georgios P. Kostarides

It is evident, then, that the greater the mutual understanding between banker and borrower, the greater the benefits for the parties concerned.

DEDICATION

The author dedicates this manuscript to his parents, Mr. and Mrs. Peter Kostarides. Their intense desire to see their son have the privilege of knowledge through many years in school has become a reality. This is a privilege of which both parents were deprived during their earlier years in life. Without their guidance, inspiration, and financial help this dream of mine and theirs would have remained unfilled.

G.P.K.

ACKNOWLEDGMENTS

The writer has been assisted in this study by a great many people. It is difficult to acknowledge each one who has contributed his time and effort, but the inability to express gratitude completely and perfectly is not reason enough to refrain from recognizing anyone at all.

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Gratitude is also due Mr. Stephen C. Andreadis, a restaurateur in the City of Lansing, Michigan, for the release of his personal financial statements to be used in this study. The writer is deeply indebted to the owner of restaurant (X), who was kind enough to reveal his business financial statements and other data used in this research. His request to remain anonymous is kept according to our Gentlemen's Agreement.

Much appreciation is expressed to the various contributors too numerous to mention. However, special recognition is due to all bankers and conferees mentioned in this study, who provided the writer with a general knowledge of the many problems involved in acceptable loan procedures. Special

thanks is due Mr. H. Andrews Hays, Vice President of the American State Bank, for his interest in the study, and his permission to use the speech entitled, "Financing Restaurant Needs".

TABLE OF CONTENTS

CHAPTER	PAGE
I. INTRODUCTION	1
II. METHOD OF PROCEDURE.	3
Description of the business to be purchased. . .	3
Future plans for the operation of the business .	6
Proposed plans for financing	7
Cash flow budget	9
Support for the operating budget	13
Applying for the loan.	23
III. INTERVIEWS WITH BANK REPRESENTATIVES	27
Interviews	27
Conferences.	31
Questionnaire.	45
Item of importance to the bank when consider- ing a loan application	45
Results from the questionnaire	43
IV. RECOMMENDATIONS.	51
V. SUMMARY AND CONCLUSIONS.	64
APPENDIX	68
BIBLIOGRAPHY	149

LIST OF TABLES

TABLE	PAGE
I. Inventory of Equipment with Indication of Condition for Each Item	4
II. Cash Flow Budget	12
III. Estimated Annual Operating Budget.	17
IV. Rating of Items According to Importance.	47
V. Results from the Questionnaire	48

CHAPTER I

INTRODUCTION

The writer here presents his attempt to secure funds with which to purchase a food and beverage business. By utilizing this actual case, the writer investigated the policies and procedures followed by lending agencies in considering applications for loans to provide funds for the purchase of a proposed restaurant business.

There is no question that the banker is interested in prospective business owners. But he wants to know, for example, the borrower's past record, how the money will be spent, and, more important, how the money will be repaid. From discussions which the writer has had with individuals who have applied for loans and with others who act upon such applications, it is apparent that many of the applicants fail to present adequate support for their requests. Thus, this research is offered as a key to better understanding of banker and borrower -- but not as hard and fast rules.

There are, however, certain limitations to this study. Obviously, for example, a study of all types of loans for all types of business establishments is clearly beyond the scope of a master's thesis. Hence, a particular type of business, the food and beverage business, was selected in order to indicate what the chances are for a successful loan transaction.

The method of research used to discover the most suitable loan application procedures includes correspondence, personal interviews, and the available literature, all of which is specified in the bibliography. Moreover, two procedures proved helpful: first, a preparation and submittal of loan application forms to four banks based upon the proposed purchase; second, a preparation of a questionnaire in order to analyze the factors used by the bankers in accepting or rejecting the application.

In the pages that follow, the expression "restaurant operation" or "food service establishment" is defined as a place of business where food and non-alcoholic beverages are served.

Although the case presented is what might be called a hypothetical one, the writer and his partner used actual information made available by the bankers and by the seller. This was done in the hope that the reader can more accurately predict the probable action upon an actual loan application. It is to be emphasized that the case here presented is hypothetical only in the sense that we did not carry the transaction through to its final, logical conclusion; that is, we did not borrow the money. Furthermore, this case was deliberately built up as a "shoestring" financial situation, to prod the banker for more information.

CHAPTER II

METHOD OF PROCEDURE

In an effort to determine the factors which are considered by commercial banks in granting capital loans for the purchase of the proposed restaurant the writer applied for a loan and discovered that the bankers were interested in the following factors: the description of the business, the future plans for the operation of the business, the proposed plans for financing, the cash flow budget, the physical inventory of equipment, the estimated annual operating budget, and the support for the operating budget. In this chapter each of these factors will be defined and outlined, after which will follow a letter and brief history of the applicants.

A Description of the Business to be Purchased

The business is located in Lansing, Michigan. It is a brick building forty by one-hundred sixty feet (40' x 160'). The operation is a combination of counter and self service. Parking for fifty (50) cars is available at the rear of the building.

An inventory of the equipment in this establishment is shown in Table I.

TABLE I
INVENTORY OF EQUIPMENT

<u>Number of Items</u>	<u>Estimated Unit Value</u>	<u>Estimated Total Value</u>	<u>Present Condition</u>
200 Chairs and stools	\$ 20	\$ 4,000	good
50 Tables	30	1,500	"
1 Serving counter	2,000	2,000	new
1 Coffee urn	500	500	"
2 Cash registers	400	800	"
2 Grills on counter	200	400	"
1 Refrigerator	500	500	"
1 Meat Grinder	100	100	good
2 Fryers	150	300	"
2 Battery ranges and working tables	1,000	2,000	new
1 Band saw	300	300	good
1 Meat tenderizer	60	60	new
1 Portion scale	20	20	"
1 Buffalo chopper	250	250	good
1 Meat slicer	100	100	"
1 Dishwasher machine	1,000	1,000	old
1 Lee machine	1,000	1,000	good
1 Large scale	50	50	"
1 Baker's oven and working tables	1,000	1,000	old
1 Mixer	500	500	good
1 Walk in box	2,000	2,000	"
1 Small refrigerator	400	400	new
Kitchen utensils, silver- ware and china	2,000	2,000	good & new
1 Hamburger machine	450	450	good
2 Compressors	500	1,000	new
1 Freezer	1,500	1,500	"
1 Back bar	2,000	2,000	"
1 Water cooler	70	70	good
1 Steamtable	1,500	1,500	old
Air conditioning system	3,500	3,500	good
Neon signs	500	500	"
Office equipment: adding machine, typewriter, safe, desks and chairs		500	"
Plumbing and electrical installations		1,000	"
Good will		7,250	"
		<u>\$40,000</u>	

Explanation of terms: The above items in the inventory of equipment are classified new, good, or old on the basis of their age as compared to their estimated life: Thus:

TABLE I (Continued)

New: 0-25% of estimated useful life has expired
Good: 26-50% of estimated useful life has expired
Old: over 50% of estimated useful life has expired

It is worthwhile to note that the U. S. Bureau of Internal Revenue permits the restaurateur to depreciate his restaurant equipment up to a certain number of years. Examples are:

- (1) Refrigerator - fifteen (15) years
- (2) Furniture and fixtures such as tables, chairs, and counters - fifteen (15) years
- (3) Hot water heater - eight (8) years

Future Plans for the Operation of the Business

The following plans were made for future operation of the business:

- I. Extend present lease to ten (10) years
- II. Rental Charges to be as follows:
 - A. Five hundred dollars (\$500) monthly or six thousand dollars (\$6,000) a year, provided net sales are not over two hundred thousand dollars (\$200,000) during that calendar year.
 - B. In the event that annual sales are more than two hundred thousand (\$200,000) the following provisions will govern:
 1. One percent (1%) on all sales up to three hundred thousand (\$300,000) in addition to the six thousand dollars (\$6,000) rental specified in paragraph "A" above.
 2. Two percent (2%) on all sales above three hundred thousand (\$300,000) within any calendar year during which the proposed lease is effective. This two percent (2%) increase will be an addition to the rental charges specified in paragraphs "A" and "B" 1 respectively.
 3. All rental obligations will be payable by the fifteenth (15th) of the month following the month in which they accrue.

III. A ten year (10) year modernization program for all fixtures and equipment at an estimated total cost of fifty thousand dollars (\$50,000). The objectives of the program will be to:

- A. Increase table seating equipment and rearrange such as a part of the modernization program to provide the following:
 - 1. Forty percent (40%) tables for two.
 - 2. Forty percent (40%) tables for four.
 - 3. Twenty percent (20%) tables for six.
 - 4. The use of wagons for the collecting of dishes, etc.
- B. Rearrange equipment as it is replaced according to the function for which it is intended such as moving:
 - 1. Production equipment closer to the processing area.
 - 2. Serving equipment closer to the service area.
- C. Install a Food Cost Control System.

Proposed Plans for Financing

The restaurant under consideration was available at a price of forty thousand dollars (\$40,000). This figure did not include the real estate. Three (3) plans were proposed to lending agencies for the purchase of this business:

- A. Plans one (1) and two (2) took into consideration a bank loan to be made to two separate individuals. In plan three (3) the loan was to be made to a partnership of both individuals.

- B. In plan one (1) or two (2) a ten thousand dollar (\$10,000) cash fund was provided by each individual. This fund of ten thousand dollars (\$10,000) was allocated as a working capital. To consummate the purchase in plan one (1) or two (2) a ten thousand dollar (\$10,000) note was to be given to the owner by each one of the buyers.
- C. The pooling of cash by both individuals under plan three (3) would produce the following situation:
1. A ten thousand dollar (\$10,000) cash payment toward closing the purchase.
 2. A ten thousand dollar (\$10,000) cash cushion for working capital needs.

The three alternatives in the hypothetical case were as follows:

1. A bank loan of thirty thousand dollars (\$30,000) to Mr. Stephen Andreadis. The balance of the purchase price to be covered by a note of ten thousand dollars (\$10,000) payable to the present owner in twenty (20) semi-annual installments at six percent (6%) interest.
2. A bank loan of thirty thousand dollars (\$30,000) to Mr. George Kostarides. The balance of the purchase price to be covered by a note of ten thousand dollars (\$10,000) payable to the present owner in twenty (20) semi-annual installments at six percent (6%) interest.

3. A bank loan of thirty thousand dollars (\$30,000) to the partnership of Stephen Andreadis and George Kostarides. The balance of the purchase price in the amount of ten thousand dollars (\$10,000) in cash to be provided equally by Messrs. Andreadis and Kostarides.

Repayment of the bank loan was to be made within a ten (10) year period. Interest rates and method of payment was stipulated by the bank and agreed upon by the borrowers as follows:

1. Six percent (6%) interest on the unpaid balance.
2. One hundred twenty (120) equal monthly payments at two hundred fifty dollars (\$250) each.

Additional funds of ten thousand dollars (\$10,000) in cash were provided in plan one or two (1 or 2); each individual buyer was to advance the cash sum of five thousand (\$5,000) dollars. These additional funds were supplied to:

1. Provide working capital.
2. Begin remodeling operations immediately.
3. Provide an immediate opportunity for payment of remodeling costs and debt retirement through early profits.

Cash Flow Budget

- A. The purpose for which the writer extended the budget over a two and one-half (2½) year period was to show the following:

1. The strengths and weaknesses of plans one (1) or two (2) produced by capital and interest payments. In plan three (3) a more stable budget position was realized.
 2. The effects of each item on the over all budget.
 3. The importance of:
 - a. Fixed cost contingencies.
 - b. Estimates of future sales.
- B. Detailed information for each item in the budget is as follows:
1. Cash balance as of July 1, 1956, is the sum of the moneys each individual had invested in the business.
 2. Cash income from sales is the average monthly income sustained by the establishment during 1955. It is expected that within a few months the operation can increase five percent (5%) on sales. A similar increase is expected to take place by the end of the first year of operation. The above increases are considered normal. Extensive remodeling plus aggressive management warrants the consideration.
 3. Cost of food is the average monthly cost during 1955 at forty percent (40%) of sales. Cost is proportioned in relation to sales increases.
 4. The operating expense figure is the monthly average for 1955, less reserve for depreciation.
 5. Remodeling cost figures are portions set aside to be spent during the year. In this case, a five

thousand dollar (\$5,000) yearly cost is earmarked for remodeling.

6.. Debt and interest payment figures are the fixed cost on borrowed capital.

C. From the budget flow, it should be noted:

1. The semi-annual payments on the original owner's note plus the interest payments of December 1956, June 1957, December 1957, June 1958 and December 1958, bear considerable weight on the cash position. The above situation is realized more under plan one (1) and two (2) than under plan three (3).
2. The expected five percent (5%) increase on sales produces a steady cushion in all plans.
3. In plan three (3) the original cash investment of ten thousand dollars (\$10,000) is fully recovered by July of 1958. A full recovery for the original investment in plans one (1) or two (2) is realized by October of 1958. The above possibilities only support the writer's opinion. A conservative and gradual spending (remodeling, etc.) will enable the operation to establish a better cash position.
4. The gradual modernization and rearrangement of equipment is expected to reduce operating expenses. Assuming the above statement to be true, the cash position of the business will further improve.

The cash flow budget is shown in Table II and the estimated annual operating budget follows in Table III.

TABLE II

C A S H F L O W B U D G E T						F O R P L A N 1 O R 2						
1956 Item	July		August		September		October		November		December	
	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
Cash Balance 7/1/56	10,000		9,109		9,219.25		8,830.75		8,941.50		8,059.50	
Cash Income	13,191		13,191		13,191.--		13,191.--		13,191.--		13,191.--	
Cost of Food		5,325		5,325		5,325.--		5,325.--		5,325.--		5,325.--
Operating Expense												
Less Reserve for Depreciation		7,357		7,357		7,357.--		7,357.--		7,357.--		7,357.--
Pre-opening Remodeling Cost		1,000				500.--				1,000.--		
Debt and Interest Payment		400		398.75		397.50		396.25		395.--		1,193.75
Totals	23,191	14,082	22,300	13,080.75	22,410.25	13,579.50	22,021.75	13,078.25	22,134.50	14,079.--	21,246.50	13,075.75
Cash Balance Carry Forward		9,109		9,219.25		8,830.75		8,943.50		8,055.50		7,372.75
	<u>23,191</u>	<u>23,191</u>	<u>22,300</u>	<u>22,300.00</u>	<u>22,410.25</u>	<u>22,410.25</u>	<u>22,021.75</u>	<u>22,021.75</u>	<u>22,134.50</u>	<u>22,314.50</u>	<u>22,248.50</u>	<u>21,138.50</u>

C A S H F L O W B U D G E T					F O R P L A N 3							
1956 Item												
Cash Balance Brought Forward	10,000		9,109		9,219.25		8,830.75		8,943.50		8,055.50	
Cash Income	13,191		13,191		13,191.--		13,191.--		13,191.--		13,191.--	
Cost of Food		5,325		5,325		5,325.--		5,325.--		5,325.--		5,325.--
Operating Expenses												
Less Reserve for Depreciation		7,357		7,357		7,357.--		7,357.--		7,357.--		7,357.--
Remodeling Cost		1,000				500.--				1,000.--		
Debt and Interest Payment		400		398.75		397.50		396.25		395.--		393.75
Totals	23,191	14,082	22,300	13,080.75	22,410.25	13,579.50	22,021.75	13,078.25	22,134.50	14,079.--	21,246.50	13,075.75
Cash Balance Carry Forward		9,109		9,219.25		8,830.75		8,943.50		8,055.50		8,170.75
	<u>23,191</u>	<u>23,191</u>	<u>22,300</u>	<u>22,300.00</u>	<u>22,410.25</u>	<u>22,410.25</u>	<u>22,021.75</u>	<u>22,021.75</u>	<u>22,134.50</u>	<u>22,134.50</u>	<u>21,246.50</u>	<u>21,246.50</u>

TABLE II (continued)

C A S H F L O W B U D G E T						F O R P L A N 1 O R 2						
1957 Item	January		February		March		April		May		June	
	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
Cash Balance 1/1/57	7,272.75		6,989.25		6,607.--		6,226.--		5,846.25		5,467.75	
Cash Income	13,191.--		13,191.--		13,191.--		13,191.--		13,191.--		13,191.--	
Cost of Food		5,325.--		5,325.--		5,325.--		5,325.--		5,325.--		5,325.--
Operating Expense												
Less Reserve for Depreciation		7,357.--		7,357.--		7,357.--		7,357.--		7,357.--		7,357.--
Pre-opening Remodeling Cost		500.--		500.--		500.--		500.00		500.--		
Debt and Interest Payment		392.50		391.25		390.--		388.75		387.50		1,171.25
Totals	20,563.75	13,574.50	20,180.25	13,573.25	19,798.--	13,572.--	19,417.--	13,570.75	19,037.25	13,569.50	18,658.75	13,853.25
Cash Balance Carry Forward		6,989.25		6,607.--		6,226.--		5,846.25		5,467.75		4,805.50
	<u>20,563.75</u>	<u>20,563.75</u>	<u>20,180.25</u>	<u>20,180.25</u>	<u>19,798.--</u>	<u>19,798.--</u>	<u>19,417.--</u>	<u>19,417.--</u>	<u>19,037.25</u>	<u>19,037.25</u>	<u>18,658.75</u>	<u>18,658.75</u>

C A S H F L O W B U D G E T						F O R P L A N 3						
1957												
Item												
Cash Balance Brought Forward	8,170.75		7,787.25		7,405.--		7,024.--		6,644.25		6,265.75	
Cash Income	13,191.--		13,191.--		13,191.--		13,191.--		13,191.--		13,191.--	
Cost of Food		5,325.--		5,325.--		5,325.--		5,325.--		5,325.--		5,325.--
Operating Expenses												
Less Reserve for Depreciation		7,357.--		7,357.--		7,357.--		7,357.--		7,357.--		7,357.--
Remodeling Cost		500.--		500.--		500.--		500.--		500.--		
Debt and Interest Payment		392.50		391.25		390.--		388.75		387.50		386.25
Totals	21,361.75	13,574.50	20,978.25	13,573.25	20,596.--	13,572.--	20,215.--	13,570.75	19,835.25	13,569.50	19,456.75	13,068.25
Cash Balance Carry Forward		7,787.25		7,405.--		7,024.--		6,644.25		6,265.75		6,388.50
	<u>21,361.75</u>	<u>21,361.75</u>	<u>20,978.25</u>	<u>20,978.25</u>	<u>20,596.--</u>	<u>20,596.--</u>	<u>20,215.--</u>	<u>20,215.--</u>	<u>19,835.25</u>	<u>19,835.25</u>	<u>19,456.75</u>	<u>19,456.75</u>

TABLE II (continued)

C A S H F L O W B U D G E T						F O R P L A N 1 O R 2						
1957 Item	July		August		September		October		November		December	
	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
Cash Balance 7/1/57	4,805.50		4,869.50		4,934.75		5,001.25		5,069.--		5,138.--	
Cash Income	13,849.--		13,849.--		13,849.--		13,849.--		13,849.--		13,849.--	
Cost of Food		5,600.--		5,600.--		5,600.--		5,600.--		5,600.--		5,600.--
Operating Expense												
Less Reserve for Depreciation		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--
Pre-opening Remodeling Cost		500.--		500.--		500.--		500.--		500.--		500.--
Debt and Interest Payment		385.--		383.75		382.50		381.25		380.--		1,148.75
Totals	18,654.50	13,785.--	18,718.50	13,783.75	18,783.75	13,782.50	18,850.25	13,781.25	18,918.--	13,780.--	18,987.--	14,048.75
Cash Balance Carry Forward		4,869.50		4,934.75		5,001.25		5,069.--		5,138.--		4,938.25
	18,654.50	18,654.50	18,718.50	17,718.50	18,783.75	18,783.75	18,850.25	18,850.25	18,918.--	18,918.--	18,987.--	18,987.--

C A S H F L O W B U D G E T						F O R P L A N 3						
1957												
Item												
Cash Balance Brought Forward	6,388.50		6,452.50		6,517.75		6,584.25		6,652.--		6,721.--	
Cash Income	13,849.--		13,849.--		13,849.--		13,849.--		13,849.--		13,849.--	
Cost of Food		5,600.--		5,600.--		5,600.--		5,600.--		5,600.--		5,600.--
Operating Expenses												
Less Reserve for Depreciation		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--
Remodeling Cost		500.--		500.--		500.--		500.--		500.--		500.--
Debt and Interest Payment		385.--		383.75		382.50		381.25		380.--		378.75
Totals	20,237.50	13,785.--	20,301.50	13,783.75	20,366.75	13,782.50	20,433.25	13,781.25	20,501.--	13,780.--	20,570.--	13,778.75
Cash Balance Carry Forward		6,452.50		6,517.75		6,584.25		6,652.--		6,721.--		6,791.25
	<u>20,237.50</u>	<u>20,237.50</u>	<u>20,301.50</u>	<u>20,301.50</u>	<u>20,366.75</u>	<u>20,366.75</u>	<u>20,433.25</u>	<u>20,433.25</u>	<u>20,501.--</u>	<u>20,501.--</u>	<u>20,470.--</u>	<u>20,570.--</u>

TABLE II (continued)

C A S H F L O W B U D G E T						F O R P L A N 1 O R 2						
1958 Item	January		February		March		April		May		June	
	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
Cash Balance 1/1/58	4,938.25		5,499.75		6,062.50		6,626.50		7,191.75		7,758.25	
Cash Income	14,545.--		14,545.--		14,545.--		14,545.--		14,545.--		14,545.--	
Cost of Food		5,806.--		5,806.--		5,806.--		5,806.--		5,806.--		5,806.--
Operating Expense												
Less Reserve for Depreciation		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--
Pre-opening Remodeling Cost		500.--		500.--		500.--		500.--		500.--		500.--
Debt and Interest Payment		377.50		376.25		375.--		373.75		372.50		1,126.25
Totals	19,483.25	13,983.50	20,044.75	13,982.25	20,607.50	13,981.--	21,171.50	13,979.75	21,736.75	13,978.50	22,303.25	14,232.25
Cash Balance Carry Forward		5,499.75		6,062.50		6,626.50		7,191.75		7,758.25		8,071.--
	<u>19,483.25</u>	<u>19,483.25</u>	<u>20,044.75</u>	<u>20,044.75</u>	<u>20,607.50</u>	<u>20,607.50</u>	<u>21,171.50</u>	<u>21,171.50</u>	<u>21,736.75</u>	<u>21,736.75</u>	<u>22,303.25</u>	<u>22,303.25</u>

C A S H F L O W B U D G E T						F O R P L A N 3						
1958 Item												
Cash Balance Brought Forward	6,791.25		7,352.75		7,915.50		8,478.50		9,053.75		9,620.25	
Cash Income	14,545.--		14,545.--		14,545.--		14,545.--		14,545.--		14,545.--	
Cost of Food		5,806.--		5,806.--		5,806.--		5,806.--		5,806.--		5,806.--
Operating Expenses												
Less Reserve for Depreciation		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--
Remodeling Cost		500.--		500.--		500.--		500.--		500.--		500.--
Debt and Interest Payment		377.50		376.25		376.--		373.75		372.50		371.25
Totals	21,336.25	13,983.50	21,897.75	13,982.25	22,459.50	13,981.--	23,033.50	13,979.75	23,598.50	13,978.50	24,165.25	13,477.25
Cash Balance Carry Forward		7,352.75		7,915.50		8,478.50		9,053.75		9,620.25		10,688.--
	<u>21,336.25</u>	<u>21,336.25</u>	<u>21,897.75</u>	<u>21,997.75</u>	<u>22,459.50</u>	<u>22,459.50</u>	<u>23,033.50</u>	<u>23,033.50</u>	<u>23,598.75</u>	<u>23,598.75</u>	<u>24,165.25</u>	<u>24,165.25</u>

TABLE II (continued)

C A S H F L O W B U D G E T						F O R P L A N 1 O R 2						
1958 Item	July		August		September		October		November		December	
	In	Out	In	Out	In	Out	In	Out	In	Out	In	Out
Cash Balance 7/1/58	8,071.--		8,640.--		9,210.--		9,782.--		10,365.25		10,939.75	
Cash Income	14,545.--		14,545.--		14,545.--		14,545.--		14,545.--		14,545.--	
Cost of Food		5,806.--		5,806.--		5,806.--		5,806.--		5,806.--		5,806.--
Operating Expense												
Less Reserve for Depreciation		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--
Pre-opening Remodeling Cost		500.--		500.--		500.--		500.--		500.--		500.--
Debt and Interest Payment		370.--		368.75		367.--		365.75		364.50		1,103.25
Totals	22,616.--	13,976.--	23,185.--	13,974.25	23,755.--	13,973.--	24,337.--	13,971.75	24,910.25	13,970.50	25,484.75	14,709.25
Cash Balance Carry Forward		8,640.--		9,210.--		9,782.--		10,365.25		10,939.75		10,775.50
	<u>22,616.--</u>	<u>22,616.--</u>	<u>23,185.--</u>	<u>23,185.--</u>	<u>23,755.--</u>	<u>23,755.--</u>	<u>24,337.--</u>	<u>24,337.--</u>	<u>24,910.25</u>	<u>24,910.25</u>	<u>25,484.75</u>	<u>25,484.75</u>

C A S H F L O W B U D G E T						F O R P L A N 3						
1958 Item												
Cash Balance Brought Forward	10,688.--		11,257.--		11,827.25		12,399.25		12,972.50		13,547.--	
Cash Income	14,545.--		14,545.--		14,545.--		14,545.--		14,545.--		14,545.--	
Cost of Food		5,806.--		5,806.--		5,806.--		5,806.--		5,806.--		5,806.--
Operating Expenses												
Less Reserve for Depreciation		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--		7,300.--
Remodeling Cost		500.--		500.--		500.--		500.--		500.--		500.--
Debt and Interest Payment		370.--		386.75		367.--		365.75		364.50		363.25
Totals	25,233.--	13,976.--	25,802.--	13,975.75	26,372.25	13,973.--	26,944.25	13,971.75	27,517.50	13,970.50	28,092.--	13,969.25
Cash Balance Carry Forward		11,257.--		11,827.25		12,399.25		12,972.50		13,547.--		14,022.75
	<u>25,233.--</u>	<u>25,233.--</u>	<u>25,802.--</u>	<u>25,802.--</u>	<u>26,372.25</u>	<u>26,372.25</u>	<u>26,944.25</u>	<u>26,944.25</u>	<u>27,517.50</u>	<u>27,517.50</u>	<u>28,092.--</u>	<u>28,092.--</u>

TABLE III

ESTIMATED ANNUAL OPERATING BUDGET

Income:

1.		Food Sales	173,942.11	
2.		Other Income	<u>306.95</u>	
		Total Income		174,249.06

Operating Expenses:

		Selling Expenses		
3.	40.0%	Cost of Food Sold	69,376.85	
4.	30.0	Wages	52,260.--	
5.	1.0	Laundry	1,739.42	
6.	.3	Advertising	521.82	
7.	3.9	State taxes	6,843.77	

Administrative Expense:

8.	7.9	Salaries	13,000.00	
9.	3.4	Rent	6,000.00	
10.	2.0	Depreciation on equipment	3,250.00	
11.	.5	Supplies	865.71	
12.	1.0	Repairs and Maintenance	1,739.42	
13.	.4	Local taxes	753.85	
14.	.2	Small equipment loss	346.11	
15.	.1	Miscellaneous Expense	<u>173.94</u>	
		Total Operating Expenses		<u>162,078.25</u>
		Total Operating Income		<u>12,170.81</u>

DEBT SERVICE

		Plan One or Two		
	7.2%	Total Operating Income		12,170.81
16.		Note Payments to Owner	1,000.00	
17.		Interest Payments to Owner	285.00	
18.	3.2%	Loan Payments to Bank	3,000.00	
19.		Interest Payments to Bank	1,431.26	
20.	3.0%	Remodeling Costs during the year	<u>5,000.00</u>	
		Total		<u>10,716.26</u>
		Net Income		<u>1,454.55</u>

Return on Ten thousand dollar investment is (14.55%)

		Plan Three		
	7.2%	Total Operating Income		12,170.81
21.		Loan Payments to Bank	3,000.00	
22.	2.5%	Interest Payments to Bank	1,431.26	
23.	3.0%	Remodeling Cost during the year	<u>5,000.00</u>	
		Total		<u>9,431.26</u>
		Net Income		<u>2,639.55</u>

Return on ten thousand dollar investment is (26.40%)

Support for the Operating Budget

The United States Business Census figures on the Lansing area for the years of 1949 through 1954¹ indicate that the sales volume of eating and drinking establishments has been growing on an average of nine percent (9%) annually. The last yearly market analysis study made by the Lansing State Journal² indicates a gain of fourteen percent (14%) for the year of 1953. Therefore, the proposed operating budget for 1957 is made on the assumption that net sales will increase by ten percent (10%) over the figures for 1955. It is expected that an annual ten percent (10%) increase will be maintained throughout the ten year period. This increase will accumulate to a total of 135 percent (135%) over present figures by 1967. The item of salaries in the budget is supported by a detailed list of employees and salaries.

Income

1. Food Sales. The figure for food sales is a ten percent (10%) increase on the 1955 net sales. $(158,129.19 \times .10 = 15,812.92, 158,129.19 + 15,812.92 = 173,942.11)^3$.

¹1943 Business Census, Vol. 3, p. 21.02. 1954 Business Census Preliminary Report, Retail Trade, January 1956, Series P.R.P. 1-22.

²Market Analysis of Lansing, S.M.A., Lansing State Journal, 1953.

³Profit and Loss Statement for the period of January 1, 1955, to December 31, 1955.

2. Other Income. The other income figure is based upon a ten percent (10%) annual increase over the 1955 amount.⁴

Operating Expenses

3. Cost of Food Sold. According to the 1955 figures,⁵ food cost percentage is forty percent (40%) of sales; therefore, it is assumed that a forty percent (40%) food cost will be an appropriate estimate for future operations. $(173,942.11 \times .40 = 69,376.85)$.

4. Wages. The labor cost figure is thirty percent (30%) of total net sales. This amount is lower than that for 1955, because it is assumed that the owner included his salary in the 1955 figure. The following figures are based on present wage payments paid by the establishment.⁶

PROPOSED PAYROLL

Position	No. Employed	Per Week	Per Year
Chef	1	115.00	5,980.00
Cook	1	80.00	4,160.00
Baker	1	90.00	4,680.00
Dishwashers	3	120.00	6,240.00
Salad Maker	1	50.00	2,600.00
Food Line Waiters	5	225.00	11,700.00
Busran (women)	3	120.00	6,240.00
Clerk-Cashier	1	55.00	2,760.00
Cashier	1	50.00	2,600.00
Maintenance	1	55.00	2,700.00
General Kitchen Helper	1	45.00	2,340.00
	19	1,005.00	52,060.00

⁴Ibid.

⁵Ibid.

⁶Ibid.

5. Laundry. According to Gray and De LoPadua, "General overhead (gas, electricity, laundry, advertising and so on) plus your set-aside for interest and depreciation should range between fifteen and twenty cents."⁷ In this study general overhead ranges from 15.6 cents to 19.9 cents per dollar sales. Gray and De LoPadua will call this an excellent showing and in their terms "the minimum amounts".

6. Advertising. (.5 percent of net sales).⁸

7. State Taxes. (3.9 percent of total income).⁹

8. Salaries. This figure consists of salaries for the owner at one hundred-fifty dollars a week plus an assistant manager at one hundred dollars a week. In the event of a partnership the amount is one hundred twenty-five dollars a week for each partner.¹⁰ The following schedules give the appropriate breakdown under each plan.

Plan One

Position	No. Employed	Per Week	Per Year
Owner	1	\$150.00	\$7,800
Assistant Manager	1	100.00	<u>5,200</u>
			13,000

Plan Two

Owners	2	\$125.00	\$13,000
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⁷Gray, Madeline and Bass De LoPadua, How to Be a Success in the Restaurant Business (New York, Greenberg, 1948), p. 243.

⁸Ibid. ⁹Ibid.

¹⁰Proposed plans for financing this purchase.

9. Rent. The rent figure is stipulated in the lease arrangements. According to Paul L. H. Heine, this amount is the minimum for a percentage lease. Mr. Heine advises that rent on a percentage lease be three to seven percent (3-7%) of gross sales.¹¹

10. Depreciation on Equipment. In past years, the depreciation on equipment has been "bulked"; therefore, to keep a fair and accurate record the method is continued. The Woman's Institute of Domestic Arts and Sciences¹² approves of the method.

11. Repairs and Maintenance. This item is reduced to one percent (1%) because the author expects the reduction will be forthcoming through the installation of new equipment. According to Gray and De LoPadua, "General overhead is in some ways the most flexible item of all, for it varies greatly according to your type of place."¹³

12. Supplies. (.5 percent of total income).¹⁴

13. Local Taxes. (.4 percent of total income).¹⁵

14. Miscellaneous Expense. (.1 percent of total income).¹⁶

15. Small Equipment Loss. (.2 percent of total income).¹⁷

¹¹Heine, Paul L. H., Food Sales Unlimited (New York, Ahrens Publishing Company, Inc., 1952), p. 63.

¹²Serving Foods for Profit, The Woman's Institute of Domestic Art and Sciences (Scranton, Pennsylvania, The Haddon Craftman, Inc., 1949), p. 189.

¹³Op. Cit., p. 246. ¹⁴Ibid. ¹⁵Ibid. ¹⁶Ibid. ¹⁷Ibid.

16. Note Payments to Owner. This amount is pre-arranged with the owner in the option.¹⁸

17. Interest Payments to Owner. Gray and De LoPadua say; "So it looks as if, under any circumstances, you'll have to put a substantial amount of your earnings away toward interest and depreciation. If you don't, you'll be left plumb in the lurch when the inevitable time for replacements comes along."¹⁹

18. Loan Payments to Bank.²⁰

19. Interest Payments to Bank.²¹

20. Remodeling Cost. (Cash Flow Budget).²²

21. Loan Payment to Bank. (Proposed plan three).²³

22. Interest Payments to Bank.²⁴

23. Remodeling Cost.²⁵

The net return on funds invested by the owners is as follows:

1. Plan one or two - 14.55%

2. Plan three - 26.40%

It is the writer's conviction that the above estimated expenses are liberal. Greater profit should be forthcoming when:

¹⁸Proposed plans for financing this purchase.

¹⁹Op. Cit., pp. 246-7.

²⁰Proposed plans for financing this purchase.

²¹Ibid. ²²Ibid. ²³Ibid. ²⁴Ibid. ²⁵Ibid.

1. More efficient equipment is installed as is proposed in the plan of operation.

2. The change to a complete self-service operation is complete.

3. The proposed remodeling is finished.

4. Greater managerial efficiency is attained.

5. Encouraging future business trends become effective.

The collateral supplied by the borrowers includes not only cash but time, effort, and resourcefulness throughout the period of the loan.

Applying for the Loan

To gather information about what factors bankers want to know about a proposed food service business, the writer applied to four banks for loans. With the help of his uncle, Mr. Angel Priggooris, a preliminary interview was arranged with each of the local bankers. At the conclusion of this interview each banker professed his willingness to help. At this point the writer was given the usual bank application forms for the use in the loan procedure. (Copies of completed applications may be found in the Appendix, pages 73 to 97.)

In addition to all information recorded in this chapter, the writer prepared the following papers to supplement the applications:

1. A personal letter to each bank representative as follows:

608 W. Ionia Street
Lansing 15, Michigan
June 16, 1957

Mr. Edward F. Minich
Assistant Vice President
Michigan National Bank
Lansing, Michigan

Dear Sir:

I am engaged in the study of problems involved in financing the purchase of a business serving food and beverages to the public. You may remember my conversation with you concerning this subject on March 3, 1957. I was introduced to you by my uncle, Mr. Angel Priggooris.

I hope to develop the material which I collect as a Master's thesis in the School of Hotel, Restaurant and Institutional Management at Michigan State University. It is important that the data which I collect be as accurate, complete and realistic as the circumstances will permit. I am therefore taking advantage of your kind offer of assistance in this manner.

I submit herewith the following materials:

1. The annual operating statement for the restaurant at _____ covering the 1956 business operation.
2. The balance sheet for this business as of January 1, 1957.
3. A projected plan of operation for the business at this address including:
 - a. An estimate of capital improvements which I consider desirable and necessary.
 - b. An annual operating budget based upon future plans for operation of this business.
4. Loan applications for your bank from:
 - a. Mr. Stephen Andreadis
 - b. Myself
5. A proposed plan for financing the purchase of this business.
6. A market analysis of the area.

A supplemental report is attached to this letter which will give more details on items mentioned above. I also enclose some personal information to augment that included on the loan application blanks.

I appreciate your willingness to consider this matter and to cooperate in my efforts to develop such data.

Sincerely yours,

Georgios P. Kostarides

Personal History of Mr. Geo. P. Kostarides

Mr. Kostarides is a native of Greece and a naturalized citizen of the United States. He came to this country at the age of fifteen (15). Upon arrival, the applicant commenced formal educational training in the public schools of Indianapolis, Indiana.

The prospective buyer went into the restaurant business with his father and brother in 1938 at Indianapolis and stayed in such work until he was drafted into the army in December of 1941. Upon the applicant's discharge from the army in October of 1945, he and his brother re-established themselves in the original restaurant business which their father had operated during the War. In the latter part of 1947, the sale of the building in which the restaurant was located forced the applicant and his family to dispose of the business by January 1, 1949. Meanwhile, the family purchased real estate properties in Indianapolis, some of which were converted into parking lots. Others were remodeled into small apartment tenements. The applicant was employed in this new business until his marriage in 1951 to a Lansing resident.

Mr. Kostarides, realizing some of his shortcomings in his educational and business ability, re-entered Michigan State University in the fall of 1951. Upon completion of a four (4) year business curriculum in June of 1955 with a B.A. Degree in General Business, the applicant is now working

for his Master's degree in the Hotel, Restaurant, and Institutional Management School of the College of Business at Michigan State University. The applicant's educational career could never have been possible without: (1) financial aid from the family, (2) summer self-employment with the family interests in Indianapolis, Indiana.

Personal History of Mr. Stephen Andreadis

Mr. Andreadis is a native of Peabody, Massachusetts. The applicant's eighteen (18) years of formal educational training includes a Bachelor's degree in education and a Master's degree in history. Mr. Andreadis had his college training at Boston University and at Harvard University. The prospective buyer's early business experience was with the family grocery and delicatessen store in Peabody, Massachusetts. After Mr. Andreadis received his Master's degree, he was drafted in the army in 1941 and served during the World War II until he was discharged in the winter of 1946. The applicant's marriage to a Lansing resident in early 1946 placed him in self-employment with his father-in-law in the restaurant business at 1002 South Pine Street in Lansing, where he now operates. Mr. Andreadis has been an active church member and has participated in various community affairs.

All the above material, of this research was submitted to each bank representative for his consideration.

CHAPTER III

INTERVIEWS WITH BANK REPRESENTATIVES

This chapter summarizes a series of letters and interviews with fourteen bank officials concerning a loan for the purchase of the business under consideration. The writer's purpose was to determine the reactions of bank officials to the proposed loan and to determine what they consider most important in the consideration of such an application.

It is to be emphasized that the banker, above all, is a very practical man. He has his own preconceived notions about what constitutes a sound risk. He has, in other words, a kind of mental puzzle or framework into which the borrower's qualifications must fit. While all bankers adhere to this standard framework, each one has his own little peculiarities within it.

Although most of the bankers were as hesitant as a court in establishing precedents on the basis of a moot case, they went as far as possible in answering questions and giving opinions as if they were acting on a real issue. This will become perfectly clear if we now examine what the specific bankers had to say.

The writer received two letters from Mr. Baxter, the first dated November 2, 1956, the second December 4, 1956 (see the Appendix, pages 125 to 126.). The pertinent points of these letters were:

1. Roy A. Foulke and H. V. Prochnow's Practical Bank Credit should be consulted.

2. Restaurants generally do not need short term bank credit. Instead, they require long term capital loans. But, unfortunately for the prospective restaurant owner, the banker prefers, one might even say he is forced, to give only short term loans.

Besides correspondence Mr. Baxter also granted me a conference on December 19, 1956, during which he stated briefly a particular experience with a restaurant capital loan in which the silent partner with substantial security played an important role. By means of this example Mr. Baxter gave the writer the impression that the bank's policy is to encourage loans to the restaurant industry provided such loans are short term and adequate equity capital is available. This is especially true for established concerns. Great emphasis is placed on the point that a restaurant loan or any other business loan is tailor-made to fit the particular situation in which it is to apply.

The pertinent points which the other bankers--Hays, Foster, Reck, Thorp, Bindner, Wells--made in their respective letters are as follows (see Appendix, pages 108 to 127):

The bankers were negative in their attitude toward long term loans (as a rule loans for a period of more than five years). One banker, in fact, would not grant a long term loan under any conditions, stating that the maximum

period would be from two (2) to five (5) years.¹ Another banker, on the other hand, was willing to grant the long term loan if real estate were given as collateral.² Moreover, term loans to restaurants, as revealed by a recent study, have, on the average, 2.37% liabilities.³ (Our hypothetically proposed loan ranged from 75¢ downward to liquidation.) In any case, the banker is always unwilling to commit himself as long as the life of the lease equals that of the loan. The approaching terminus of this lease would in itself endanger the chances of repayment of the loan.⁴ During times of "tight money" conditions, bankers are especially hesitant in granting long term loans.⁵ The ten-year period of the long term loan involves too many uncertainties, such as the continuing capacity of the management, stability of the location, and the business conditions in general.⁶ The best solution for the prospective restaurateur is a land contract with the present owner, a contract known as a "conditional sales contract."⁷

The banker has several main concerns when he considers granting a short term loan. He wants to know, for example, the borrower's ability to bring in profits. He also asks such questions as: Is this a good buy for the borrower? Is

¹See Appendix, p. 125. ²Ibid., p. 110.

³Ibid., p. 117. ⁴Ibid., p. 113. ⁵Ibid., p. 115.

⁶Ibid., p. 113. ⁷Ibid., p. 105.

it a forced sale? Are there any tax liens against the business?⁸ Moreover, the banker always scrutinizes the applicant's financial statement with respect to proper percentages on income, profits, taxes, and the like. The same banker also noted that equipment is of little value for collateral in securing a capital loan, whether short or long term. In case of default, equipment would bring as little as ten cents (10¢) on the dollar.⁹ The applicant's net worth must be more than the loan value. And finally, no money can be borrowed to buy the business or to pay off its owners.¹⁰

While the above remarks are applicable for any prospective restaurateur, there are a few considerations to be mentioned with respect to the hypothetical situation. First, the bankers preferred that we have at least three (3) years of operating figures; this they considered highly desirable.¹¹ It was suggested that even though partners would profit from their association in the beginning (they would have more working capital), they would nevertheless not gain in the long run since the proposed business would not adequately support both of the partners' families. The same banker also suggested that the applicants have more of their own resources or funds borrowed from private sources for investment in the hypothetical case.¹² Of course this has its disadvantages

⁸Ibid., p. 110. ⁹Ibid., p. 110. ¹⁰Ibid., p. 109.

¹¹Ibid., p. 113. ¹²Ibid., p. 114.

as well as its advantages (money from private sources usually demands a higher interest rate--due to the fact that a higher risk is involved).

The writer also gained some additional pertinent information from conferences with the bankers Grant, Dygert, Steele, Johnson, Featherston, Harly and Kellum, which now follows.

Conference with Mr. Miles Grant, Vice-President,

Michigan National Bank, Lansing, Michigan

On October 29, 1956

Mr. Grant, an officer of the bank, agreed to study the application and on a prearranged conference he was kind enough to make the following observations:

1. The personal histories attached to the application were desirable. The more facts available the better. This is especially true if the individual is applying for his first loan.

2. Cash assets of enough proportions must be indicated, otherwise securities should be in liquid form. In this case, securities are not the type desired.

3. Cash value on a life insurance policy is considered by this bank as a reserve to be used in case of emergency.

4. On an individual basis, restaurant fixtures do not constitute a good collateral.

5. In this particular case, the bank recommends that

the present owner enter into a sales contract for a set number of years. The bank will not make a loan when the present owner holds a conditional-sales contract. On new ventures the bank's policy calls for cautious and careful investigation, but in the case of experienced operators, on the basis of the "Bank's past borrowing experience with the individual", the bank will make a loan up to certain amounts provided the management has been satisfactory. An item of importance which the bank observes is the rate of depreciation on the equipment.

The loan amounts vary with past experience and at that, only limited amounts may be extended involving not more than a year's time. The bank will not grant a long term capital loan unless the loan is secured by real estate. The loan officer uses his own judgment coupled with the knowledge of the borrower. A loan committee of ten people screens every loan application. This committee is composed of individuals who are specialists in different fields of endeavor. Therefore, many possible questions may arise for which an answer has to be given. In this manner a watch dog is created not only to protect the bank but in the long run, the individual borrower.

6. A cash flow budget such as the one presented in this case is very helpful and is favorable to granting the loan.

7. A five year profit and loss statement, preferably the last five years of operation is the most desirable to this bank.

8. A banker would like to see an enterpriser make a modest withdrawal and have the remaining profits plowed back into the business. It was Mr. Grant's opinion that a restaurant operator should make well above the average salary of his chef. If the average wages for a chef are \$150.00 per week, then the restaurant owner's wages should be at least \$200.00 per week. Therefore, a yearly salary of ten to twelve thousand dollars should be an adequate amount to the operator at this time.

9. Past bank experience with restaurant loans led to the following observations:

- a. The operator who knows the costs of food, labor and overhead is always striving to minimize such; he seems to be the successful businessman, therefore a good risk.
- b. A combination of theory and practical experience is looked upon by the bank as the most desirable asset.
- c. A successful operator in one establishment is not always successful in a chain of two or more operations.
- d. In summary, this bank's past experience with restaurant loans has been one of small amounts with not more than one year's duration, secured by a chattel mortgage or other real estate.

Conference with Mr. C. E. Dygert,
Vice President of East Lansing State Bank;
October 24 and November 1, 1956

After two prearranged conferences Mr. Dygert made the following remarks:

1. The history of the borrower is very helpful. The bank wants to know all the information about the individual. From the information available, a banker or the loan officer tries to determine the character of the borrower.

2. The proposed loan is intended to be used as capital funds, a loan which our bank will not grant for the period desired. Present day loans are made on an amortization basis and for a period of not more than two years.

3. Looking through the personal statements of each individual, I find that the cash balances are not adequate. Cash should be available to begin the remodeling process. Securities could be converted into cash but that raises the question of net worth and convertability. Cash value on life insurance may give some support to the loan provided it is assigned.

4. Our bank will always request an appraisal on the fixtures and may or may not loan 50% of their value. This is questionable because other factors may enter into the picture, such as the capacity, character, past business experience of the individual, and the general business conditions. So far, our bank has had no experience with the restaurant industry.

5. A year's profit and loss statement is not sufficient. The bank prefers at least two consecutive yearly statements. Two or more will provide a good comparison. The cash flow budget is a very helpful tool. A good point to remember about budgets is the degree of flexibility and rigidity which must be available. By the above terms, I mean that the projection of items within the budget in the rigid sense, on a straight line, will not always prove to be true. Therefore, the near normal situation will be preferred over the theoretical by any banker.

6. Time, effort, and resourcefulness may be considered as supporting items or intangible collateral, although the banking term "collateral" is more of a tangible nature, where the bank can touch the resources and recover possible losses.

At the close of the conference on October 24, 1956, the writer was asked to bring in more questions if he so desired. On November 1, 1956, the writer presented to Mr. Dyvert the following questions:

1. Question: In your opinion, what would be a reasonable salary for the owner of this proposed enterprise?

Answer: Sufficient salary so the earning rate of the business is a little greater than the cost rate. Here is the focal point where we (the bankers) carefully study the proper allocation of funds, book balances of reserve for depreciation, cash, actual depreciation and the obsolescence on equipment or fixtures.

In many occasions and especially during the first years of business, operators will use their reserves to boost the cash account.

2. Question: Assuming that real estate is provided as security, would your bank be liberal in the amount of money to be granted for the loan, or liberal as to the number of years the loan will have to run?

Answer: In this case the bank will do both and it may vary with the circumstances outlined previously.

3. Question: How would you measure a successful restaurant operator?

Answer: By the "earning rate". Although the earning rate is not always the true rate because on many occasions the owner deprives himself of his true worth. For example, a proprietor may attain the above situation by reducing his standard of living, or vice versa. Such a situation of inflated or deflated "earning rate" must come under some kind of scrutiny. Another situation would be that of the exterior causes which are beyond the control of the operator. For example: the underdeveloped city or one in the process of development, or - the overdeveloped city which is in the process of stagnation. The boom and bust locations.

Conference with F. Earl Steele,

Assistant Vice President with the Detroit Bank and Trust Co.

December 31, 1956

Mr. Steele had the opportunity to study the application

prior to the conference, and during the conference Mr. Steele concluded with these remarks:

1. Bank loans to the food industry are difficult to make as failures in such operations are the most common in the business world.

2. The proposed operators have the apparent advantage of experience and education and under reasonable conditions should be successful. However, the amount of personal investment is inadequate, leaving the greater investment to be made by other parties such as banks or other financial institutions.

3. This bank loan, to be attractive from the bank's standpoint, should have the ratio reversed. In other words, the owner's investment should be \$30,000.00 and the bank loan should be \$10,000.00. It is most unusual for a bank to make commercial loans even with acceptable security of more than the net worth. Under unusual circumstances a bank will make a loan for capital purposes if the loan tends to be a "term loan" which is for a period up to 24 months.

4. This application is for ten years and is solely dependent on the continuation of a satisfactory partnership relation and good business for that period.

5. The security offered is not adequate for bank purposes. That is, it is not generally marketable or readily salable.

6. The food business has a large turnover. In the case of a liquidation order for the repayment of the loan,

the fixtures and equipment produce a sum equal to only their current market value.

7. Subsequent to the war many general loans of this kind were made and very few proved to be profitable from either the owner's or lender's standpoint.

8. It is more common for owners who are selling out to take a down payment and a conditional-sales contract for the balance of the purchase price, repayable similarly to this proposed plan. In some cases, finance companies may take such a proposed loan although the interest rates will be much higher. A bank will risk one-fifth on the equipment value, and that will be the maximum. Therefore, equipment is considered to bring in 80% less than its original worth or cost, assuming of course, that this is a forced sale. Experience has proven to us that some of the heavy equipment does bring in more than the smaller equipment. For instance, tables and chairs are practically given away in a forced sale. All these disadvantages are probably due to the fact that restaurant equipment is tailored to fit the location.

9. Another point which the banks have experienced is the restaurant partnership instability. Single proprietorship is looked upon with more favor. A partnership with a silent partner (investor only) is a much better arrangement.

10. Always deal with your local banker and preferably with the one who knows you.

11. From the standpoint of information, the proposed application is one of the most complete of those which I have had the opportunity to judge.

In conclusion, the favorable factors are not sufficient to encourage a bank term loan of this description.

American Fletcher National Bank and Trust Company

The following is a summary of a conference with Mr. S. B. Johnson, loan officer with the American Fletcher National Bank and Trust Company, Indianapolis, Indiana.

Mr. Johnson had the opportunity to study the application before the conference. During the conference he presented the following points:

1. Ten years is too long a period of time for the loan to run. Two years or possibly three years, all depending on security, would be the maximum time granted on a loan application of this nature.

2. The three C's such as:

- a. Character of the individual
- b. Capacity of the individual
- c. Capital of the individual

with the additional two, such as:

- d. Conditions - business generally
 - e. Collateral - such as real estate
- play an important role in our decision.

Mr. Johnson added that a balanced situation among the five C's must exist before he makes his decision to grant any loan application. To emphasize the above point, Mr. Johnson pointed out his feelings in the following manner: If the character of the applicant is excellent and his

capacity to pay is good, assuming that the business conditions and future outlook show promise, then with some capital or collateral the above individual would be worthy of credit.

3. Collateral: Mr. Johnson felt that the situation presented to him had insufficient collateral. The value of the equipment should have been appraised because the bank's policy is to loan no more than 50% of the appraised value. Furthermore, the individuals do not have sufficient collateral either separately or jointly.

4. The bank asked to finance a proposed purchase of this type will consider:

- a. Purchaser's standing with the five C's.
- b. Ownership equity should be at least as much as the bank is being asked to finance.
- c. Past experience with the applicant.
- d. Term of the loan. Two years is considered maximum.
- e. No debt on the property payable to the present owner should be outstanding.

5. Mr. Johnson suggested a possible solution to the problem would be a contractual sales contract with the present owner. This contract would apply to the individual or the partnership arrangement.

6. Throughout the conference Mr. Johnson gave the author the impression that he also judges loan applications on the **basis** of how much the enterprise compensates the owner. Apparently Mr. Johnson was thinking that the compensation

granted to the applicants is not enough for the support of themselves and their families.

The above observation is presented because the writer feels that Mr. Johnson's personal acquaintance with the writer has prevented him from being more specific on this application, although he spoke in general terms.

Merchants National Bank and Trust Company

On September 6, 1956, the writer had an unscheduled conference with Mr. C. T. Featherston, loan officer with the Merchants National Bank of Indianapolis, Indiana.

Mr. Featherston had the opportunity to examine the application and from a verbal briefing by the writer as to its purpose, he made the following remarks:

1. Above all, the first line of defense is the borrower. The borrower sets the trend by his past record. Cash payers are usually bad risks. These people are afraid to get in debt and if they do, someone else is behind the scene doing it. The desire and the ability to pay holds the key to the problem. The knowledge in the restaurant business is important. The partnership arrangement and the working agreement should also be known to the bank.

2. Once the bank has all the information about the individual or individuals it is necessary to know something about the business. For example:

- a. Is this a going business? Is this a neglected business, caused by illness or otherwise?

- b. The competition plays an important part.
- c. The monthly or yearly profits from such operation and the proof of earnings through past statements (preferably more than one year) should be given to the bank.
- d. The type of food and service.

3. When all the answers to the above statements are available the bank may proceed with the actual financing by:

- a. Calling in a fixture firm to give a fair appraisal on the fixtures. If the appraised value is enough, then that will be sufficient to support the loan. In this case the bank will grant a loan equal to about 50% of the purchase price. If the case turns out to the contrary, then other collateral or a co-maker should come into the picture. Not long ago this bank made such a loan to a good operator and promoter with the backing of a million dollar co-maker. This particular co-maker was behind the scenes so to speak, but he was also the owner of the property in which the business was located.

4. An interesting point which Mr. Featherston made was the bank's past experiences with borrowers. A list of occupations and business was shown to the writer. In this list, restaurant operators held an 87% rating for being prompt in the payment of their loan obligations.

5. In summary Mr. Featherston gave the writer the impression that he is willing to accept a restaurant loan application provided all the above conditions were met. All evidence must support the highest degree of repayment with the minimum degree of default.

Indiana National Bank

Mr. Frank Hurley and Mr. Richard Kellum, loan officers with the Indiana National Bank of Indianapolis, Indiana, examined the application during the first week of September, 1956. Upon a prearranged conference with Mr. Hurley, the writer obtained the following oral conclusions:

1. The unsecured loan of ten years will not be considered.

2. If the life of the loan is reduced to five years and a corporate form of enterprise is formed, then by pledging the entire stock, the bank may consider the loan.

3. In a partnership enterprise, all partners and their wives should sign a chattel mortgage.

4. The bank will not consider the loan application as long as the present owner has a note from the purchasers.

5. All cash should be in check or savings book balances to show clearly the amounts presented. Any securities not listed on the market may not be easily converted into cash even though their actual value may be greater.

6. Will the partner be active in the new proposed establishment? This the bank must know.

7. The bank will not loan to individuals or business by just having personal property.

8. Principal payments on borrowed funds used for the purchase of this business should not be included as expense items. The same applied to the funds used as capital improvements. The above items could and should be used in a statement of application of funds. This could be easily corrected by segregating interest payments in the other expense column.

9. Collateral must be in actual resources such as real estate or securities. The bank will not recognize efforts, resourcefulness or time.

10. A cash flow budget analysis is good to have with any application. Although this budget may be a little detailed and quite long, it is welcomed. We think that the effort merits consideration. A loan officer appreciates such information any time.

Summary: The term is too long on an unsecured or open basis. The insufficient investment forces the bank to ask for collateral. The above items will differ with the various banks and their loan policy.

In order to learn what factors are given the most weight by the bankers, the writer requested that they answer an appropriate questionnaire. The questionnaire and its composite tabulation follow.

Items of Importance to the Bank When
Considering A Loan Application

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>Item</u>	<u>Rank</u>
1. Character of applicant	_____
2. General business experience of the applicant . . .	_____
3. Applicant's experience in the restaurant field . .	_____
4. Applicant's training in the restaurant field . . .	_____
5. Applicant's previous record in repaying loans. . .	_____
6. Net worth of the applicant	_____
7. Real estate which can be used as security.	_____
8. Stock and bonds which can be used as security. . .	_____
9. Location of the proposed establishment	_____
10. Potential to be derived from the operation of the business.	_____
11. Assets and liabilities of the business	_____
12. Future business prospects.	_____

<u>Item</u>	<u>Rank</u>
13. The importance of a co-signer to the loan application.	_____
14. Leasehold provisions and limitations	_____
15. Applicant's marital status	_____

The data with regard to rating of items according to importance as measured by the bankers are presented in Table IV.

TABLE IV
RATING OF ITEMS ACCORDING TO IMPORTANCE

Rating No. 1 - Highest
Rating No. 10 - Lowest

ITEM	NO. BANKERS APPROACHED	NO. BANKERS REPLYING	NUMERICAL RATING									
			1	2	3	4	5	6	7	8	9	10
No. 1	12	9	8	1								
No. 2	12	6		2		1	2	1				
No. 3	12	8		2	2	3			1			
No. 4	12	7			3	2	1	1				
No. 5	12	6	1	2		1	1		1			
No. 6	12	9	2	1	1	2	2					1
No. 7	12	4		1	1	1		1				
No. 8	12	5		1	1	1	1					1
No. 9	12	6			1				2	2	1	
No. 10	12	7	1		1				1	1	2	1
No. 11	12	8	1	1	1	2		1	1	1		
No. 12	12	6		1					2	1	2	
No. 13	12	5		1	1	1	1					1
No. 14	12	4			2					1	1	
No. 15	12	2	1			1						

Volunteered Items:

Equipment Status	1
Compensating Balances	2
Means of Repayment	1
Relationship of Net Worth to Debt	1
Purpose of Borrowing	1

Results from the Questionnaire

Nine of the twelve bankers rated the character of the individual as the most important item in their consideration. Out of these nine bankers, eight gave character the number one rating. Two out of the twelve bankers gave the net worth of an individual the number one rating. One out of the twelve bankers gave the number one rating to the following items: Numbers 5, 10, 11 and 15.

Although the ratings proved to be scattered among the items listed, the majority of the bankers seems to rest within the first four ratings. A summary to the fact proves the following:

TABLE V

RESULTS FROM THE QUESTIONNAIRE

<u>ITEM</u>	<u>ACTUAL NUMBERS WITHIN THE FIRST FOUR RATINGS</u>		<u>NUMBER OF BANKERS REPLYING</u>
No. 1	9	out of	9
No. 2	3	"	6
No. 3	7	"	8
No. 4	5	"	7
No. 5	4	"	6
No. 6	6	"	9
No. 7	3	"	4
No. 8	3	"	5
No. 9	1	"	6
No. 10	2	"	7
No. 11	5	"	8
No. 12	1	"	6
No. 13	3	"	5
No. 14	2	"	4
No. 15	2	"	2

The evidence from the table indicates that the items were listed in the order of their importance by the bankers when considering an application for a loan. The items are:

- Item no. 1 - Character of applicant (of first importance)
- Item no. 3 - Applicant's experience in the restaurant field (of second importance)
- Item no. 4 - Applicant's training in the restaurant field (of third importance)
- Item no. 6 - Net worth of the applicant (of fourth importance)
- Item no. 7 - Real estate which can be used as security (of fifth importance)
- Item no. 8 - Stock and bonds which can be used as security (of sixth importance)
- Item no. 11 - Assets and liabilities of the business (of seventh importance)
- Item no. 13 - The importance of a co-signer to the loan application (of eighth importance)
- Item no. 15 - Applicant's marital status (of ninth importance)

Every one of the above items has more than fifty percent credit to its weight. Throughout this study the writer finds that all of the above items hold some importance to the banker's consideration of a restaurant loan.

It is also noted that the first five (5) items are in harmony with the principles advocated by the American

Institute of Banking. These principles are: character, capacity, capital, collateral and the general business conditions. This evidence indicates that the banker's train of thought is always guided by the above principles.

CHAPTER IV

RECOMMENDATIONS

For future restaurateurs the writer recommends that they take certain things into consideration and not blindly embark upon a business venture, a venture which, if not planned properly, might become disastrous. They should, first of all, have a genuine interest which is supported by ability. Secondly, they should select the proper type of business, one which is in keeping with these two factors. Thirdly, they must have adequate funds which, however, can be supplemented by the commercial banker. Fourth, if future restaurateurs wish to buy an established concern, they should investigate the suitability of the location, the reasons for the present owner's desire to sell, and the lease and real estate arrangements. Moreover, they must decide whether or not they want to operate the business as an individual, a partnership, or a corporation. Again, these decisions will depend upon the type of business contemplated and the funds available. The prospective restaurateurs should also ask themselves: How well do we know the banker and how well does the banker know us? Finally, they will want to know how to present their case to the banker. In the present chapter the writer will discuss each of these factors somewhat in detail.

The writer recommends that whenever an individual is ready to venture into the restaurant business, he must ask himself the following questions:

(a) Can I meet the task? Am I qualified to go through with the job?

(b) Can I sacrifice time, effort, and money?

(c) Do I like to meet and work with the public?

Moreover, there is a certain degree of experience and training the individual must have to succeed in business. No one knows how much experience and training is necessary. Bankers are usually prone to accept a combination of training and experience as the most favorable solution. The following Statement is the banker's reaction to experience and training. Mr. Files Grant, vice president of Michigan National Bank, states: "The personal histories attached to this application are very desirable."¹ Mr. Carter B. Tharp, assistant cashier with The American Fletcher National Bank and Trust Company of Indianapolis, Indiana, states: "The business appears to have good prospects, especially when managed by men of experience and education."² Mr. Wells, assistant cashier with the National Bank of Detroit, in his discussion on restaurant lending, says: "Applicant's experience in the restaurant field--is very essential. Applicant's training in the restaurant field--is important but should be seasoned with practical experience."³ Therefore, the feeling among bankers is that an individual must be

¹Ibid., p. 31. ²Ibid., p. 114. ³Ibid., p. 119.

seasoned in his work. This can be accomplished by going through the process and applying as much of the theory he or she has learned in training.

The prospective restaurateur should also select the proper type of business. For example, should he run a steak-house, a drive-in, or a cafeteria? He should determine which type there is the greatest need for in the particular neighborhood or section of the city. But if the need is for, say, a drive-in and if he is really interested in operating a large steak-house, then the prospective restaurateur should still hesitate because he might neglect, for lack of interest, his business. But once he has made the choice in terms of his own interest, then he must proceed with a location analysis. Then he must ask himself such questions as, "What are the present and future trends in the area under consideration?"

The future businessman should also have enough private funds for his proposed venture, no matter what the type, because this is the one item that all bankers scrutinize closely. Here are some of the usual comments bankers make. Mr. Tharp says: "We believe, however, that they (applicants) must have either more of their own resources or funds borrowed from private sources for investment in the business."⁴ Mr. Hugh Bindner, vice president of the Fidelity Bank and Trust Company, Indianapolis, Indiana, in his letter states: "The personal statement to support the proposed credit does not

⁴Ibid., p. 114.

present sufficient net worth in my opinion to accept such a term loan."⁵ Mr. H. Andrew Hays in his point states: "It is generally considered that it is not a bank function to furnish long term capital funds for the purpose of buying or operating a business. Such funds should be provided by private funds furnished by the owner, partners or stockholders of a business. It is illogical to expect a bank to loan thirty thousand dollars as outlined under either plan 1, 2, or 3, at 6% (or even 7%) when the return on fifteen thousand dollars loaned by the owner. . . would yield 33% and under plan 3, where the investment of twenty thousand dollars would yield 28% or more. On such a basis, it places the bank in the position of investing the major portion of the funds to purchase a business and bear the major share of the risk inherent in the operation of such a business while the owner bears a much smaller responsibility from a financial standpoint and yet realizes the major share of the profits."⁶

The writer feels that the attitude presented by Mr. Hays is more of a universal one among all bankers. Commercial bankers feel that they should be the last ones to be tapped for a capital loan. But if they are tapped, they must, for their own protection, as well as the buyer's, consider certain factors.

The willingness of the present owner to sell, for example, bears some influence on the banker. Here are Mr.

⁵Ibid., p. 115. ⁶Ibid., p. 111.

Kays's feelings on the matter: "Is the owner trying to sell or are you trying to buy? This might make a difference in terms."⁷ Mr. Kays has the landlordship case in mind, the owner trying to sell because of sickness or otherwise. In such a case, the seller might find himself in the position of dealing with a monopsonist, which would clearly be to the advantage of the latter and his banker. The reverse is equally true: when there is no pressure--reasons of health or otherwise--on the seller to sell, then the harder the terms for the buyer.

Another factor that the banker deems important is the lease or real estate arrangements. To the banker, the stability of the business is a virtue. Mr. Thorp points out clearly the suspicion a banker might have with respect to stability: "Our unwillingness to invest our depositors' funds in this long term program may also be viewed in the light of the applicant's proposal to commit himself and the owner of the real estate, only to a lease of ten years...equal to the life of the loan. The approaching terminus of this lease would in itself hazard the loan in its latter stages."⁸ Thus the banker is not only careful about investing the bank's money but also about safeguarding his client's chances of success.

The banker, understandably, always has his client's interest in mind. He makes certain recommendations, for instance, with respect to proprietorial arrangements. The

⁷ Ibid., p. 110. ⁸ Ibid., p. 113.

banker prefers that the client or clients constitute a corporate form of business with individual backing. In other words, a corporation with the personal assets of each individual should be at the banker's disposal. One bank official undoubtedly considers "the corporate form of enterprise as the most desirable."⁹ The same banker necessarily considers another possible arrangement, the partnership, as undesirable due to the involvement of the partners' wives. Another banker objects to the partnership form when he says: "Though the partners in combination can give the business a somewhat improved cash cushion, one non-technical observation which we might make is that the business would appear to afford the partners a not wholly adequate income and that the project is a more attractive one, income-wise if entered into by either of the individuals singly."¹⁰ To illustrate the merit of the corporate form over that of partnership, a brief summary of "The Eighth District Member Banks Business Survey," Monthly Review (The Eighth Federal Reserve District, May, 1956) can now be given.

The "Survey"¹¹ shows that the number of loans granted to unincorporate enterprises are greater, but the dollar

⁹Mr. Frank Hurley, Indiana National Bank; see p. 43.

¹⁰Mr. Carter, Fletcher American Bank, Indianapolis, Indiana, p. 113, 114.

¹¹"Monthly Review", The Eighth Federal Reserve District, May, 1956.

volume is much greater for the incorporated business enterprise. The article states: "By legal form of organization, seventy-one (71) percent of the loans in number were outstanding to unincorporated firms. That is to say, for every loan made to a corporation about two and one-half (2.5) loans were made to unincorporated business. Over four-fifths (4/5) of the advances to retail stores and service companies went to partnership and individual proprietorship. By dollar amount of loans outstanding the reverse was true. Corporations accounted for seventy-five (75) percent of the total indebtedness."¹²

The same point is also made by "Business Loans of Member Banks," The Federal Reserve Bulletin (April, 1956). In general, according to this article, the ratio of corporate to total borrowing was highest in business requiring heavy fixed investment. Unincorporated business accounted for a substantially larger proportion of the number than of the amount of loans for business categories. Loans to incorporated enterprises were seventy-eight (78) percent of the total dollar amount of business loans in late 1955 as compared with seventy-two (72) percent in 1946.¹³ The evidence reveals that the partnership arrangement is destined to undergo a greater amount of scrutiny by most bankers.

¹²Ibid.

¹³Federal Reserve Bulletin (April, 1956), p. 335-36.

The above does not mean that the partnership form, or the individual proprietorship form for that matter, is an impossible one, but rather only one that is not preferred. Now if the prospective restaurateur forms a partnership or a single proprietorship, then he must be aware of what he is up against. He--and his banker--must recognize frankly his ability to make a "go" of the business and thus his ability to repay the banker. One bank official put it in this manner: "The borrower is the first line of defense."¹⁴ Another banker states that: "A restaurateur's salary must be one-third to one-half greater than the salary of his highest paid employee."¹⁵ In cases where the restaurateur cannot achieve the salary mentioned, the same official thinks that the restaurateur should not be in business. This banker continues by stating that, "A successful operator is the one who knows the cost of food, labor, and overhead, and is always striving to minimize such."¹⁶ Although this banker seemed to be satisfied with his statement he cautioned by saying that: "A successful operator in one establishment does not mean, generally speaking, that he will be successful in a chain of two or more operations."¹⁷ Here he refers to the importance of the individual's personality as a factor of success: if

¹⁴Mr. Featherston, Merchants' National Bank & Trust Company, see p. 41.

¹⁵Mr. Grant, Michigan National Bank, Lansing, Michigan, see, p. 31.

¹⁶Ibid., p. 31. ¹⁷Ibid., p. 31.

the individual divides his personal attention--the personal touch--then he almost literally falls apart, both physically and financially. Another banker puts greater emphasis on the borrower's earning rate. With some reservation this banker states his position in the following manner: "The earning rate is not always the true rate because in many occasions the owner deprives himself of his time worth. Example: A proprietor may attain the above situation by reducing his standard of living or vice-versa. Such a situation of inflated or deflated earning rate must always be under some kind of scrutiny."¹⁸

After all considerations of the factors presented above, the prospector must be firmly set in his decision to buy. Then he is ready to approach the banker. As Mr. Steele and Mr. Hays write in their letters, a prospective borrower must first see his own banker. The present trend is for the local banker to accommodate his customers first and others later. If this strikes one as an unusual procedure or custom, then he should know something about the actual bank-operations, of which the main ones are as follows.

In the reply received from the Security Trust Company of Detroit, the writer noted that an extra item, the "compensating balances" of the individual, is important.¹⁹ The same

¹⁸Mr. Dygert, East Lansing Savings Bank, East Lansing, Michigan; see p. 34.

¹⁹Security Bank, Detroit, Michigan, p. 129.

holds true for the remarks made by Mr. Kellum, loan officer with the Indiana National Bank of Indianapolis, Indiana.²⁰ This new trend is well justified because four-fifths of the depositor's book balances, savings, or checking, are used by bankers to be made into mortgage and commercial loans. It's a well known fact that bankers are allowed to loan on the average four-fifths of their available funds. In this fashion the commercial banker creates the new money for the borrower, in conformance with the rules and regulations imposed by Federal and State authorities. Howard and Upton, in their study of Introduction to Business Finance, state; "The willing banks will look at: free funds available, their feeling of obligation to the loan applicant because of past profitable deposit balances, estimate of the particular line of business, their confidence in the managing of the business, and the general business outlook."²¹ Here is further explanation why the past profitable deposit balances or compensating balances are important. A thousand dollar checking account balance will earn the banker thirty-two dollars (\$32.00). This is earned in the following manner. Of the thousand dollars which is interest free by law to all banks, two hundred dollars, on an average, is set aside for reserves in concurrence to Federal and State laws. The remaining eight

²⁰Ibid.

²¹"Introduction to Business Finance", Howard and Upton, Howard, Zion B., and Upton, Miller; New York, McGraw-Hill, 1953, p. 431.

hundred dollars is available to be loaned out. Assuming that the eight hundred dollars is loaned at 6% interest per year, the gross return is forty-eight dollars. On the average, the operational cost of a bank is about 2%, therefore, sixteen dollars out of the forty-eight dollars covers the cost of loaning the money. The remaining thirty-two dollars is thus the gross profit for the bank. It is evident, then, that all banks will be anxious to deal with credit worthy customers. To a banker, money is a perishable item. Therefore, he must move his merchandise. In this procedure the banker accumulates new wealth for his institution, for his customer, and the economy as a whole. And with this knowledge of the bank's operations, the borrower should next present his case to his own banker.

In this presentation, the prospective borrower will first fill out the usual application blanks, which will give the banker a skeleton of the facts of the case. Then it is helpful to augment that information with:

1. A detailed history of the borrower's past business ventures.
2. A financial statement of the proposed purchase (a statement going back for at least two to five years).²²

²²Mr. Hays in his letter states: "How successful has Andreadis been in operating his present business? His ability could be substantiated by operating statements of his business over the past several years." Mr. Tharp in his letter says: "We would have preferred to have had at least three years' operating figures but from the one year's operating statement presented us, we can appreciate the applicant's desire to make this investment." See Appendix, pp. 110,114.

3. All other relevant information of the proposed buy--such as the inventory of the equipment, lease or preparatory arrangements, future plans for the business, and the other pertinent points discussed in Chapter II of the present study.

Once the prospective borrower places his application with his banker, he should give the banker time to consider it fully. Usually the opposite takes place. Almost all borrowers approach their banker without any plans. Mr. Hays in his speech to the Restaurant Association Conference held at Kelloway Center, Michigan State University, East Lansing, Michigan, on February 6, 1957, said, "Approach your banker with your problem and needs well thought out and planned. One shortcoming of many potential borrowers is a sort of vagueness as to the reason for seeking credit and a lack of a program for repayment. Vagueness creates a poor impression as to your managerial ability and immediately causes a shadow of doubt concerning the wisdom of your program."²³ Therefore, after the case has been presented, it is recommended that the borrower be patient and give the bank enough time to act upon it. On the surface a bank is considered a private institution. Therefore, many rules and regulations apply to the bank's activity. With this in mind, a prospective borrower must be patient in his demands. The borrower's

²³ Appendix, p. 135, 136.

application is usually received by the loan officer who in turn investigates the facts and prepares a resume for the loan committee. This procedure gives the committee a better picture in order to judge and pass an opinion on the application. This shows that once an application has been submitted to the bank, there will most likely be a waiting period of several days for an answer, because the application must be reviewed and judged by the loan committee.

The considerations presented in this chapter are strongly recommended to the reader.

CHAPTER V

SUMMARY AND CONCLUSIONS

In this research the writer built up a case situation by which he hoped to convince the banker to finance the purchase of a restaurant. The writer presented his case in much more detail than most prospective restaurant borrowers would have done. The object of this thesis was to give an insight for the future borrowers in preparing their loan applications for commercial banks. The borrowing procedures given in this thesis may by no means be considered perfect, but according to bank officials they were an improvement over the methods used by many prospective borrowers.

Some of these methods and procedures were outlined in Chapter II and are as follows: to present a description of the business to be purchased; to give a detailed inventory account of all equipment in the business; to propose future plans for the business; to present the plans for financing such a venture; to provide the preparation of a cash flow budget and the estimated annual operating budget with its support; and, finally, to give the application forms for the loan. With all these materials on hand the writer approached the bankers for their consideration.

In Chapter III of this research the writer unfolds some of the negative considerations by which the bankers gave their rejection on the loan, the results of which moved

the writer to make certain recommendations as outlined in Chapter IV.

The recommendations outlined in Chapter IV may be some of the most pertinent guides in presenting his case to the banker. It is true one's confidence may be great and it should be so, but to go into business without adequate funds will prove a great disappointment. Not only are funds important, but an appointment to a position in the field of his choice should also be very beneficial. In doing so this person avails himself of the opportunity of experience and the chance of being better known to his banker. There is no substitute for having know-how in business experience, or in dealings with the banker. Let us then consider the final conclusions.

To consider the final conclusions one must take into consideration the past as well as the present. The restaurant industry has been and is often called an under-capitalized venture. This is true because necessity has brought about many changes in the industry. The necessity on the part of the public to eat away from home during World War I and World War II and the glamour of some food service establishments produced recognition, stability, and financial strength for the restaurant industry. Past and present experience reveals that the demand of real estate collateral for restaurant loans forced many restaurant operators' capital into real estate investments. This apparent stability in some

cases curtailed the restaurateur's desire to promote and expand his business. Although the ever-increasing competition in the business bears a great pressure to keep in step or fall by the wayside, it creates evermounting capital costs such as fixtures, and brings about greater need for capital funds. Therefore, to obtain cash, a new source must be found. Such a source is the commercial bank.

Today commercial banking is the hub of our nation's economy. Through lending, greater amounts of goods and services are added to our national economy. To perpetuate the growth in our economy, sound fundamental principles, rules, regulations, or guides had to be established by all bankers. A man with theoretical experience and with no actual seasoning in the business stands great chance of being rejected by the bankers. While actual experience, plus theoretical knowledge are considered important factors by the banker, greater emphasis is attached to the borrower's character, capacity, and available capital. This evidence is in harmony with the advocated principles of the American Institute of Banking. With these principles in mind the banker tries to find a substitute solution for himself and his client. It is possible that the past record of many of the banker's restaurant clients has caused the banker many misgivings. This situation was created by the fear that the restaurant business is a bad risk, according to the banker's language. Today, with all costs rising, greater is the need for capital funds. Capital loans are used for the purpose of providing equity

in the business enterprise. The repayment of capital loans is derived from profits accruing from the use of such equity. Naturally, fewer persons will have enough funds to go into the restaurant business. Where, then, may the ambitious enterpriser obtain enough funds to fulfill his dreams? One source, clearly, is the commercial bank.

Therefore, a good understanding of the commercial bank, its problems, methods, and procedures is of the utmost importance for the future restaurateur. The commercial bank can be the bread and butter of the borrower provided he understands the bank's function. It is also evident that bankers begin to realize the tremendous increase in capital cost outlay required in the restaurant business at present and in the future. The bankers should then be willing to supplement (to some extent) the ever-rising costs of opening a new restaurant business, provided the proper arrangements meet with their tests.

APPENDIX

TABLE OF CONTENTS

	<u>PAGE</u>
I. Profit and Loss Statement for Establishment (X). . .	71
II. Balance Sheet for Establishment (X).	72
III. Bank Application Forms	73
A. Michigan National Bank	73
B. American State Bank.	81
C. East Lansing State Bank.	87
D. Bank of Lansing.	93
IV. Answers to the Questionnaire	99
A. Michigan National Bank.	99
B. American State Bank.	100
C. East Lansing State Bank.	101
D. Bank of Lansing.	103
E. Mr. Steele - Detroit Bank and Trust Co. . . .	104
F. American Fletcher National Bank.	105
G. Fidelity Bank & Trust Company.	106
H. Security Bank of Detroit	107
V.. Letters.	108
A. Mr. Foster	108
B. Mr. Hays	109
C. Mr. Reck	112
D. Mr. Tharp.	113
E. Mr. Bindner.	115
F. Mr. Wells, Jr.	116
G. To Mr. Lee, Associates of Horwath & Horwath. .	121
H. From Mr. Lee, Associates of Horwath & Horwath.	122

TABLE OF CONTENTS (continued)

	<u>PAGE</u>
V. Letters (continued)	
I. To Mr. Baxter.	123
J. To Mr. Lee	124
K. From Mr. Baxter.	125
L. Remarks from Security Bank	127
VI. Speech by Mr. Hays on: Financing Restaurant Needs.	130
VII. Statement of Studies by Robert Morris Associates	145
VIII. S. B. A. (Small Business Administration)	
Restaurant Loans	148

Establishment (X)
Profit and Loss Statement for the period of
January 1, 1955 to December 31, 1955

% to
\$
Sales

	NET SALES			158,129.19	
	COST OF FOOD SOLD:				
	Beginning inventory 1/1/55	2,276.35			
	Net purchases	<u>63,559.89</u>			
	Total food available for sale		65,836.25		
	Less inventory 12/31/55		<u>2,157.45</u>		
40.2%	Total cost of food		<u>63,678.79</u>		
	Gross profit			94,450.40	
	OPERATING EXPENSES:				
	Selling expense:				
33.2%	Wages		52,600.11		
1.0%	Laundry		1,644.34		
.5%	Advertising		868.23		
2.9%	State Sales Tax	4,598.57			
.6%	Employees Social Security Tax	1,105.05			
.2%	Michigan Unemployment Tax	399.49			
(.1%) 3.9%	Federal Unemployment Tax	<u>210.97</u>	<u>6,224.08</u>		
38.7%	Total selling expense			61,336.81	
	General expense:				
3.7%	Rent		6,000.00		
3.4%	Utilities:				
.8%	Phone, heat, water	1,317.26			
1.1%	Gas	1,757.69			
1.4%	Electricity	<u>2,334.03</u>	5,408.98		
2.0%	Depreciation on equipment and fixtures	-	3,250.00		
.6%	Supplies		1,049.61		
1.1%	Repairs and maintenance		1,875.97		
.6%	Insurance		1,034.00		
.3%	Accounting service		582.00		
.3%	City Property Tax	466.80			
(0.4%) .3%	Business Tax	259.05			
.3%	Licenses Tax	<u>28.00</u>	753.85		
.2%	Small equipment loss		391.22		
.1%	Miscellaneous expenses		<u>125.00</u>		
12.9%	Total general expense		<u>20,470.63</u>		
52.3%	Total operating expense		<u>81,807.44</u>		
	Interest on note		<u>975.00</u>		
7.3%	Operating profit			32,782.44	
	Other income (juke box)			11,667.96	
7.5%	Net income			<u>279.55</u>	
				<u>11,947.51</u>	

Establishment (X)
Balance Sheet as of January 1, 1956

ASSETS

Current assets:			
Cash on hand and bank		9,253.29	
Inventory January 1, 1956		<u>2,157.45</u>	
Total current assets			11,410.74
Fixed assets:			
Fixtures and equipment	50,000.00		
Less estimated reserve for depreciation	<u>17,250.00</u>	32,750.00	
Supplies		<u>315.00</u>	
Total fixed assets			33,065.00
Goodwill			<u>1.00</u>
Total assets			<u>44,476.74</u>
LIABILITIES AND NET WORTH			
Liabilities			
Notes payable		<u>12,000.00</u>	
Total liabilities			12,000.00
Net worth			<u>32,476.74</u>
Total liabilities and net worth			<u>44,476.74</u>

FOR THE

PURPOSE

REVIEW

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73
MICHIGAN NATIONAL BANK
CUSTOMER'S STATEMENT

DATE June 14, 1956

FOR THE PURPOSE OF OBTAINING CREDIT IN THE AMOUNT OF \$ 3000.00 TO BE REPAYED IN 120 MONTHS, TO BE USED FOR THE

PURPOSE OF Obtaining the personal property (Restaurant Equipment) and
business located at

I HEREWITH SUBMIT THE FOLLOWING INFORMATION:

NAME Georgios P. Kostarides AGE 39 SOCIAL SECURITY NUMBER _____
SINGLE _____ W. X NUMBER OF
MARRIED X C. _____ DEPENDENTS 3

WIFE'S NAME Eustathia P. Kostarides SELECTIVE SERVICE DRAFT CLASSIFICATION 1C

ADDRESS 603 W. Ionia Street, Lansing HOW LONG 5 years PHONE NUMBER IV 2-0032

PREVIOUS ADDRESS Indianapolis, Indiana HOW LONG 19 years

NAME OF EMPLOYER Student BADGE NUMBER 76596 POSITION OCCUPIED Graduate

ADDRESS OF EMPLOYER M.S.U., East Lansing, Michigan NO. OF YEARS WITH EMPLOYER 5 years

SALARY OR WAGE PER MONTH \$ 125.00 OTHER INCOME PER MONTH \$ 25.00 SOURCE OF OTHER INCOME Interest

NAME OF PREVIOUS EMPLOYER Self-employment NO. OF YEARS WITH PREVIOUS EMPLOYER 14 years

BANK ACCOUNT CARRIED WITH Michigan National Bank CHECKING X SAVINGS X

THREE REFERENCES: Mr. Angel Piggooris 608 W. Ionia Street
Name Address

Dr. Earl S. Thompson M.S.U.
Name Address

Dr. Geo. Bonyousos M.S.U.
Name Address

ADDRESS OF PROPERTY OWNED _____ PURCHASE PRICE \$ _____ BALANCE OWING \$ _____ MONTHLY PAYMENT \$ _____

NAME OF MORTGAGE HOLDER OR LANDLORD Mr. Angel Priggooris IF RENTING MONTHLY RENTAL \$ Gratis

NAME AND ADDRESS OF NEAREST LIVING RELATIVE NOT LIVING WITH YOU A. P. Kostarides, Indpls. Ind. RELATIONSHIP Brother

LIST ALL LOANS OR DEBTS NOW OWING

NAME OF BANK, COMPANY OR INDIVIDUAL	ADDRESS	ORIGINAL AMOUNT	BALANCE UNPAID	AMOUNT DUE EACH MONTH
	N O N E			

I HEREBY CERTIFY THAT ALL STATEMENTS MADE BY ME ON THIS APPLICATION ARE TRUE AND COMPLETE.

SIGNATURE OF APPLICANT _____

see supplement

I prefer to have payments fall due on the _____ of each month.

Name

Address

Business

Phone

E-mail

Fax

Web

Other

City

State

Country

Zip

Day

Evening

Night

Mobile

Fax

E-mail

Web

Other

Notes

Comments

Remarks

Signature

Date

Initials

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INDIVIDUAL

74

MICHIGAN NATIONAL BANK

NAME Georgios P. KostaridesADDRESS 608 West Ionia Street, Lansing 15, MichiganBUSINESS Student DATE OF STATEMENT June 14, 1956

For the purpose of procuring credit from time to time, I furnish said Bank the following as a true and complete statement of my financial condition on date stated herein, and agree to notify said Bank immediately in writing of any materially unfavorable change in my financial condition. In the absence of such notice or a new and complete written statement, this is to be considered as a continuing statement, and that my financial condition has not fallen below the status herein set forth.

Fill all Blanks, Writing "NO" or "NONE" Where Necessary to Complete Information

ASSETS

LIABILITIES AND NET WORTH

Cash on Hand and in Banks	\$ 4 323 31
Marketable Securities (Schedule A)	5 300 --
Accounts Receivable	
Notes Receivable	
<u>East Ohio St. Rlty Co.,</u>	
<u>Inc., Indpls. Ind.</u>	5 000 --
<u>National Life (V.A.)</u>	1 011 --
<u>North Central Life</u>	737 84
Life Insurance — Cash Surrender Value	
TOTAL CURRENT ASSETS	16 371 75
Mortgages Receivable	
Real Estate Sold on Contract (Schedule B)	
Real Estate (Schedule C)	
Furniture, Fixtures, Machinery	
Automobiles	
TOTAL	

Notes Payable — Banks — Secured	\$		
Notes Payable — Banks — Unsecured			
Notes Payable — Equipment			
Notes Payable — Others			
Accounts Payable			
Taxes: Income and Property			
Loans on Life Insurance			
TOTAL CURRENT LIABILITIES			
Mortgages on Real Estate Sold on Contract			
Mortgages or Land Contracts on Real Estate			
TOTAL LIABILITIES			
Net Worth		16 371 75	
TOTAL			

Sources of Income — Salary \$1500.00 Securities \$300.00 Real Estate \$ ---- Other \$1080.00

Are all bad and doubtful assets excluded from this statement? No.Life Insurance — Amount \$ 12000.00 Beneficiary Wife and childrenNames of Insurance Companies National Life -- 10000.00, North Central Life -2000.00 and A.H.E.D.A. - 200.00Fire Insurance on Buildings ----- Total \$ -----Other Insurance -----Are you a partner in any firm or affiliated with any other business? NoAre there any suits pending or unsatisfied judgments against you? NoneAre your mortgage payments up to date? No MortgagesHave bankruptcy proceedings ever been commenced by or against you? NoAge 39 Single ----- Married X Number of Dependents 3



SCHEDULE A -- STOCKS AND BONDS

NAME OF ISSUING CORPORATION AND TYPE OF SECURITY	NO. OF SHARES (IF STOCK) FACE VALUE (IF BONDS)	REGISTERED IN NAME OF	MARKET VALUE	PORTION PLEGDED
Used Ford Motor Co., Common	5	Geo. P. Kostarides ; Eust. P. Kostarides not as joint tenants	300.00	None
Unlisted _____ East Ohio Street Rlty. Co., Inc.	50	Geo. P. Kostarides	5000.00	None

SCHEDULE B -- REAL ESTATE SOLD ON CONTRACT

DESCRIPTION AND LOCATION	OWNER OF RECORD	AMOUNT SOLD FOR	UNPAID BALANCE	MORTGAGES	MONTHLY CONTRACT PAYMENT
		\$	\$	\$	\$
	NONE				

SCHEDULE C -- REAL ESTATE[illegible]

**Have you any
Contingent Liabilities**

For notes receivable discounted? _____ \$
 For accommodation paper or endorsements for others? _____ \$
 For leases? _____ \$
 For notes exchanged with others? _____ \$
 For actual or threatened litigation? **N O N E** \$
 As guarantor or bondsman? _____ \$
 Other than above specified? _____ \$

I, the undersigned, hereby certify and declare that the above statement and representations constitute a true and complete account of my financial condition as of 14 June, 1956
(DATE)

Date Signed 14 June 1956

Witness _____ Name _____

FOR THE PUBLIC

PURPOSE OF

APPROVED BY

DATE 9

PERSON NAME

ADDRESS

PHONE NO.
ADDRESS

NAME OF FIRM

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76
MICHIGAN NATIONAL BANK
CUSTOMER'S STATEMENT

DATE June 14, 1956

FOR THE PURPOSE OF OBTAINING CREDIT IN THE AMOUNT OF \$ 30000.00 TO BE REPAYED IN 120 MONTHS, TO BE USED FOR THE

PURPOSE OF Obtaining the personal property (Restaurant Equipment) and

Business located at

I HEREWITH SUBMIT THE FOLLOWING INFORMATION:

NAME Stephen Andreadis AGE 40 SOCIAL SECURITY NUMBER _____
SINGLE _____ W. X NUMBER OF
MARRIED _____ C. _____ DEPENDENTS 3

WIFE'S NAME Sally Andreadis SELECTIVE SERVICE DRAFT CLASSIFICATION 1C

ADDRESS 1707 W. Ottawa HOW LONG 2 mos. PHONE NUMBER IV 5-1649

PREVIOUS ADDRESS 1801 W. Ottawa HOW LONG 6 years

NAME OF EMPLOYER Self employed BADGE NUMBER -- POSITION OCCUPIED _____

ADDRESS OF EMPLOYER 1002 S. Pine Street, Lansing NO. OF YEARS WITH EMPLOYER _____

SALARY OR WAGE PER MONTH \$ 620.00 OTHER INCOME PER MONTH \$ 176.00 SOURCE OF OTHER INCOME Real Estate

NAME OF PREVIOUS EMPLOYER None NO. OF YEARS WITH PREVIOUS EMPLOYER _____

BANK ACCOUNT CARRIED WITH American State Bank CHECKING X SAVINGS X

THREE BUSINESS OR TRADE REFERENCES 1. Arctic Ice Cream Co. Lansing
Name Address

2. Lansing Candy and Cigar Co. "
Name Address

3. Agar Packing and Provisions Co. "
Name Address

ADDRESS OF PROPERTY OWNED 1707 W. Ottawa PURCHASE PRICE \$ _____ BALANCE OWING \$ _____ MONTHLY PAYMENT \$ _____

NAME OF MORTGAGE HOLDER OR LANDLORD American State Bank IF RENTING MONTHLY RENTAL \$ _____

NAME AND ADDRESS OF NEAREST LIVING RELATIVE NOT LIVING WITH YOU Alex Andreadis, Peabody, Mass. RELATIONSHIP Brother

LIST ALL LOANS OR DEBTS NOW OWING

NAME OF BANK, COMPANY OR INDIVIDUAL	ADDRESS	ORIGINAL AMOUNT	BALANCE UNPAID	AMOUNT DUE EACH MONTH
<u>Prudential Life Ins. (mortgage)</u>	<u>Lansing</u>	<u>12500.--</u>	<u>7200.--</u>	
<u>Nich. Nat. Bank (note)</u>	<u>"</u>	<u>2000.--</u>	<u>595.--</u>	<u>Paid</u>
<u>Amer. State Bank (note)</u>	<u>"</u>	<u>3000.--</u>	<u>490.--</u>	<u>Paid</u>
<u>Union Bldg. & Loan</u>	<u>"</u>	<u>2600.--</u>	<u>2600.--</u>	

I HEREBY CERTIFY THAT ALL STATEMENTS MADE BY ME ON THIS APPLICATION ARE TRUE AND COMPLETE.

SIGNATURE OF APPLICANT _____

I prefer to have payments fall due on the see supplement of each month.

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INDIVIDUAL

77

MICHIGAN NATIONAL BANK

NAME Stepehn G. AndreadisADDRESS 1002 S. Pine Street, Lansing, MichiganBUSINESS Sal's Coffee ShopDATE OF STATEMENT June 14, 1956

For the purpose of procuring credit from time to time, I furnish said Bank the following as a true and complete statement of my financial condition on date stated herein, and agree to notify said Bank immediately in writing of any materially unfavorable change in my financial condition. In the absence of such notice or a new and complete written statement, this is to be considered as a continuing statement, and that my financial condition has not fallen below the status herein set forth.

Fill all Blanks, Writing "NO" or "NONE" Where Necessary to Complete Information

ASSETS

LIABILITIES AND NET WORTH

Cash on Hand and in Banks	\$	8	500	00
Marketable Securities (Schedule A)				
Accounts Receivable				
Notes Receivable				
<u>Inventory</u>			500	00
<u>Insurance Cash Surrender Value</u>			783	00
Life Insurance — Cash Surrender Value				
TOTAL CURRENT ASSETS				
Mortgages Receivable <u>Land Contract</u>		8	850	00
Real Estate Sold on Contract (Schedule B)				
Real Estate (Schedule C)		17	000	00
Furniture, Fixtures, Machinery		11	450	00
Automobiles <u>1954 Packard Pana.</u>		3	850	00
<u>House Furniture</u>		4	000	00
TOTAL		54	933	00

Notes Payable — Banks — Secured	\$			
Notes Payable — Banks — Unsecured				
Notes Payable — Equipment				
Notes Payable — Others				
Accounts Payable				
Taxes: Income and Property				
Loans on Life Insurance				
TOTAL CURRENT LIABILITIES				
Mortgages on Real Estate Sold on Contract		2	600	00
Mortgages or Land Contracts on Real Estate		7	200	00
		9	800	00
TOTAL LIABILITIES				
Net Worth		45	133	00
TOTAL		54	933	00

Sources of Income — Salary \$ 7449.99 Securities \$ --- Real Estate \$ 1056.00 Other \$ 10.6671

Are all bad and doubtful assets excluded from this statement? No

Life Insurance — Amount \$ 14700 Beneficiary Wife

Names of Insurance Companies Metropolitan, Aetna, New York Life, Nat. Service,

Order of Ahepa

Fire Insurance on Buildings -- Total \$ 20000.--

Other Insurance Fire 12500.00, Liability 50000.00

Are you a partner in any firm or affiliated with any other business? No

Are there any suits pending or unsatisfied judgments against you? No

Are your mortgage payments up to date? Yes

Have bankruptcy proceedings ever been commenced by or against you? No

Age 39 Single --- Married X Number of Dependents 3



SCHEDULE A -- STOCKS AND BONDS[illegible]**SCHEDULE B -- REAL ESTATE SOLD ON CONTRACT**[illegible]**SCHEDULE C -- REAL ESTATE**[illegible]

Have you any Contingent Liabilities

For notes receivable discounted? _____ \$
 For accommodation paper or endorsements for others? _____ \$
 For leases? _____ \$
 For notes exchanged with others? _____ \$
 For actual or threatened litigation? _____ **N O T E** \$
 As guarantor or bondsman? _____ \$
 Other than above specified? _____ \$

I, the undersigned, hereby certify and declare that the above statement and representations constitute a true and complete account of my financial condition as of June 14, 1956

(DATE)

Date Signed June 14, 1956

Witness _____ Name _____

MICHIGAN NATIONAL BANK

NAME Stephen C. AndreadisADDRESS 1002 South Pine Street, Lansing, MichiganBUSINESS Sal's Coffee ShopDATE OF STATEMENT January 12, 1956

For the purpose of procuring credit from time to time, the undersigned hereby furnish said Bank the following as a true and complete statement of the financial condition of such business on date stated herein, and agree to notify said Bank immediately in writing of any materially unfavorable change in such financial condition. In the absence of such notice or a new and complete written statement, this is to be considered as a continuing statement and that such financial condition has not fallen below the status herein set forth.

Fill all Blanks, Writing "NO" or "NONE" Where Necessary to Complete Information

ASSETS		LIABILITIES AND CAPITAL	
Cash on Hand and in Banks	\$ 8 500 00	Notes Payable -- Banks	\$
Marketable Securities (Schedule A)		Notes Payable -- Merchandise	
Accounts and Notes Receivable		Notes Payable -- Others	
Accounts -- Current	\$	Accounts Payable (not due)	
Accounts -- Past Due	\$	Accounts Payable (past due)	
Notes	\$	Dividends Payable	
Total	\$	Reserve for Federal Taxes	
Less Reserve	\$	Reserve for Other Taxes	
Inventories			
Raw Material	\$		
Work in Process	\$ 500.00		
Finished Stock	\$		
	9 000 00		
TOTAL CURRENT ASSETS		TOTAL CURRENT LIABILITIES	
Land and Buildings		Bonded Debt (due)	
Land	\$	Mortgages Payable	
Buildings	\$	Long Term Notes	
Total	\$		
Less Reserve	\$		
Machinery & Equipment	\$		
Less Reserve <u>10% annually</u>	11 450 00		
Receivables--Officers & Employees (Schedule C)			
Other Securities (Schedule A)			
Due from Subsidiaries & Affiliates (Schedule D)			
TOTAL	20 450 00	TOTAL LIABILITIES	
		Capital Stock -- Preferred	
		Capital Stock -- Common	
		Surplus and Undivided Profits	
		Net Worth (Proprietorship or Partnership)	20 450 00
		TOTAL	20 450 00

Are your books audited? yes By whom? Amer. Bus. Serv. Date of last audit? Jan. 4, 1956
 Were above inventories actual? yes or estimated? -- By whom? Auditor
 Date of Inventory? December 31, 1955
 What rate of depreciation do you charge against buildings? None, machinery and equipment? 10% annually
 Are any of your assets pledged as security for loans, advances or other liabilities? No State details _____

INSURANCE CARRIED

Plant and Equipment Insurance	\$ 12000--	Life Insurance payable to <u>Wife</u>	\$ 14700--
Merchandise Insurance	\$ 500--	Credit Insurance	-----
Use and Occupancy Insurance	\$ -----	Liability Insurance	<u>Wife</u> \$ 50000--

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PROFIT AND LOSS STATEMENT

From Jan. 1, 1955 to Dec. 31, 1955
 Net Sales for Period \$58727.60
 Less Cost of Goods Sold \$30501.26
 Gross Profit \$28225.84
 Expenses:
 Salaries -- Officers \$
 Salaries -- Employees \$
 Taxes (excl. Income Tax) \$
 Bad Debts \$
 Depreciation \$
 Total Expenses \$20775.85
 Net Profit or Loss from Operations \$7449.99
 Other Income \$2122.71
 Net Profit or Loss (Before Income Tax) \$
 Income Tax \$
 Net Profit or Loss \$9572.70

RECONCILIATION OF SURPLUS OR NET WORTH

From 19 to 19
 Surplus or Net Worth on 19 \$
 Additions:
 Net Profit for Period \$
\$
\$
\$
 Total Additions \$
 Deduction:
 Net Loss for Period \$
 Cash Dividend Paid \$
 Stock Dividend Paid \$
\$
\$
 Total Deductions \$
 Surplus or Net Worth on Statement \$

SCHEDULE A -- STOCKS AND BONDS

NAME OF ISSUING CORPORATION AND TYPE OF SECURITY	NO. OF SHARES (IF STOCK) FACE VALUE (IF BONDS)	REGISTERED IN NAME OF	MARKET VALUE	PORTION PLEGGED
Listed			\$	
Unlisted	NONE			

SCHEDULE B -- REAL ESTATE

DESCRIPTION AND LOCATION	OWNER OF RECORD	PURCHASE PRICE	PRESENT VALUE	OWING ON MORTGAGE OR CONTRACT	HOLDER OF MORTGAGE OR CONTRACT	MONTHLY RENT
		\$	\$	\$		\$

SCHEDULE C -- RECEIVABLES DUE FROM OFFICERS AND EMPLOYEES

NAME	POSITION	AMOUNT	ORIGINAL DATE	MATURITY	HOW SECURED
		\$			

SCHEDULE D -- DUE FROM SUBSIDIARIES AND AFFILIATES

NAME	ADDRESS	FOR ADVANCES	TERMS	FOR MERCHANDISE	TERMS
		\$		\$	

Have you any
Contingent Liabilities

For notes receivable discounted? \$
 For accommodation paper or endorsements for others? \$
 For leases? \$
 For notes exchanged with others? NONE \$
 For actual or threatened litigation? \$
 As guarantor or bondsman? \$
 Other than above specified? \$

The undersigned hereby certify and declare that the above statement and representations constitute a true and complete account of the financial condition of such business as of January 12, 1956

Date Signed January 12, 1956

Name Sal's Coffee Shop

Witness _____

By _____

(TITLE)

FINANCIAL STATEMENT
(Confidential)

AMERICAN BANK AND TRUST COMPANY

Lansing, Mich.

CORPORATION

PARTNERSHIP

☒ INDIVIDUAL

NAME Georgios P. Kostarides

608 West Ionia Street

D.B.A. or BUSINESS Student - M.S.U.

☐ Registered
☐ Not Registered

Address

Address

COUNTY OF Ingham

STATEMENT AS OF

19

(Please answer all questions. When no figures are inserted, write word "none" or "0")

ASSETS

LIABILITIES

Cash on Hand and in Banks

4 32331

Notes and Acceptances of Customers
Considered Good, Due Within 90 Days
Notes and Acceptances of Customers
Considered Good, Due Beyond 90 Days
Accounts Receivable of Customers
Considered Good, Not Past Due
Accounts Receivable of Customers
Considered Good, Past Due

NEITHER
PLEGDED
NOR SOLD

Made—Raw Material (How Valued)

Made—In Process (How Valued)

Made—Finished (How Valued)

U. S. Government Securities

Other Current Assets (Itemize)

Note Rec. East Ohio Str. 5 000--

Insurance Schedule 1 74844

Securities Schedule 5 300--

TOTAL CURRENT ASSETS

16 37175

Notes and Accounts of Partners, Officers, and Others

Notes and Accounts of Allied or Subsidiary Concerns
Investments, Stocks and Bonds (Complete List Must Accompany
This Statement)

Land, Net Book Value (Assessed for \$)

Buildings, Net Book Value (Assessed for \$)

Machinery and Tools, Net Book Value

Furniture and Equipment, Net Book Value

Patents, Patterns, and Goodwill

Prepaid Expense

Other Assets (Itemize)

TOTAL ASSETS

16 37175

Notes and Acceptances Payable for Made. (Not Due)

Notes and Acceptances Payable for Made. (Past Due)

Notes Due to Banks, Secured \$ Unsecured \$

Notes Due to Others or Officers

Accounts Payable (Not Past Due)

Accounts Payable (Past Due)

Accounts Payable to
Partners, Officers, or Employees

Federal Income Tax Due \$ Past Due \$

Accrued Interest, Other Taxes Due, Dividends Declared

Mortgages and Other Indebtedness Due
Within 12 Months at \$ per mo.

Other Current Liabilities (Itemize)

TOTAL CURRENT LIABILITIES

Mortgages on Real Estate (Other Than Above)
Chattel Mortgages and Leases on Machinery and
Equipment (Other Than Above)

Other Liabilities, Not Current (Describe)

TOTAL LIABILITIES

NET WORTH (If Individual or Partnership)

This Section To Be Used Only If a Corporation,
To Show Distribution of Net Worth.

Capital Stock, Common Shares \$ Par

Capital Stock, Preferred Shares \$ Par

Surplus

Undivided Profits

TOTAL (LIABILITIES AND NET WORTH)

16371 75

SUMMARY STATEMENT OF PROFIT AND LOSS FOR YEAR ENDED

Sales (Net)	Gross Profit on Sales	Net Profit on Sales
Deduct: Cost of Goods Sold	Deduct: Expenses	Add: Other Income
Gross Profit on Sales	Net Profit on Sales	Net Income

AMOUNT OF ANNUAL SALES FOR CASH \$

AMOUNT OF ANNUAL SALES ON CREDIT \$

CONTINGENT LIABILITIES:- Notes, Acceptances and Accounts Discounted, Sold, Pledged, or Assigned

Guarantor for Others on Notes, Bonds, Accounts or Contracts

Any Other Contingent Liability (Specify)

TOTAL CONTINGENT LIABILITIES

N O N E

INSURANCE:- Fire Insurance on Merchandise \$

On Machinery and Equipment \$

on Buildings \$

General Liability Insurance \$

Full Names of All Officers, Directors, Partners or Proprietor. If Partners, State If General, Special or Limited

% of
Ownership

Life Insurance Carried for
the Benefit of the Business

A			
B			
C			
D			
E			
F			

DETAILS OF LAND AND BUILDINGS

DESCRIPTION AND LOCATION	TITLE IN NAME OF	CURRENT VALUE	ASSESSED VALUE	ENCUMBERED	
				AMOUNT	TO WHOM
		\$	\$	\$	

SOURCE OF INCOME		PERSONAL INFORMATION		DELINQUENT TAXES	
Salary	\$1050--	Business or Occupation	Works for	Age	Salary Tax yr. \$
Bonus and/or Comm. \$	700--	Student	M. S. U.	39	Income Tax yr. \$
Dividends	000--	Partner or officer in any other venture			Property Tax yr. \$
Real Estate Income \$	300--	East Ohio Str. Rlty. Co., Inc.			Other Tax yr. \$
Other Income	VA: 1080--	Wife's Name	Children		
Total Income	\$3130--	If Married Eustathia	2		
		Single	Dependents	3	

SCHEDULE OF LIFE INSURANCE CARRIED

Amount	Name of Company	Beneficiary	Cash Surrender Value	Loans
5000--	Nat. Life (V.A.)	Wife	1011--	
5000--	" " "	"	--	
2000--	North Central Life	"	73744	
200--	A.A.E.P.A.	"	--	

SCHEDULE OF SECURITIES OWNED

FACE VALUE (BONDS) NUMBER OF SHARES (STOCKS)	DESCRIPTION OF SECURITIES OWNED	MARKET VALUE	INCOME RECEIVED LAST YEAR	TO WHOM PLEDGED
50	East Ohio Street Rlty. Co., Inc.	\$5000	\$ 300--	No one
5	Ford Motor Co., Common	300		

Remarks:

Present Bank(s) Michigan National Bank of Lansing Bank(s)

GENERAL INFORMATION

Are Accounts of Company Regularly Audited by Independent Auditor? --- Name of Auditor --- May We Contact? ---

Date of Last Audit: ----- When Does Your Fiscal Year End? -----

How Often Is Inventory Taken? ----- When Last Taken? -----

What Time of Year Is Your Inventory the Heaviest? ----- Lowest? -----

What Are Your Usual Sale Terms? ----- Purchase Terms? -----

Are All Bad and Doubtful Assets Excluded from This Statement? No

Are Any of Your Assets Pledged to Secure Liabilities? No Explain -----

Are Any Suits Pending Against You? No To Your Knowledge Are Any Suits Contemplated Against You? No

The undersigned, for the purpose of procuring and maintaining credit with your bank on negotiable paper or otherwise, hereby furnish and warrant the following facts to you, which fully and truly represent the financial condition of the undersigned on 14 day of June, 1956 (should the day be left blank, the date of the statement will be taken for the day), which facts and representations you can consider as continuing and remaining full, true and accurate unless notice of change is given you, and agreement is hereby made, to notify you promptly of any change in financial condition that materially reduces the pecuniary responsibility of the undersigned.

In consideration of the granting of credit the undersigned agree that in the event of failure, insolvency or committing an act of bankruptcy; if any of the representations below are untrue; if the undersigned fail to notify you in writing of any change as before agreed; then, or in either case, all obligations of the undersigned held by you shall immediately become due and payable without demand or notice and the same may be charged against the balance of any account to the credit of the undersigned with you. A continuing lien is hereby given on any balance on deposit to the credit of the undersigned; also choses in action, from time to time existing, to secure all obligations of the undersigned held by you.

It is hereby expressly agreed and understood that in the event we make application for further credit or for the renewal or extension of any existing indebtedness, this statement shall be as valid and binding as if delivered as a true and correct statement of our financial condition on the date such further credit, extension or renewal is requested and granted.

DATE SIGNED

SIGNED

Corporation, Firm or Trade Name

14 June, 1956

WITNESS

ADDRESS

BY

TITLE

NAME Stephen C. Andreadis

1002 S. Pine Street, Lansing, Mich

A.A. or BUSINESS Sal's Coffee Shop

☐ Registered
☐ Not Registered

Abstract

STATEMENT AS OF:

-19-

(Please answer all questions. When no figures are inserted, write word "none" or "0")

Address
COUNTY OF Ingham

ASSETS		LIABILITIES	
Cash on Hand and in Banks	8 500 00	Notes and Acceptances Payable for Mdee. (Not Due)	
Notes and Acceptances of Customers Considered Good, Due Within 90 Days		Notes and Acceptances Payable for Mdee. (Past Due)	
Notes and Acceptances of Customers Considered Good, Due Beyond 90 Days		Notes Due to Banks, Secured \$ _____ Unsecured \$ _____	
Accounts Receivable of Customers Considered Good, Not Past Due		Notes Due to Others or Officers	
Accounts Receivable of Customers Considered Good, Past Due		Accounts Payable (Not Past Due)	
Mdee.—Raw Material (Now Valued _____)		Accounts Payable (Past Due)	
Mdee.—In Process (Now Valued <u>Wholesale</u> _____)	500 00	Accounts Payable to Partners, Officers, or Employees	
Mdee.—Finished (Now Valued _____)		Federal Income Tax Due \$ _____ Past Due \$ _____	
U. S. Government Securities		Accrued Interest, Other Taxes Due, Dividends Declared	
Other Current Assets (Itemize) _____		Mortgages and Other Indebtedness Due Within 12 Months @ \$ _____ per mo.	
<u>Land Contract</u>		<u>1801 W. Ottawa St.</u>	7 200 00
<u>1402 High St.</u>	8 850 00	Other Current Liabilities (Itemize)	
		<u>Union Bldg. & Loan</u>	2 600 00
TOTAL CURRENT ASSETS	17 850 00	TOTAL CURRENT LIABILITIES	9 800 00
Notes and Accounts of Partners, Officers, and Others		Mortgages on Real Estate (Other Than Above)	
Notes and Accounts of Allied or Subsidiary Concerns		Chattel Mortgages and Leases on Machinery and Equipment (Other Than Above)	
Investments, Stocks and Bonds (Complete List Must Accompany This Statement)		Other Liabilities, Not Current (Describe)	
		TOTAL LIABILITIES	9 800 00
Land, Not Book Value (Assessed for \$ _____)	17 000 00		
Buildings, Not Book Value (Assessed for \$ _____)			
Machinery and Tools, Not Book Value			
Furniture and Equipment, Not Book Value	11 450 00		
Patents, Patterns, and Goodwill			
Prepaid Expense			
Other Assets (Itemize)		NET WORTH (If Individual or Partnership)	
<u>1954 Packard Clipper</u>	3 850 00	This Section To Be Used Only If a Corporation, To Show Distribution of Net Worth.	
<u>House Furniture</u>	4 000 00	Capital Stock, Common _____ Shares \$ _____ Per	
		Capital Stock, Preferred _____ Shares \$ _____ Per	
		Surplus	
		Undivided Profits	
TOTAL ASSETS	54 150 00	TOTAL (LIABILITIES AND NET WORTH)	54 150 00

SUMMARY STATEMENT OF PROFIT AND LOSS FOR YEAR ENDED

Sales (Net)	58727	60	Gross Profit on Sales	28225	84	Net Profit on Sales	7449	99
Deduct: Cost of Goods Sold	30501	76	Deduct: Expenses	20775	85	Add: Other Income	2122	71
Gross Profit on Sales	28225	84	Net Profit on Sales	7449	99	Net Income	9572	70

AMOUNT OF ANNUAL SALES FOR CASH \$ 58727.60

AMOUNT OF ANNUAL SALES ON CREDIT \$ None

CONTINGENT LIABILITIES:- Notes, Acceptances and Accounts Discounted, Sold, Pledged, or Assigned None

Guarantor for Others on Notes, Bonds, Accounts or Contracts.

Any Other Contingent Liability (Specify)

TOTAL CONTINGENT LIABILITIES

INSURANCE:- Fire Insurance on Merchandise \$ 500.00

On Machinery and Equipment \$ 12000.00

on Buildings \$ 15000.00

General Liability Insurance \$ 50000.00 Max.

Full Names of All Officers, Directors, Partners or Proprietors. If Partners, State If General, Special or Limited	% of Ownership	Life Insurance Carried for the Benefit of the Business
A		
B		
C		
D		
E		
F		

DESCRIPTION AND LOCATION	TITLE IN NAME OF	CURRENT VALUE	ASSESSED VALUE	ENCUMBERED	
				AMOUNT	TO WHOM
5 Rm. Bungalow 1807 W. Ottawa	Joint	\$ 17000.00	\$ 6400.00	\$ 7200	Prudential Insur.

SOURCE OF INCOME		PERSONAL INFORMATION		DELINQUENT TAXES	
Salary	\$ 7449.99	Business or Occupation	Works for	Age	Sales Tax yr. \$
Divs and/or Comm. \$		Restaurant	Self	39	Income Tax yr. \$
Dividends . . . \$		Partner or officer in any other venture			Property Tax yr. \$
Real Estate Income	\$ 1056.00	Wife's Name	Children		Other Tax yr. \$
Other Income . .	\$ 1066.71	If Married Sally	1		
Total Income . .	\$ 9572.70	Single	Dependents 3		

SCHEDULE OF LIFE INSURANCE CARRIED				
Amount	Name of Company	Beneficiary	Cash Surrender Value	Loans
1000.00	Metropolitan	Wife	206.00	
4500.00	Aetna	"	259.00	
4000.00	New York Life	"	318.00	
200.00	Ahepa	"	0.00	
5000.00	Nat. Service		0.00	

FACE VALUE (BONDS) NUMBER OF SHARES (STOCKS)	DESCRIPTION OF SECURITIES OWNED	MARKET VALUE	INCOME RECEIVED LAST YEAR	TO WHOM PLEDGED
		\$	\$	

Remarks: _____

Present Bank(s) American State Prior Bank(s) _____

GENERAL INFORMATION

Are Accounts of Company Regularly Audited by Independent Auditor? _____ Name of Auditor _____ May We Contact? _____

Date of Last Audit: _____ When Does Your Fiscal Year End? _____

How Often Is Inventory Taken? _____ When Last Taken? _____

What Time of Year Is Your Inventory the Heaviest? _____ Lowest? _____

What Are Your Usual Sale Terms? _____ Purchase Terms? _____

Are All Bad and Doubtful Assets Excluded from This Statement? _____

Are Any of Your Assets Pledged to Secure Liabilities? _____ Explain _____

Are Any Suits Pending Against You? _____ To Your Knowledge Are Any Suits Contemplated Against You? _____

The undersigned, for the purpose of procuring and maintaining credit with your bank on negotiable paper or otherwise, hereby furnish and warrant the following facts to you, which fully and truly represent the financial condition of the undersigned on _____ day of _____, 19____ (should the day be left blank, the date of the statement will be taken for the day), which facts and representations you can consider as continuing and remaining full, true and accurate unless notice of change is given you, and agreement is hereby made, to notify you promptly of any change in financial condition that materially reduces the pecuniary responsibility of the undersigned.

In consideration of the granting of credit the undersigned agree that in the event of failure, insolvency or committing an act of bankruptcy; if any of the representations now are untrue; if the undersigned fail to notify you in writing of any change as before agreed; then, or in either case, all obligations of the undersigned held by you shall immediately become due and payable without demand or notice and the same may be charged against the balance of any account to the credit of the undersigned with you. A continuing lien is hereby given on any balance on deposit to the credit of the undersigned; also choses in action, from time to time existing, to secure all obligations of the undersigned held by you.

It is hereby expressly agreed and understood that in the event we make application for further credit or for the renewal or extension of any existing indebtedness, this statement shall be as valid and binding as if delivered as a true and correct statement of our financial condition on the date such further credit, extension or renewal is requested and granted.

DATE SIGNED _____ SIGNED Sal's Coffee Shop Corporation, Firm or Trade Name

WITNESS _____ BY _____ TITLE _____

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CONTENTS

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Call us Now

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James G. Thompson

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FINANCIAL STATEMENT
(Confidential)

To ⁸⁵
AMERICAN BANK AND TRUST COMPANY
Lansing, Mich.

BUSINESS

CORPORATION

PARTNERSHIP

☒ INDIVIDUAL

NAME Stephen C. Andreadis

B.S.A. or BUSINESS Sal's Coffee Shop

1002 S. Pine Street, Lansing

☐ Registered

☐ Not Registered

Address

Address

COUNTY OF Ingham

STATEMENT AS OF

19 (Please answer all questions. When no figures are inserted, write word "none" or "0")

ASSETS

Cash on Hand and in Banks

8 500 00

Notes and Acceptances of Customers
Considered Good, Due Within 90 Days

Notes and Acceptances of Customers
Considered Good, Due Beyond 90 Days

Accounts Receivable of Customers
Considered Good, Not Past Due

Accounts Receivable of Customers
Considered Good, Past Due

NEITHER
PLEGDED
NOR SOLD

Mdse.—Raw Material (How Valued _____)

Mdse.—In Process (How Valued Wholesale)

500 00

Mdse.—Finished (How Valued _____)

U. S. Government Securities

Other Current Assets (Itemize)

TOTAL CURRENT ASSETS

9 000 00

Notes and Accounts of Partners, Officers, and Others

Notes and Accounts of Allied or Subsidiary Concerns
Investments, Stocks and Bonds (Complete List Must Accompany
This Statement)

Land, Net Book Value (Assessed for \$ _____)

Buildings, Net Book Value (Assessed for \$ _____)

Machinery and Tools, Net Book Value

11 450 00

Furniture and Equipment, Net Book Value

Patents, Patterns, and Goodwill

Prepaid Expense

Other Assets (Itemize)

TOTAL ASSETS

20 450 00

LIABILITIES

Notes and Acceptances Payable for Mdse. (Net Due)

Notes and Acceptances Payable for Mdse. (Past Due)

Notes Due to Banks, Secured \$ _____ Unsecured \$ _____

Notes Due to Others or Officers

Accounts Payable (Not Past Due)

Accounts Payable (Past Due)

Accounts Payable to
Partners, Officers, or Employees

Federal Income Tax Due \$ _____ Past Due \$ _____

Accrued Interest, Other Taxes Due, Dividends Declared

Mortgages and Other Indebtedness Due
Within 12 Months at \$ _____ per mo.

Other Current Liabilities (Itemize)

TOTAL CURRENT LIABILITIES

Mortgages on Real Estate (Other Than Above)

Chattel Mortgages and Leases on Machinery and
Equipment (Other Than Above)

Other Liabilities, Not Current (Describe)

TOTAL LIABILITIES

NET WORTH (If Individual or Partnership)

This Section To Be Used Only If a Corporation,
To Show Distribution of Net Worth.

20 450 00

Capital Stock, Common _____ Shares \$ _____ Per

Capital Stock, Preferred _____ Shares \$ _____ Per

Surplus

Undivided Profits

TOTAL (LIABILITIES AND NET WORTH)

20 450 00

SUMMARY STATEMENT OF PROFIT AND LOSS FOR YEAR ENDED

Sales (Net)	58727 60	Gross Profit on Sales	28225 84	Net Profit on Sales	7449 99
Deduct: Cost of Goods Sold	30501 76	Deduct: Expenses	20775 85	Add: Other Income	2122 71
Gross Profit on Sales	28225 84	Net Profit on Sales	7449 99	Net Income	9572 70

AMOUNT OF ANNUAL SALES FOR CASH \$ 58727.60

AMOUNT OF ANNUAL SALES ON CREDIT \$ _____

CONTINGENT LIABILITIES:— Notes, Acceptances and Accounts Discounted, Sold, Pledged, or Assigned

Guarantee for Others on Notes, Bonds, Accounts or Contracts

Any Other Contingent Liability (Specify)

N O N E

TOTAL CONTINGENT LIABILITIES

500.00

INSURANCE:— Fire Insurance on Merchandise \$

On Machinery and Equipment \$ 12000.00

on Buildings \$

General Liability Insurance \$ 50000.00

Full Names of All Officers, Directors, Partners or Proprietor. If Partners, State If General, Special or Limited

% of
Ownership

Life Insurance Carried for
the Benefit of the Business

DETAILS OF LAND AND BUILDINGS

DESCRIPTION AND LOCATION	TITLE IN NAME OF	CURRENT VALUE	ASSESSED VALUE	ENCUMBERED	
				AMOUNT	TO WHOM
		\$	\$	\$	

SOURCE OF INCOME		PERSONAL INFORMATION		DELINQUENT TAXES	
Salary	\$ 7449.99	Business or Occupation	Works for	Age	Sales Tax yr. \$
Bonds and/or Comm.	\$	Restaurant	Self	39	Income Tax yr. \$
Dividends	\$	Partner or officer in any other venture			Property Tax yr. \$
Real Estate Income	\$ 1056.00				Other Tax yr. \$
Other Income	\$ 1066.71	Wife's Name if Married	Children		
Total Income	\$ 9572.71	Sally	1		
		Single	Dependents		
			3		

SCHEDULE OF LIFE INSURANCE CARRIED				
Amount	Name of Company	Beneficiary	Cash Surrender Value	Loans
1000.00	Metropolitan	Wife	206.00	
4500.00	Aetna	"	259.00	
4000.00	New York Life	"	318.00	
5000.00	Nat. Service	"	000.00	
200.00	Ahepa	"	000.00	

FACE VALUE (BONDS) NUMBER OF SHARES (STOCKS)	DESCRIPTION OF SECURITIES OWNED	MARKET VALUE	INCOME RECEIVED LAST YEAR	TO WHOM PLEDGED
		\$	\$	

Remarks:

Present Bank(s): American State

Prior Bank(s):

GENERAL INFORMATION				
Are Accounts of Company Regularly Audited by Independent Auditor?	yes	Name of Auditor	Amer. Business	May We Contact? yes
Date of Last Audit:	Jan. 4, 1956	When Does Your Fiscal Year End?	December	
How Often Is Inventory Taken?	Once a year	When Last Taken?	December	
What Time of Year Is Your Inventory the Heaviest?	winter	Lowest?	summer	
What Are Your Usual Sale Terms?	cash	Purchase Terms?	cash and credit	
Are All Bad and Doubtful Assets Excluded from This Statement?	No			
Are Any of Your Assets Pledged to Secure Liabilities?	No	Explain	----	
Are Any Suits Pending Against You?	No	To Your Knowledge Are Any Suits Contemplated Against You?	No	

The undersigned, for the purpose of procuring and maintaining credit with your bank on negotiable paper or otherwise, hereby furnish and warrant the following facts to you, which fully and truly represent the financial condition of the undersigned on _____ day of _____, 19_____. (Should the day be left blank, the date of the statement will be taken for the day), which facts and representations you can consider as continuing and remaining full, true and accurate unless notice of change is given you, and agreement is hereby made, to notify you promptly of any change in financial condition that materially reduces the pecuniary responsibility of the undersigned.

In consideration of the granting of credit the undersigned agree that in the event of failure, insolvency or committing an act of bankruptcy; if any of the representations below are untrue, if the undersigned fail to notify you in writing of any change as before agreed, then, or in either case, all obligations of the undersigned held by you shall immediately become due and payable without demand or notice and the same may be charged against the balance of any account to the credit of the undersigned with you. A continuing lien is hereby given on any balance on deposit to the credit of the undersigned; also choses in action, from time to time existing, to secure all obligations of the undersigned held by you.

It is hereby expressly agreed and understood that in the event we make application for further credit or for the renewal or extension of any existing indebtedness, this statement shall be as valid and binding as if delivered as a true and correct statement of our financial condition on the date such further credit, extension or renewal is requested and granted.

DATE SIGNED

SIGNED

Sal's Coffee Shop

Corporation, Firm or Trade Name

January 12, 1956

WITNESS

ADDRESS

BY

TITLE

TO

EAST LANSING STATE BANK
EAST LANSING, MICHIGAN

Name Georgios P. Kostarides 19

Business Student

Location Michigan State University

The undersigned, for the purpose of procuring and maintaining credit with your bank on negotiable paper or otherwise, hereby furnish and warrant the following facts to you, which fully and truly represent the financial condition of the undersigned on _____ day of _____, 19____.

_____ 19____, (should the day be left blank, the date of the statement will be taken for the day), which facts and representations you can consider as continuing and remaining full, true and accurate unless notice of change is given you, and agreement is hereby made, to notify you promptly of any change in financial condition that materially reduces the pecuniary responsibility of the undersigned.

In consideration of the granting of credit the undersigned agree that in the event of failure, insolvency or committing an act of bankruptcy; if any of the representations below are untrue, if the undersigned fail to notify you in writing of any change as before agreed, then, or in either case, all obligations of the undersigned held by you shall immediately become due and payable without demand or notice and the same may be charged against the balance of any account to the credit of the undersigned with you. A continuing lien is hereby given on any balance on deposit to the credit of the undersigned, also choses in action, from time to time existing, to secure all obligations of the undersigned held by you.

It is hereby expressly agreed and understood that in the event I make application for further credit or for the renewal or extension of any existing indebtedness, this statement shall be as valid and binding as if delivered as a true and correct statement of my financial condition on the date such further credit, extension or renewal is requested and granted.

FILL ALL BLANKS. WHERE NO ANSWER IS GIVEN, "NO" OR "NONE" WILL BE TAKEN FOR YOUR ANSWER.

ASSETS		LIABILITIES	
Cash on hand and in bank	4323 31	Notes owed by me—without security	
Accounts due me—Good		Notes owed by me— with security other than real estate	N
Unsecured loans due me—Good		Notes or mortgages owed by me— with real estate as security	O
Secured loans due me	5000 00	Notes owed by me— with Chattel Mortgage as security	
Mortgaged loans due me		Accounts owed by me	N
Stocks and Bonds	5300 00	Any other indebtedness—itemize	E
United States Securities			
Land			
Buildings			
Any other property or investments—itemize			
Nat. Life V.A. Ins.	1011 00		
North Central Life	737 44		
		TOTAL LIABILITIES	
		NET WORTH	16371 75
TOTAL	16371 75	TOTAL	

CONTINGENT LIABILITY OF ANY KIND

On Notes of others endorsed by me		
As Guarantor for accounts and notes of others		
On Notes exchanged with others	NONE	
As Bondsman or Surety for others		
For Leases		
Other than above specified		
	TOTAL	

LAND AND BUILDINGS:-

DETAILS RELATIVE TO ASSETS AND LIABILITIES

DESCRIPTION AND LOCATION	TITLE IN WHOSE NAME	ASSESSED VALUE	APPRAISED VALUE	MORTGAGES	INSURANCE	RENTALS RECEIVED LAST FISCAL YEAR
		\$	\$	\$	\$	\$
	NONE					

By whom appraised? _____ When? _____

Taxes paid to what date?

Is there any other person interested in your business either as special or limited partner? No

Are you a partner in any firm? No

Are there any judgments unsatisfied, or suits pending against you, and for what amount? No

Is your life insured? Yes Amount? 12000.00

Who is the beneficiary? Wife

Have you any leaseholds not mentioned in your assets? No

Give details -----

What in your opinion is the net worth of each endorser on your notes? -----

Are any of your assets, other than real estate, pledged or hypothecated in any way? No pledges or hypothecations

NOTES OWED BY ME:—

TO WHOM GIVEN	AMOUNT	DATE	WHEN DUE	INTEREST RATE	DESCRIPTION OF SECURITIES PLEDGED
	\$	NONE			

ACCOUNTS OWED BY ME:—

TO WHOM	AMOUNT	WHEN DUE	FOR WHAT
	\$	NONE	

OTHER PROPERTY

DESCRIPTION	LOCATION	VALUE
NONE		\$

I hereby solemnly declare and certify this to be a true and correct statement of my financial condition at the close of business

19

(Sign Here)

Date 14 June 19 56

EAST LANSING, MICHIGAN

June 14 1956

Location 1002 South Pine Street, Lansing, Michigan

June 1956, (should the day be left blank, the date of the statement will be taken for the day), which facts and representations you can consider as continuing and ~~remaining~~ full, true and accurate unless notice of change is given you, and agreement is hereby made, to notify you promptly of any change in financial condition that materially reduces the pecuniary responsibility of the undersigned.

In consideration of the granting of credit the undersigned agree that in the event of failure, insolvency or committing an act of bankruptcy, if any of the representations below are untrue, if the undersigned fail to notify you in writing of any change as before agreed, then, or in either case, all obligations of the undersigned held by you shall immediately become due and payable without demand or notice and the same may be charged against the balance of any account to the credit of the undersigned with you. A continuing lien is hereby given on any balance on deposit to the credit of the undersigned, also choses in action, from time to time existing, to secure all obligations of the undersigned held by you.

It is hereby expressly agreed and understood that in the event I make application for further credit or for the renewal or extension of any existing indebtedness, this statement shall be as valid and binding as if delivered as a true and correct statement of my financial condition on the date such further credit, extension or renewal is requested and granted.

FILL ALL BLANKS. WHERE NO ANSWER IS GIVEN, "NO" OR "NONE" WILL BE TAKEN FOR YOUR ANSWER.

CONTINGENT LIABILITY OF ANY KIND

N O N E

Other than above specified

TOTAL

DETAILS RELATIVE TO ASSETS AND LIABILITIES

When? 1953

December 1955

Is there any other person interested in your business either as special or limited partner? No

Are you a partner in any firm? No

Are there any judgments unsatisfied, or suits pending against you, and for what amount? No

Is your life insured? Yes Amount? 14700--

Who is the beneficiary? Wife

Have you any leaseholds not mentioned in your assets? No

Give details -----

What in your opinion is the net worth of each endorser on your notes? -----

Are any of your assets, other than real estate, pledged or hypothecated in any way? No

NOTES OWED BY ME:—

TO WHOM GIVEN	AMOUNT	DATE	WHEN DUE	INTEREST RATE	DESCRIPTION OF SECURITIES PLEDGED
	\$				

ACCOUNTS OWED BY ME:—

TO WHOM	AMOUNT	WHEN DUE	FOR WHAT
	\$		

OTHER PROPERTY

DESCRIPTION	LOCATION	VALUE
		\$

I hereby solemnly declare and certify this to be a true and correct statement of my financial condition at the close of business

June 14 19 56

(Sign Here)

Date June 14 19 56

EAST LANSING STATE BANK

EAST LANSING, MICHIGAN

Name Stephen G. Andreadis
 Business Sal's Coffee Shop
 Location 1002 South Pine Street, Lansing Date of Statement January 12, 1956

The undersigned, for the purpose of procuring and maintaining credit with your bank on negotiable paper or otherwise, hereby furnish and warrant the following facts to you, which fully and truly represent the financial condition of the undersigned on _____ day of _____, 19____ (should the day be left blank, the date of the statement will be taken for the day), which facts and representations you can consider as continuing and remaining full, true and accurate unless notice of change is given you, and agreement is hereby made, to notify you promptly of any change in financial condition that materially reduces the pecuniary responsibility of the undersigned.

In consideration of the granting of credit the undersigned agree that in the event of failure, insolvency or committing an act of bankruptcy, if any of the representations below are untrue, if the undersigned fail to notify you in writing of any change as before agreed; then, or in either case, all obligations of the undersigned held by you shall immediately become due and payable without demand or notice and the same may be charged against the balance of any account to the credit of the undersigned with you. A continuing lien is hereby given on any balance on deposit to the credit of the undersigned; also choses in action, from time to time existing, to secure all obligations of the undersigned held by you.

It is hereby expressly agreed and understood that in the event I make application for further credit or for the renewal or extension of any existing indebtedness, this statement shall be as valid and binding as if delivered as a true and correct statement of my financial condition on the date such further credit, extension or renewal is requested and granted.

Fill all Blanks, Writing "NO" or "NONE" Where Necessary to Complete Information

ASSETS		DOLLARS	CTS.	LIABILITIES AND NET WORTH		DOLLARS	CTS.
Cash on Hand and in Banks.....		8500	00	Notes Payable—Banks.....			
Notes Receivable (not due).....				Notes Payable—Merchandise.....			
Notes Receivable (past due).....				Notes Payable—Others.....			
Accounts Receivable (not due).....				Accounts Payable (not due).....			
Accounts Receivable (past due) less than 3 mos.....				Accounts Payable (past due).....			
Accounts Receivable (past due) more than 3 mos.....				Reserve for Federal Taxes.....			
Accounts Receivable (past due) more than 6 mos.....				Reserve for Other Taxes.....			
Merchandise.....		5000	00	Other Current Liabilities.....			
Marketable Securities (exhibit A).....							
TOTAL CURRENT ASSETS		900	00	Mortgage or Land Contract— Business Property.....			
Real Estate Used in Business.....							
Buildings (less depreciation)*.....		1145	00	Mtg. or Land Contract—Homestead.....			
Machinery and Fixtures (less depreciation)*.....				Mtg. on Real Estate in Own Name.....			
Homestead.....				Mtg. on Other Real Estate.....			
Real Estate (Own name).....				Mtg. on Real Estate Sold on Contract.....			
Real Estate Sold on Land Contract (ex B).....				Land Contract Payable.....			
Other Real Estate (exhibit C).....							
Real Estate Bought on Contract.....							
Investments (exhibit D).....							
Other Assets.....							
Deferred Charges.....							
TOTAL ASSETS		2045	00	TOTAL LIABILITIES			
				Deferred Profit.....			
				Net worth.....		2045	00
				GRAND TOTAL			

*What rate of depreciation do you charge against buildings....., machinery and fixtures 10% annually

INSURANCE CARRIED

Plant and Equipment Insurance.....	\$ 12000--	Life Insurance payable to (Name) <u>Wife</u>	\$ 14700--
Merchandise Insurance.....	\$ 500--	Credit Insurance.....	\$ -----
Use and Occupancy.....	\$ -----	Do you carry liability insurance?.....	\$ 50000--

On what date does your fiscal year close? December 31
 Are all bad and doubtful assets excluded from this statement? No

Give basis of statement, whether actual inventory, by whom taken, and date, or if estimated, by whom made and date.
American Business Service January, 1956

Are you connected in any way with other enterprises? No
 If so, please give particulars.....

Have Federal Income Tax payments been verified and audited by the Government? Yes

PROFIT AND LOSS STATEMENT

Period Beginning 1/1/55 Period Ending 12/31/55
 Net Sales for Period \$58727.60
 Less Cost of Goods Sold* \$30501.76
 Gross Profit \$28225.84

Deduct:

Administrative Exp., Salaries, etc. \$
 Fixed charges, including taxes \$
 Deduction for bad accounts \$
 Deduction for plant and equipment depreciation \$
 Other deductions \$
 Total deductions \$20775.85
 Net profits from operations \$ 8449.99
 Other income \$ 2122.71
 Net Profit or Loss \$ 9572.70

*If depreciation is included in cost of Goods Sold, please state amount so included \$

RECONCILIATION OF NET WORTH

Net Worth as of Date \$
 Adjustments* \$
 Adjusted Net Worth \$
 Net Profits \$
 Total \$
 Personal Withdrawals \$
 Net Worth as of this Statement \$

*If adjustments involve important transactions, please give details below:

EXHIBIT A and D—STOCKS AND BONDS

DESCRIPTION	NUMBER OF SHARES	COST VALUE	MARKET VALUE	AMOUNT PLEDGED
Listed.....				
	N O N E			
Unlisted.....				

EXHIBIT B—REAL ESTATE SOLD ON LAND CONTRACT

DESCRIPTION AND LOCATION	TITLE IN NAME OF	SOLD FOR	UNPAID BALANCE	MONTHLY INCOME	MORTGAGE	MORTGAGE HELD BY
1 Rm. Bungalow 402 High St., Lan.	Sally Andreadis	9850.00	9673.00	88.50	2600.00	Union Bldg. & Loan

EXHIBIT C—OTHER REAL ESTATE

DESCRIPTION AND LOCATION	COST VALUE	PRESENT VALUE	OWING ON MORTGAGE	OWING ON CONTRACT	HOLDER OF MORTG. OR CONTRACT	MONTHLY INCOME	TITLE
5 Rm. Bungalow 1801 W. Ottawa St.	2500.00	17000.00	7200.00	----	Prudential Insurance	----	Joint

All the following information and data shall be considered and taken as part of the foregoing statement.

For notes receivable discounted? \$
 For accommodation paper or endorsements for others? \$
 For leases? \$
 For notes exchanged with others? \$
 For litigation on or threatened? \$
 As guarantor or bondsman? \$
 Other than above specified? \$

Have you any
Contingent Liabilities

N O N E

I, the undersigned, hereby solemnly certify and declare that the above statement and representations constitute a true and accurate account of my financial condition as of January 12 1956.

Date signed June 14 1956

Name

Witness

BANK OF LANSING
INDIVIDUAL OR CORPORATION
FINANCIAL STATEMENT
(SHORT FORM)

FORM DESIGNED AND APPROVED BY
BANK MANAGEMENT COMMISSION
AMERICAN BANKERS ASSOCIATION

(REVIEWED AND APPROVED 1982)

NAME Georgios P. Kostarides

14 June 56

BUSINESS OR OCCUPATION Student

ADDRESS 608 West Ionia Street

BANK OF LANSING, Lansing, Michigan

TO _____ (NAME OF BANK)

FOR THE PURPOSE OF OBTAINING ADVANCES FROM TIME TO TIME ON BILLS, NOTES AND OTHER COMMERCIAL PAPER SIGNED OR ENDORSED BY THE UNDERSIGNED, AND OF OBTAINING CREDIT GENERALLY, THE UNDERSIGNED MAKES THE FOLLOWING STATEMENT OF _____ FINANCIAL CONDITION AS OF THE CLOSE OF BUSINESS ON THE _____ DAY OF _____, 19____, AND CERTIFIES TO THE ABOVE-NAMED BANK THAT THE INFORMATION HEREINAFTER SET FORTH IS IN ALL RESPECTS TRUE, ACCURATE AND COMPLETE AND CORRECTLY REFLECTS THE FINANCIAL CONDITION OF THE UNDERSIGNED ON THE DATE AFORESAID.

(FILL ALL BLANKS. WRITING "NO" OR "NONE" WHERE NECESSARY TO COMPLETE INFORMATION.)

[illegible]

CONTINGENT LIABILITIES

LIABILITY AS ENDORSER ON NOTES OF OTHERS	ALL OTHER CONTINGENT LIABILITIES; (ITEMIZE)
LIABILITY AS GUARANTY OR SURETY FOR DEBTS OF OTHERS	
LIABILITY FOR JUDGMENTS OR SUITS PENDING	TOTAL CONTINGENT LIABILITIES

STATEMENT OF PROFIT AND LOSS

FOR THE PERIOD BEGINNING

AND ENDING

NET SALES _____	OPERATING PROFIT _____
COST OF GOODS SOLD:	OTHER INCOME:
TOTAL INVENTORIES AT BE-	INVESTMENTS _____
GINNING OF PERIOD _____	CASH DISCOUNTS RECEIVED _____
ADD PURCHASES DURING	OTHER _____
PERIOD _____	TOTAL _____
TOTAL	
DEDUCT: TOTAL INVENTORIES	OTHER EXPENSES:
AT CLOSE OF PERIOD _____	INTEREST _____
GROSS PROFIT _____	CASH DISCOUNTS GIVEN _____
ADMINISTRATIVE, GENERAL, AND	BAD DEBTS _____
SELLING EXPENSES:	OTHER _____
PROPRIETOR'S SALARY _____	TOTAL _____
DEPRECIATION _____	NET PROFIT OR LOSS TO
SELLING EXPENSES _____	NET WORTH OR SURPLUS _____
OTHER _____	
TOTAL _____	

74

NAME OF BANK	COLLATERAL	WHEN DUE	AMOUNT
			\$
		TOTAL DUE TO BANKS \$	

DUE TO OTHERS (Itemize every debt over \$100)

[illegible]

REAL ESTATE

[illegible]

THE LEGAL AND EQUITABLE TITLE TO ALL THE REAL ESTATE LISTED ABOVE IS SOLELY IN MY NAME EXCEPT AS FOLLOWS

SECURITIES OWNED

FACE VALUE (BONDS, NUMBER OF SHARES STOCKS)	DESCRIPTION OF SECURITY	MARKET VALUE	INCOME RECEIVED LAST YEAR	TO WHOM PLEDGED
50	East Ohio Street Rlty Co., Inc	5000--	300--	No one
5	Ford Motor Co	300--		

LIFE INSURANCE

COMPANY	FACE AMOUNT OF POLICY	TOTAL CASH SURRENDER VALUE	TOTAL LOANS AGAINST POLICY	BENEFICIARY	TO WHOM POLICY IS ASSIGNED
National Life (V.A.)	5000--	1011--		Wife and	
"	5000--	0000		children	
North Central Life	2000--	737.44		"	
A.F.E.P.A.	200--	000		"	

OTHER INSURANCE

FORM FIRE LIABILITY, ETC.	CARRIED ON	NATURE	ASSIGNEE	AMOUNT
				\$

IN SUBMITTING THE FOREGOING STATEMENT THE UNDERSIGNED GUARANTEES ITS ACCURACY WITH THE INTENT THAT IT BE RELIED UPON BY THE AFORESAID BANK IN EXTENDING CREDIT TO THE UNDERSIGNED AND WARRANTS THAT _____ HAS NOT KNOWINGLY WITHHELD ANY INFORMATION THAT MIGHT AFFECT _____ CREDIT RISK AND THE UNDERSIGNED EXPRESSLY AGREES TO NOTIFY IMMEDIATELY SAID BANK IN WRITING OF ANY MATERIAL CHANGE IN _____ FINANCIAL CONDITION WHETHER APPLICATION FOR FURTHER CREDIT IS MADE OR NOT AND IN THE ABSENCE OF SUCH WRITTEN NOTICE IT IS EXPRESSLY AGREED THAT SAID BANK IN GRANTING NEW OR CONTINUING CREDIT MAY RELY ON THIS STATEMENT AS HAVING THE SAME FORCE AND EFFECT AS IF DELIVERED UPON THE DATE ADDITIONAL CREDIT IS REQUESTED OR EXISTING CREDIT EXTENDED OR CONTINUED.

SIGNED AT Lansing, Michigan

SIGNATURE

THIS 14 DAY OF June, 1956

PERSONAL STATEMENT

95

FORM NO. 11

INDIVIDUAL OR CORPORATION

FINANCIAL STATEMENT

(SHORT FORM)

FORM DESIGNED AND APPROVED BY
BANK MANAGEMENT COMMISSION
AMERICAN BANKERS ASSOCIATION

(REVIEWED AND APPROVED 1950)

NAME Stephen C. Andreadis

June 14, 1956
(DATE)

BUSINESS OR
OCCUPATION Sal's Coffee Shop

ADDRESS 1002 S. Pine Street

TO BANK OF LANSING, Lansing, Michigan

NAME OF BANK

FOR THE PURPOSE OF OBTAINING ADVANCES FROM TIME TO TIME ON BILLS, NOTES AND OTHER COMMERCIAL PAPER SIGNED OR ENDORSED BY THE UNDERSIGNED, AND OF OBTAINING CREDIT GENERALLY, THE UNDERSIGNED MAKES THE FOLLOWING STATEMENT OF FINANCIAL CONDITION AS OF THE CLOSE OF BUSINESS ON THE DAY OF 19 AND CERTIFIES TO THE ABOVE NAMED BANK THAT THE INFORMATION HEREINAFTER SET FORTH IS IN ALL RESPECTS TRUE, ACCURATE AND COMPLETE AND CORRECTLY REFLECTS THE FINANCIAL CONDITION OF THE UNDERSIGNED ON THE DATE AFOREMENTIONED

(FILL ALL BLANKS, WRITING "NO" OR "NONE" WHERE NECESSARY TO COMPLETE INFORMATION)

ASSETS			LIABILITIES		
CASH ON HAND AND IN BANKS	8	500 00	NOTES PAYABLE TO BANKS (SEE SCHEDULE)		
NOTES RECEIVABLE			NOTES PAYABLE TO OTHERS (SEE SCHEDULE)		
ACCOUNTS RECEIVABLE			ACCOUNTS PAYABLE (SEE SCHEDULE)		
MERCHANDISE	500	00	TAXES DUE		
LIFE INSURANCE CASH SURRENDER VALUE (DO NOT DEDUCT LOANS)	783	00	RENT DUE		
SECURITIES (SEE SCHEDULE)			LOANS AGAINST LIFE INSURANCE		
OTHER CURRENT ASSETS (ITEMIZE)			ACCRUED EXPENSES		
<u>Land Contract</u>			CHattel MORTGAGES		
<u>1402 High Street</u>	8	850 00	REAL ESTATE MORTGAGES	9	800 00
REAL ESTATE (SEE SCHEDULE)	17	000 00	RESERVES (ITEMIZE)		
MACHINERY, FURNITURE AND FIXTURES (USED IN BUSINESS)	11	450 00	OTHER LIABILITIES (ITEMIZE)		
PREPAID EXPENSES					
OTHER ASSETS (ITEMIZE)					
<u>1954 Packard Clipper</u>	3	850 00	TOTAL LIABILITIES	9	800 00
<u>House Furniture</u>	4	000 00	NET WORTH (IF NOT INCORPORATED)	45	133 00
			CAPITAL STOCK (IF INCORPORATED)		
			PREFERRED SHARES \$ PAR		
			COMMON SHARES \$ PAR		
			SURPLUS		
TOTAL	54	933 00	TOTAL	54	933 00

CONTINGENT LIABILITIES

LIABILITY AS ENDORSER ON NOTES OF OTHERS
LIABILITY AS GUARANTY OR SURETY FOR DEBTS
OF OTHERS

LIABILITY FOR JUDGMENTS OR SUITS PENDING

ALL OTHER CONTINGENT LIABILITIES: (ITEMIZE)

TOTAL CONTINGENT LIABILITIES

STATEMENT OF PROFIT AND LOSS

FOR THE PERIOD BEGINNING

AND ENDING

NET SALES	58	727 60	OPERATING PROFIT	7	449 99
COST OF GOODS SOLD:			OTHER INCOME:		
TOTAL INVENTORIES AT BEGINNING OF PERIOD	30	501 76	INVESTMENTS		
ADD: PURCHASES DURING PERIOD			CASH DISCOUNTS RECEIVED		
TOTAL			OTHER	2	122 71
DEDUCT: TOTAL INVENTORIES AT CLOSE OF PERIOD			TOTAL		9 572 70
GROSS PROFIT	28	225 84	OTHER EXPENSES:		
ADMINISTRATIVE, GENERAL, AND SELLING EXPENSES:			INTEREST		
PROPRIETOR'S SALARY			CASH DISCOUNTS GIVEN		
DEPRECIATION			BAD DEBTS		
SELLING EXPENSES			OTHER		
OTHER	20	775 85	TOTAL		
TOTAL	7	449 99	NET PROFIT OR LOSS TO NET WORTH OR SURPLUS		9 572 70

DUE TO BANKS

NAME OF BANK	COLLATERAL	WHEN DUE	AMOUNT
			\$
TOTAL DUE TO BANKS			\$

DUE TO OTHERS (Homize every debt over \$100)

NAME OF CREDITOR	ORIGIN OF DEBT	WHEN DUE	AMOUNT
			\$
ALL OTHER DEBTS NOT SHOWN ABOVE			
TOTAL DUE TO OTHERS			\$

REAL ESTATE

LOCATION AND DESCRIPTION	YEAR PURCHASED	COST	ASSESSED VALUE	FIRE INSURANCE	PRESENT VALUE	MORTGAGE		YEARLY GROSS RENTAL INCOME
						AMOUNT	WHEN DUE	
5 Rm. Bungalow 1801 W. Ottawa	1949	12500--	6400--	15000--	17000--	7200	1972	

THE LEGAL AND EQUITABLE TITLE TO ALL THE REAL ESTATE LISTED ABOVE IS SOLELY IN MY NAME EXCEPT AS FOLLOWS Joint

SECURITIES OWNED

FACE VALUE (BONDS) NUMBER OF SHARES (STOCKS)	DESCRIPTION OF SECURITY	MARKET VALUE	INCOME RECEIVED LAST YEAR	TO WHOM PLEDGED
		\$	\$	

LIFE INSURANCE

COMPANY	FACE AMOUNT OF POLICY	TOTAL CASH SURRENDER VALUE	TOTAL LOANS AGAINST POLICY	BENEFICIARY	TO WHOM POLICY IS ASSIGNED
Metropolitan, Aetna New York Life, Nat. Service, Ahepa	\$	\$	\$		
	14700	783	---	Wife	

OTHER INSURANCE

FORM (FIRE LIABILITY, ETC.)	CARRIED ON	NATURE	ASSIGNEE	AMOUNT
Fire	Restaurant and Home	Fire	-----	\$ 27000
Liability	"	Liability	-----	50000.00

IN SUBMITTING THE FOREGOING STATEMENT THE UNDERSIGNED GUARANTEES ITS ACCURACY WITH THE INTENT THAT IT BE RELIED UPON BY THE AFORESAID BANK IN EXTENDING CREDIT TO THE UNDERSIGNED AND WARRANTS THAT _____ HAS NOT KNOWINGLY WITHHELD ANY INFORMATION THAT MIGHT AFFECT CREDIT RISK; AND THE UNDERSIGNED EXPRESSLY AGREES TO NOTIFY IMMEDIATELY SAID BANK IN WRITING OF ANY MATERIAL CHANGE IN _____ FINANCIAL CONDITION WHETHER APPLICATION FOR FURTHER CREDIT IS MADE OR NOT AND IN THE ABSENCE OF SUCH WRITTEN NOTICE IT IS EXPRESSLY AGREED THAT SAID BANK IN GRANTING NEW OR CONTINUING CREDIT MAY RELY ON THIS STATEMENT AS HAVING THE SAME FORCE AND EFFECT AS IF DELIVERED UPON THE DATE ADDITIONAL CREDIT IS REQUESTED OR EXISTING CREDIT EXTENDED OR CONTINUED.

SIGNED AT Lansing, Michigan SIGNATURE _____

THIS 14 DAY OF June 19 56 Sal's Coffee Shop

**INDIVIDUAL OR CORPORATION
FINANCIAL STATEMENT
(SHORT FORM)**

FORM DESIGNED AND APPROVED BY
BANK MANAGEMENT COMMISSION
AMERICAN BANKERS ASSOCIATION
(REVIEWED AND APPROVED 1988)

NAME Stephen C. Andreadis

January 12, 1956
(DATE)

BUSINESS OR OCCUPATION Sally's Coffee Shop

ADDRESS 1002 S. Pine Street

TO BANK OF LANSING, Lansing, Michigan
(NAME OF BANK)

NAME OF BANK

FOR THE PURPOSE OF OBTAINING ADVANCES FROM TIME TO TIME ON BILLS, NOTES AND OTHER COMMERCIAL PAPER SIGNED OR ENDORSED BY THE UNDERSIGNED, AND OF OBTAINING CREDIT GENERALLY, THE UNDERSIGNED MAKES THE FOLLOWING STATEMENT OF _____ FINANCIAL CONDITION AS OF THE CLOSE OF BUSINESS ON THE _____ DAY OF _____, 19____, AND CERTIFIES TO THE ABOVE-NAMED BANK THAT THE INFORMATION HEREINAFTER SET FORTH IS IN ALL RESPECTS TRUE, ACCURATE AND COMPLETE AND CORRECTLY REFLECTS THE FINANCIAL CONDITION OF THE UNDERSIGNED ON THE DATE AFOREMENTIONED

(FILL ALL BLANKS. WRITING "NO" OR "NONE" WHERE NECESSARY TO COMPLETE INFORMATION.)

ASSETS				LIABILITIES			
CASH ON HAND AND IN BANKS		8	500 00	NOTES PAYABLE TO BANKS (SEE SCHEDULE)			
NOTES RECEIVABLE				NOTES PAYABLE TO OTHERS (SEE SCHEDULE)			
ACCOUNTS RECEIVABLE				ACCOUNTS PAYABLE (SEE SCHEDULE)			
MERCHANDISE LIFE INSURANCE CASH SURRENDER VALUE (DO NOT DEDUCT LOANS)			500 00	TAXES DUE			
SECURITIES (SEE SCHEDULE)				RENT DUE			
OTHER CURRENT ASSETS (ITEMIZE)				LOANS AGAINST LIFE INSURANCE			
				ACCRUED EXPENSES			
				CHATTEL MORTGAGES			
REAL ESTATE (SEE SCHEDULE) MACHINERY, FURNITURE AND FIXTURES (USED IN BUSINESS)		11	450 00	REAL ESTATE MORTGAGES			
PREPAID EXPENSES				RESERVES (ITEMIZE)			
OTHER ASSETS (ITEMIZE)				OTHER LIABILITIES (ITEMIZE)			
				TOTAL LIABILITIES			
				NET WORTH (IF NOT INCORPORATED)		20	450 00
				CAPITAL STOCK (IF INCORPORATED)			
				PREFERRED _____ SHARES \$ _____ PAR			
				COMMON _____ SHARES \$ _____ PAR			
				SURPLUS			
TOTAL		20	450 00	TOTAL		20	450 00

CONTINGENT LIABILITIES

LIABILITY AS ENDORSER ON NOTES OF OTHERS	N O N E	ALL OTHER CONTINGENT LIABILITIES: (ITEMIZE)	N O N E
LIABILITY AS GUARANTY OR SURETY FOR DEBTS OF OTHERS			
LIABILITY FOR JUDGMENTS OR SUITS PENDING		TOTAL CONTINGENT LIABILITIES	

STATEMENT OF PROFIT AND LOSS

FOR THE PERIOD BEGINNING _____ AND ENDING _____

NET SALES				58	727	60	OPERATING PROFIT				7	449	99	
COST OF GOODS SOLD:							OTHER INCOME:							
TOTAL INVENTORIES AT BEGINNING OF PERIOD			500	00			INVESTMENTS							
ADD PURCHASES DURING PERIOD			305	01	76		CASH DISCOUNTS RECEIVED							
TOTAL			310	01	76		OTHER		2	122	71			
DEDUCT TOTAL INVENTORIES AT CLOSE OF PERIOD			500	00		30	501	76	TOTAL			2	122	71
GROSS PROFIT						28	225	84				9	572	70
ADMINISTRATIVE, GENERAL, AND SELLING EXPENSES:									OTHER EXPENSES:					
PROPRIETOR'S SALARY									INTEREST					
DEPRECIATION									CASH DISCOUNTS GIVEN					
SELLING EXPENSES									BAD DEBTS					
OTHER									OTHER					
TOTAL			207	75	85	20	775	85	TOTAL					
									NET PROFIT OR LOSS TO NET WORTH OR SURPLUS			9	572	70

MICHIGAN NATIONAL BANK
ITEMS OF IMPORTANCE TO THE BANK
WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM</u>	<u>RANK</u>
1. Character of applicant	<u>1</u>
2. General business experience of the applicant . . .	<u>2</u>
3. Applicant's experience in the restaurant field . .	<u>3</u>
4. Applicant's training in the restaurant field . . .	<u>4</u>
5. Applicant's previous record in repaying loans. . .	<u> </u>
6. Net worth of the applicant	<u>5</u>
7. Real estate which can be used as security.	<u> </u>
8. Stock and bonds which can be used as security. . .	<u>10</u>
9. Location of the proposed establishment	<u>7</u>
10. Potential to be derived from the operation of the business	<u>8</u>
11. Assets and liabilities of the business	<u>6</u>
12. Future business prospects.	<u>9</u>
13. The importance of a co-signer to the loan applica- tion	<u> </u>
14. Leasehold provisions and limitations	<u> </u>
15. Applicant's marital status	<u> </u>
- - - - -	<u> </u>

AMERICAN STATE BANK

ITEMS OF IMPORTANCE TO THE BANK

WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM</u>	<u>RANK</u>
1. Character of applicant	<u>1</u>
2. General business experience of the applicant . . .	<u>2</u>
3. Applicant's experience in the restaurant field . .	<u>2</u>
4. Applicant's training in the restaurant field . . .	<u>3</u>
5. Applicant's previous record in repaying loans. . .	<u>1</u>
6. Net worth of the applicant	<u>1</u>
7. Real estate which can be used as security.	<u>2</u>
8. Stock and bonds which can be used as security. . .	<u>2</u>
9. Location of the proposed establishment	<u>3</u>
10. Potential to be derived from the operation of the business	<u>1</u>
11. Assets and liabilities of the business	<u>1</u>
12. Future business prospects.	<u>2</u>
13. The importance of a co-signer to the loan applica- tion	<u>3</u>
14. Leasehold provisions and limitations	<u>3</u>
15. Applicant's marital status	<u>4</u>

Equipment--is it modern and in good repair
supporting business (compensating balances)

EAST LANSING BANK

ITEMS OF IMPORTANCE TO THE BANK

WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM</u>	<u>RANK</u>
1. Character of applicant	<u>1</u>
2. General business experience of the applicant . . .	<u>5</u>
3. Applicant's experience in the restaurant field . .	<u>4</u>
4. Applicant's training in the restaurant field . . .	<u>6</u>
5. Applicant's previous record in repaying loans. . .	<u>7</u>
6. Net worth of the applicant	<u>2</u>
7. Real estate which can be used as security.	<u>12</u>
8. Stock and bonds which can be used as security. . .	<u>11</u>
9. Location of the proposed establishment	<u>8</u>
10. Potential to be derived from the operation of the business	<u>10</u>
11. Assets and liabilities of the business	<u>3</u>
12. Future business prospects.	<u>9</u>
13. The importance of a co-signer to the loan applica- tion	<u> </u>
14. Leasehold provisions and limitations	<u> </u>
15. Applicant's marital status	<u> </u>
- - - - -	<u> </u>

EAST LANSING BANK

ITEMS OF IMPORTANCE TO THE BANK

WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM</u>	<u>RANK</u>
1. Character of applicant	<u>1</u>
2. General business experience of the applicant . . .	<u> </u>
3. Applicant's experience in the restaurant field . . .	<u>2</u>
4. Applicant's training in the restaurant field . . .	<u>3</u>
5. Applicant's previous record in repaying loans. . .	<u> </u>
6. Net worth of the applicant	<u>3</u>
7. Real estate which can be used as security.	<u> </u>
8. Stock and bonds which can be used as security. . .	<u> </u>
9. Location of the proposed establishment	<u> </u>
10. Potential to be derived from the operation of the business	<u> </u>
11. Assets and liabilities of the business	<u>4</u>
12. Future business prospects.	<u> </u>
13. The importance of a co-signer to the loan applica- tion	<u> </u>
14. Leasehold provisions and limitations	<u> </u>
15. Applicant's marital status	<u> </u>
- - - - -	<u> </u>

BANK OF LANSING
ITEMS OF IMPORTANCE TO THE BANK
WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM</u>	<u>RANK</u>
1. Character of applicant	<u>2</u>
2. General business experience of the applicant . . .	<u>5</u>
3. Applicant's experience in the restaurant field . .	<u>3</u>
4. Applicant's training in the restaurant field . . .	<u> </u>
5. Applicant's previous record in repaying loans. . .	<u>4</u>
6. Net worth of the applicant	<u>1</u>
7. Real estate which can be used as security.	<u> </u>
8. Stock and bonds which can be used as security. . .	<u> </u>
9. Location of the proposed establishment	<u> </u>
10. Potential to be derived from the operation of the business	<u> </u>
11. Assets and liabilities of the business	<u> </u>
12. Future business prospects.	<u> </u>
13. The importance of a co-signer to the loan applica- tion	<u> </u>
14. Leasehold provisions and limitations	<u> </u>
15. Applicant's marital status	<u> </u>
- - - - -	<u> </u>

MR. STEELE

ITEMS OF IMPORTANCE TO THE BANK
WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM</u>	<u>RANK</u>
1. Character of applicant	<u>1</u>
2. General business experience of the applicant . . .	<u>6</u>
3. Applicant's experience in the restaurant field . .	<u>4</u>
4. Applicant's training in the restaurant field . . .	<u>5</u>
5. Applicant's previous record in repaying loans. . .	<u> </u>
6. Net worth of the applicant	<u>10</u>
7. Real estate which can be used as security.	<u> </u>
8. Stock and bonds which can be used as security. . .	<u> </u>
9. Location of the proposed establishment	<u>8</u>
10. Potential to be derived from the operation of the business	<u>3</u>
11. Assets and liabilities of the business	<u>2</u>
12. Future business prospects.....	<u>7</u>
13. The importance of a co-signer to the loan applica- tion	<u> </u>
14. Leasehold provisions and limitations	<u> </u>
15. Applicant's marital status	<u> </u>
- - - - -	<u> </u>

AMERICAN FLETCHER

ITEMS OF IMPORTANCE TO THE BANK

WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM:</u>	<u>RANK</u>
1. Character of applicant	<u>1</u>
2. General business experience of the applicant . . .	<u>3</u>
3. Applicant's experience in the resaturant field . .	<u>3</u>
4. Applicant's training in the restaurant field . . .	<u>3</u>
5. Applicant's previous record in repaying loans. . .	<u>2</u>
6. Net worth of the applicant	<u>4</u>
7. Real estate which can be used as security.	<u>6</u>
8. Stock and bonds which can be used as security. . .	<u>5</u>
9. Location of the proposed establishment	<u>9</u>
10. Potential to be derived from the operation of the business	<u>7</u>
11. Assets and liabilities of the business	<u>8</u>
12. Future business prospects.	<u>7 & 8</u>
13. The importance of a co-signer to the loan applica- tion	<u>2, 4, 5</u>
14. Leasehold provisions and limitations	<u>8 & 3</u>
15. Applicant's marital status	<u>1</u>
<u>Equipment--is it modern and good repair</u> _ _ _ _	<u>8</u>
<u>Supporting business (compensatory balances)</u> _ _ _ _	<u>3</u>

FIDELITY TRUST

ITEMS OF IMPORTANCE TO THE BANK

WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM</u>	<u>RANK</u>
1. Character of applicant	<u>1</u>
2. General business experience of the applicant . . .	<u>4</u>
3. Applicant's experience in the restaurant field . .	<u>4</u>
4. Applicant's training in the restaurant field . . .	<u>4</u>
5. Applicant's previous record in repaying loans. . .	<u>2</u>
6. Net worth of the applicant	<u>5</u>
7. Real estate which can be used as security.	<u>3</u>
8. Stock and bonds which can be used as security. . .	<u>3</u>
9. Location of the proposed establishment	<u>8</u>
10. Potential to be derived from the operation of the business	<u>6</u>
11. Assets and liabilities of the business	<u>7</u>
12. Future business prospects.	<u> </u>
13. The importance of a co-signer to the loan applica- tion	<u>5</u>
14. Leasehold provisions and limitations'	<u> </u>
15. Applicant's marital status	<u> </u>
- - - - -	<u> </u>

SECURITY BANK

ITEMS OF IMPORTANCE TO THE BANK

WHEN CONSIDERING A LOAN APPLICATION

The primary objective of my thesis is to obtain information concerning the policies and procedures which your bank uses as a guide in reviewing loan applications from prospective restaurant operators. Will you please rank ten (10) of the following items in the order of their importance to the bank, putting a one (1) in the blank following the item which you consider most important, etc. My list may not include some items which you believe should be in the "Top Ten"; if not, will you please write them in on the lines provided and assign them a rank?

<u>ITEM</u>	<u>RANK</u>
1. Character of applicant	<u>1</u>
2. General business experience of the applicant . . .	<u> </u>
3. Applicant's experience in the restaurant field . .	<u>7</u>
4. Applicant's training in the restaurant field . . .	<u> </u>
5. Applicant's previous record in repaying laons. . .	<u>6</u>
6. Net worth of the applicant	<u>4</u>
7. Real estate which can be used as security.	<u>4</u>
8. Stock and bonds which can be used as security. . .	<u>4</u>
9. Location of the proposed establishment	<u> </u>
10. Potential to be derived from the operation of the business	<u>8</u>
11. Assets and liabilities of the business	<u>4</u>
12. Future business prospects.	<u> </u>
13. The importance of a co-signer to the loan applica- tion	<u> </u>
14. Leasehold provisions and limitations	<u> </u>
15. Applicant's marital status	<u> </u>
<u>Means of Repayment</u> _ _ _ _ _	<u>1</u>
<u>Relationship of net worth to outstanding debt</u> _ _	<u>2</u>
<u>Nature of Borrowing</u> _ _ _ _ _	<u>3</u>

AMERICAN STATE BANK
LANSING, MICHIGAN

July 17, 1956

Mr. Georgios P. Kostarides
608 W. Ionia
Lansing, Michigan

Dear Mr. Kostarides:

We regret to inform you that the applications as presented in your plan for the purchase of restaurant X have been rejected by our loan committee.

We do not feel that the loans under any of the three plans can be considered as bank loans, mainly because of the time requested for repayment. It is not the policy of our bank to grant term loans as long as ten years, however, if this problem were remedied, security, other than the furniture and fixtures, would be required. From the balance sheets furnished, it is doubtful if this security could be supplied.

There is no question as to the character of the borrowers, but the capacity for repayment under any of the plans could be considered doubtful.

The solution of this problem would appear to be the purchase of the business on a land contract from the present owner, who would carry an amount equal to that requested from the bank.

We believe you have presented the applications on a very complete and business like basis, and we appreciate the opportunity of reviewing the situation. If you have any questions, or we can be of any further help, we shall be happy to do our best.

Yours very truly,

Joseph B. Foster,
Vice President

JBFB:mt

AMERICAN STATE BANK
LANSING, MICHIGAN

March 8, 1957

Mr. George P. Kostarides
608 W. Ionia Street
Lansing, Michigan

Dear Mr. Kostarides:

I have re-checked the qualifications for Small Business Administration Loans and find that such a loan as you outlined in your problem probably would not qualify. For example, a pamphlet dated September 1954 says "when the loan is to effect a change of ownership of a business, such as purchasing a going concern or buying a partner's interest" financial assistance cannot be provided. A later pamphlet dated July 1956 states that a loan will be ineligible..."if the loan would be for the purpose of providing funds for distribution or payment to the owner, partners, or shareholders or replenishing working capital funds previously used for either of such purposes".

The loan you seek is, as you know, a loan of a Capital nature and it is my opinion that it is not bankable for this and several other reasons.

A. Capital Nature of Loan - it is generally considered that it is not a bank function to furnish long term capital funds for the purpose of buying or operating a business. Such funds should be provided by private funds furnished by the owner, partners, or stockholders of a business. It is illogical to expect a bank to loan \$30,000.00 as outlined under either Plan 1, 2 or 3 at 6% (or even 7%) when the return on a \$15,000.00 loan by the owner under Plan 1 or 2 would yield 33% or more (see D-4) and under Plan 3 when the investment of \$20,000.00 by the partners would yield 28% or more (see D-4). On such a basis it places the bank in the position of investing the major portion of the funds to purchase a business and bearing the major share of the risk inherent in the operation of such business while the owner bears a much smaller responsibility from a financial standpoint and yet realizes the major share of the profits.

B. Term of Loan - Naturally a bank must make loans to its customers within the community to fulfill one of its primary obligations but any term loan of 10 years would be the exception in any bank loan portfolio and would probably be made only to a going concern that had years of proven earnings and years of previous experience in a stable business.

Page 2
3-8-57

Normally a loan for a 10 year period of time would be secured by a mortgage on real estate. The amount of this mortgage would be based on 60% of our appraised value. Inasmuch as no real estate is involved in this transaction nor is available individually as security from the purchasers, it cannot be considered as collateral for this loan.

Today's Municipal Bond Market presents an interesting situation in regards to risk loans. Assuming that a bank is in the 52% tax bracket for corporations it actually is possible for them to purchase 10 year municipal of a high grade at a yield of 3.15% or 3.20%. Inasmuch as this income is tax free the yield is actually greater than a loan made at 6%.

C. Equipment - even if the term of the loan were shortened considerably the equipment listed would be of little value as collateral to secure this loan. True, it has value but only to a going business. If the loan should go into default this equipment could bring as little as 10% on the dollar in a forced sale.

D. Miscellaneous Considerations - some questions have occurred to me concerning your problem as outlined.

1. Andreadis - how successful has he been in operating his present business. His ability could be substantiated by operating statements of his business over the past several years.

2. Establishment X

- a. What is past history of profits over past several years.

- b. Is owner trying to sell or are you trying to buy; might make difference in terms.

- c. Are there any U.S. Tax Liens against owner; would prevent him giving clear title.

3. Taxes - no provision has been made Federal Income Tax in your outline. As either a partnership or individual no income may be deducted as an expense before taxes. Under Plan 1 and 2 net taxable income would therefore be in excess of \$9000. and under Plan 3 would be in excess of \$14,600 (but would be divided and reported by partners individually as income). Under Plan 1 & 2 (even allowing remodeling cost as a total expense item) the net anticipated income would be more than \$13,000.00 and under Plan 3 would be more than \$17,500.00 before drawing of wages by owner or partners.

Page 3
3-8-57

4. Computation of Return on Investment - I question the computation of the return you state for your investment under all plans. For example under "Debt Service, Plan 1 or 2" you include loan repayments as a deduction from Operating Income to arrive at net income & yield. My computation of net income after drawings (for purposes of computing yield or return on investment) would be a net income of at least \$5,454.00 or more than 33% return on \$15,000.00 investment for Plan 1 & 2 & at least \$5,639 or 28% return on \$20,000.00 under Plan 3. If your remodeling costs were not total expense put partly capitalized this net income would be even greater.

Yours very truly,

H. Andrews Hays,
Vice President

HAH:mh

BANK OF LANSING
LANSING, MICHIGAN

July 26, 1956

Georgios P. Kostarides
608 W. Ionia Street
Lansing, Michigan

Dear Mr. Kostarides:

We have read with interest your submission for application for a loan to finance a restaurant business and consider it very complete with all necessary information for consideration of your loan.

As The Bank of Lansing has never financed this type of business, any further comments by myself are just observations which could be made on your set up.

In the first place, this loan is for capital purposes and capital loans are not considered the function of the commercial bank. The term of ten years would be too long for us to consider. The projected statement and method of financing cover this period and are more or less based on a 10% increase in annual sales over this period. It might or might not happen.

In connection with the present statement of Mr. Stephen C. Andreadis, we would eliminate the real estate which is joint and not separate and under Michigan Law available for the business. Also the furniture and fixtures are unsatisfactory items for bank financing as well as the household furniture. This would eliminate from a net worth of \$45,133.00, \$32,450.00 leaving the total net worth of \$12,683.00 which would not warrant a loan of \$30,000.00 to be repaid under a ten year period as outlined in the proposed payment plan for financing the purchase of this business.

We have reviewed the budget as set up and the debt service plan and find no criticism except as stated above.

Very truly yours,

Walter S. Reck,
Assistant Vice-President

WSR/klh

AMERICAN FLETCHER NATIONAL BANK
AND TRUST COMPANY
INDIANAPOLIS

August 28, 1956

Mr. Georgios P. Kostarides
608 W. Ionia Street
Lansing, Michigan

Dear Mr. Kostarides:

Thank you for the privilege of examining the material that you have presented us in support of your application for a ten year term loan to finance the purchase of a restaurant business located in Lansing.

We regret that we are obliged to decline your application. Our principal reason for this action is that basically we do not consider it sound for this institution to invest in business loans for the term which you propose. We feel that such a span of years involves too many uncertainties with respect to the continuing capacity of your management, the stability of the neighborhood in which you might be located, as well as business generally in this community and otherwise.

That our position is not an uncommon one is made clear in the results of a recent study of the statements of condition of some average restaurant businesses, wherein it is disclosed that of their total liabilities, only 2.37% were in the form of long term debt to banks, whereas under your proposed loan the long term debt to this bank would be ranging from 75% of total liabilities downward as liquidation progresses.

Our unwillingness to invest our depositors' funds in this long term program may also be viewed in the light of the applicants' proposal to commit themselves and the owner of the real estate only to a lease of ten years--equal to the life of the loan. The approaching terminus of this lease would, in itself, hazard the loan in its latter stages.

We have examined carefully the operating statistics, balance sheet figures, the cash flow budget and projected earnings statement. We would have preferred to have at least three years operating figures, but from the one years operating statement presented us, we gave an appreciation for the applicants' desire to make this investment. The business appears to have good prospects, especially when managed by men of the experience and education of the applicants. We believe, however, that they must have either more of their own resources or funds borrowed from private sources

continued - page two

for investment in the business. The margin of cash available under the budget as set forth becomes perilously narrow in future months, so that there is likelihood that the business will then have to turn to the bank for short term credit.

The above considerations obtain with equal weight in event this loan is considered on a partnership basis, though the partners in combination can give the business a somewhat improved cash cushion. One non-technical observation which we might make is that the business would appear to afford the partners a not wholly adequate income for themselves and their families, and that the project is a more attractive one, income-wise, if entered into by either of the individuals singly.

We were led to question somewhat the adequacy of the depreciation schedule in light of the initial investment in fixed assets and the annual renovation program.

We hope you are successful in procuring the necessary capital for this enterprise from some other source.

Cordially yours,

Carter B. Tharp
Ass't Cashier

CBT:LD

FIDELITY BANK & TRUST COMPANY
INDIANAPOLIS, INDIANA

November 27, 1956

Mr. Georgios P. Kostarides
608 West Ionia Street
Lansing 15, Michigan

Dear Mr. Kostarides:

I am returning herewith your proposed Thesis application for the financing of a restaurant business. The following personal opinion is made after an analysis of your application and supporting papers.

Your proposed plan of financing the restaurant business whether its your plan #1, 2 or 3 involves a capital loan. Such a loan should always be secured by marketable assets if the loan is to be handled by a banking institution. It is my opinion that the financing of this restaurant business presents an element of risk if secured only by the guarantys of the principals involved plus the pledging of the fixed assets concerned. In the event there is a default on the loan it is entirely possible that the amount due on the loan could not be realized from the sale of the fixed assets. In plan 1 or 2 the fixed assets could not be offered as security because the owner would most likely take a chattel mortgage on the furniture and fixtures and equipment to secure the unpaid portion of the sale price.

The long term aspect of the loan is another unfavorable condition. Banking institutions hesitate to enter into term loans particularly in this period of "tight money" conditions. The only long term loans that local banks are making, that I am familiar with, are mortgage loans and they are usually granted only to established customers.

The personal statement submitted to support the proposed credit do not present sufficient net worth in my opinion to expect such a term loan.

I would like to mention that your file is most complete. I can not think of any additional supporting papers that would be needed. If I can be of any additional help please feel free to contact me.

Yours very truly,

Harry L. Bindner
Vice President

NATIONAL BANK OF DETROIT
DETROIT 32, MICHIGAN

November 9, 1956

Miss Demetra Pehas
19462 Glenmore
Detroit 19, Michigan

Dear Miss Pehas:

In accordance with our conversation, I am pleased to enclose the questionnaire you left with me, as well as the summary I have prepared.

I sincerely hope that the information will prove helpful to your colleague. In the event that he has any additional questions or comments, please feel free to have him call on me.

Very truly yours,

John S. Wells, Jr.

JSWjr:dmo
Enclosures

RESTAURANT LENDING

Business loans generally fall into two broad classifications:

1. Current loans -
Loans of short maturity, generally used for working capital and repaid from liquidation of current assets.
2. Term loans -
Loans of generally one to five years maturity, normally payable in monthly or quarterly installments. Loan proceeds are most often invested in assets of a fixed nature and repayment is anticipated from future earnings of the business.

Current loans are not generally required in the restaurant business because of its nature. This type of loan is confined mostly to businesses which are of a seasonal (toy retailing) or cyclical (tool & die manufacturing) nature. The exception may occur when a large restaurant or chain has an opportunity to make a sizeable purchase of an inventory item at an advantageous price. The proceeds of a current loan would be invested in this inventory and the loan paid as the inventory is liquidated freeing up cash.

A lending officer considering a loan of the above nature places emphasis on the character of the applicant and its financial condition particularly as reflected by its balance sheet condition (i.e. proper relationship of capital to total debt and adequate working capital). He must assure himself of the applicant's ability to liquidate the inventory within a reasonably brief period and without incurring losses by forced sale.

By far the majority of restaurant loan applications involve term loans. These generally fit into three classifications based on the purpose of the loan:

1. Funds needed to establish a new restaurant.
2. Funds needed to acquire an existing restaurant.
3. Funds needed to improve existing facilities.

Borrowing in the first instance through banking sources is generally impossible unless the applicant can support the loan with readily marketable collateral such as stocks, bonds or life insurance cash values. In this instance the bank performs the function of converting the borrower's previously

acquired savings (which he has invested in the above assets) into cash. As such the emphasis is placed on the character of the borrower and the quality of the collateral offered. An exception to the above may be made when an extremely well experienced restaurant operator has virtually all required capital and requires a nominal loan. Also in some instances, a loan may be obtained predicated entirely on the cosignature or guarantee of an individual of means. However, banks will frequently require the guarantor to pledge marketable collateral to support his guarantee. Further an exception may be made when the applicant can supply some of the required capital and is eligible for a G.I. loan.

The above comments are also apropos in the second instance when funds are needed to acquire an existing restaurant. However, a well experienced operator seeking to acquire a restaurant which has an established record of profitable operations would be more likely to receive favorable consideration.

Loans to improve existing facilities are more readily obtainable through commercial banks. These might be unsecured or secured by a chattel mortgage on equipment or a real estate mortgage. At this point it may be well to point out that restaurant equipment is generally regarded as inferior collateral. This is based on the fact that one used its value is difficult to appraise, and because of its single purposedness, its market-ability is very limited. In some instances this detrimental factor can be overcome if the seller of the equipment is a well-established responsible company and is willing to give full recourse to the lender.

A lending officer considering a capital loan again looks at the character and financial condition of the lender. However, because he expects the loan to be repaid from future earnings of the business, he must place greater emphasis on the past earnings record of the restaurant and his appraisal of its future prospects. The latter, of course, includes such factors as the ability of the management, the continuity of capable management, location remaining favorable and others too numerous to mention.

With the above discussion as background, I will comment briefly on each of the factors mentioned without attempting to rank them as to importance.

1. Character of applicant - a known dishonest person would not likely be able to borrow from a bank against the best security, while a person of fine reputation would receive every possible consideration. This is a very important factor in lending.

2. General business experience of applicant - important only insofar as it implies that the borrower has some knowledge of all phases of his business or can acquire a management staff to cover phases wherein he may be weak.
3. Applicant's experience in restaurant field - this is very essential.
4. Applicant's training in the restaurant field - training is important but should be seasoned with practical experience.
5. Applicant's previous record in repaying loans - this is probably a much more important factor on the negative side than on the positive.
6. Net worth of applicant - this is a very important factor but only as related to the balance sheet as a whole and to the nature of the assets and liabilities of which it consists.
7. Real estate which can be used as security - a real estate mortgage loan to a business is in effect a term loan and considered not on brick and mortar value but the borrower's ability to repay. However, national banks are legally limited to lending a maximum of $66\frac{2}{3}$ of an independent appraised value of the real estate mortgaged.
8. Stocks and bonds which can be used as security - loans on marketable collateral such as stocks and bonds are in a class by themselves whereby the quality of the security is of prime importance. Banks by policy generally limit their loans even secured by U. S. government bonds to less than 100% of current market value and in the case of common stocks may be willing to lend 50% to 60% or less.
9. Location of proposed establishment - important only as one facet of the business's future prospects.
10. Potential to be derived from the operation of the business - very important because as indicated, earnings are the anticipated source of repayment of most restaurant loans.

11. Assets and liabilities - these balance sheet items are very important as they are a measure of the financial health of a business. Over investment in fixed assets as related to capital or an unbalanced debt to capital ratio can be sufficient reason along for declining a loan application.
12. Future business prospects - banks are very desirous of assisting companies which are growing soundly. Prospects in considering term loans are, of course, of vital importance.
13. Importance of a co-signor to the loan application - a loan may be predicated entirely on the co-signature but the individual's whose signature would be adequate are rare.
14. Leasehold provisions and limitations - this could be considered another facet of appraising future prospects.
15. Applicant's marital status - this is of no importance except in the rare instance where it may reflect on the applicant's character.

In summary, almost any one of the above factors, if strongly negative, could result in a loan being declined. Consequently that one factor would assume primary importance. However, no one alone being strongly affirmative would assure approval of a loan. Perhaps the best analysis, is the textbook version of credit worthiness, i.e. a potential borrower must have good character, capacity (business ability & judgment) and capital (sound financial conditions). Each of the factors specified in the questionnaire relates to one of the three "C's" of credit and each of the latter are of equal importance.

The Author's Note:

Through the effort of Miss Demetra Mehas, the preceding summary on Restaurant Lending was obtained from Mr. John S. Wells Jr., assistant cashier with the National Bank of Detroit.

603 West Ionia Street
Lansing, Michigan
October 23, 1956

Edward P. Lee
Horwath & Horwath
100 West Monroe St.
Chicago, Illinois

Dear Sir:

Mr. R. T. Bystrom, Manager of the Brody Group of Dormitories at Michigan State University and a personal friend of yours, suggested that I solicit your help.

The enclosed questionnaire is for your consideration. All possible information, whether experienced with the restaurant industry or otherwise, will be appreciated. I do know that any information you may give will bear a great weight on the future outcome of my thesis.

If you feel that I could obtain more information through the First National Bank of Chicago, will you be kind to refer to to a Loan Officer in charge of restaurants.

I am grateful for your time and effort.

Sincerely yours,

Georgios P. Kostarides

MORWATH & MORWATH
Accountants and Consultants
100 West Monroe Street
Chicago 3, Illinois

October 29, 1956

Mr. Georgios P. Kostarides
608 West Ionia Street
Lansing, Michigan

Dear Mr. Kostarides:

I am giving a copy of your letter to me and the date pertaining to the facts that you are requiring for your thesis to Mr. Frederic Lee, an officer of the First National Bank, and am suggesting to him that he turn your letter over to the proper authority, as I am confident that the First National Bank wants to incur its research such as you are attempting.

If there is any other way I can help you please advise, and the next time you see Bob Bystrom tell him I said "hello".

Cordially yours,

Edward P. Lee, Partner

EPL:pj

608 West Ionia Street
Lansing 15, Michigan
December 1, 1956

Mr. Mark H. Saxter
Assistant Cashier
The First National Bank of Chicago
Chicago 90, Illinois

Dear Mr. Saxter:

Today I received your letter dated November 2 and postmarked November 5. It is unfortunate that this delay occurred.

The enclosed Loan application and supporting papers were presented to the local bank so that the scope of my "Thesis" may be enlarged. I do realize that the local situation may not be familiar to you, but I will be obligated if your bank acted on this application as if a real situation. All facts and figures are true, except the name of the proposed establishment which is withheld upon the owner's request.

Please be as critical as you want, give all the sound or unsound merits and comment on the methods and procedures used in the application. The more possible solutions you can offer, greater the assistance toward my final conclusion.

If the opportunity is available to pay you a personal visit, I will do so; otherwise, I am hoping that this extra material will prompt your kindness to give me further information.

Waiting for an early reply,

Sincerely yours,

Georgios P. Kostarides

K/n
enc.

608 West Ionia Street
Lansing 15, Michigan
December 1, 1956

Mr. Edward P. Lee, Partner
Horwath & Horwath
100 West Monroe Street
Chicago 3, Illinois

Dear Mr. Lee:

I am in contact with the First National Bank of Chicago,
thanks to you.

I have seen and spoken to Mr. Bystrom about you and he also
said "When will you be over and see us."

Thank you again.

Sincerely yours,

Georgios P. Kostarides

K/n

THE FIRST NATIONAL BANK
OF CHICAGO

November 2, 1956

Mr. Georgios P. Kostarides
603 West Ionia Street
Lansing, Michigan

Dear Mr. Kostarides:

Mr. Edward Lee of Horwath & Horwath has sent us your letter of October 23 and the questionnaire regarding loans to restaurants.

Our division is the commercial loaning division of the bank which serves customers in the hotel and restaurant businesses. We have discussed your letter at some length and have concluded that it would be almost impossible to complete your questionnaire without an opportunity to talk with you about it.

Although the items you list are certainly significant considerations in granting credit, their relative importance varies considerably with each individual loan situation. A number of factors must be considered in judging any credit, and these are briefly described in a book by Roy A. Foulke and H. V. Prochnow entitled "Practical Bank Credit".

Restaurants generally do not have a need for short term bank credit because the business does not have a seasonal character. Occasionally, however, loans are made to finance new equipment or additional facilities on a two or three year term loan basis, or on a real estate or chattel mortgage. Because of the widely different situations we have encountered in the restaurant business, we are inclined to look at each proposition by itself and to work out credit arrangements tailored to the individual situation.

I realize that we have not given you any very useful information, but we would be very happy to discuss the matter further with you if you could arrange a trip to Chicago. We feel that through a firsthand discussion we might be able to answer any specific questions you may have and that you might gain some feeling about our attitude toward this type of financing.

Sincerely yours,

Mark H. Baxter
Assistant Cashier

MHB:mw

THE FIRST NATIONAL BANK
OF CHICAGO

December 4, 1956

Mr. Georgios P. Kostarides
608 West Ionia Street
Lansing 15, Michigan

Dear Mr. Kostarides:

I have just had an opportunity to read your letter of December 1 and of looking over the accompanying information. You certainly have done a complete job in presenting your credit problem and you provide a good deal of the information which would be required in considering a real loan.

You present an interesting problem but because this is not a real situation, we feel that we should not make any judgments as to the merits of the credit. Just as a court refuses to hear a moot case to avoid establishing precedents or making law when there is no real issue involved, we feel that any opinions we might have would be purely academic, probably in error because of a lack of understanding of the situation, and our opinions might be misinterpreted by unwarranted application to other situations.

Perhaps we should again point out that we cannot establish rules which are applicable to every credit problem. Each loan must be considered by itself and the circumstances are generally so varied that it is difficult to apply the same criteria in making one loan to another.

We do have one comment, however, which seems appropriate to your problem. In general, it is not the policy of commercial banks to make loans providing long term equity capital for new businesses. Loans are made principally to meet the short term requirements of businesses and term loans of from three to five years are made only to companies with adequate equity capital.

We are returning the information which you sent us and wish you every success in your project.

Very truly yours,

Mark H. Baxter
Assistant Cashier

MHB:adw
Encl.

BASIC CREDIT FACTORS

The extension of credit is based on the creditor's belief in the debtor's willingness and ability to discharge his obligation in accordance with the terms of his agreement. Honesty of itself will not necessarily insure repayment of an obligation, but the honest intention of the debtor to pay is of primary importance. Unless the creditor can satisfy himself that the prospective debtor is desirous of discharging his obligation, it is inadvisable to investigate further. Assuming that the prospective debtor is desirous of paying his obligation, the analyst should next try to ascertain whether he will be able to repay the debt at its maturity.

THE C'S OF CREDIT

The classic approach to the determination of the willingness and the ability of a debtor to pay is the consideration of the three C's of credit. The willingness to pay may be placed under the heading of character, the ability to pay may be listed under the headings of capacity and capital. The character element is a primary factor in the extension of credit. But the desire to discharge one's debts is not of itself sufficient; the necessary ability to carry out this desire also is essential. Furthermore, reasonable capital must be available. Hence all three C's are fundamental credit factors: character, the moral risk; capacity, the methods risk; and capital, the property risk.

Two other C's are significant factors in credit extension. Conditions refer to the conditions within the particular industry in which a company is operating and also to general business conditions. The last C is collateral, which may be supplied to offset, wholly or in part, some weakness in the capacity or the capital factor or to care for some unusual condition within the industry. Collateral, however, never can be a substitute for integrity.

While the alliterative appeal of the C's of credit cannot be overlooked, probably a better classification of basic credit factors is the following; (1) the personal factor, (2) the financial factor, and (3) the economic factor.

ANALYZING FINANCIAL STATEMENTS -
American Institution of Banking

ADDITIONAL REMARKS ON THE QUESTIONNAIRE WHICH WAS
SENT TO DETROIT SECURITY BANK

1. Character of Applicant: If the applicant has no character, then the bank will not consider lending.

2. Means of Repayment.

3. Relationship of Net Worth to Outstanding Debt.

4. Nature of Borrowing - Purpose.

5. Never look to security for repayment of a commercial loan.

6. The aspect of the loan is important:

Is it a new business?

Is it an established enterprise?

Is the loan for expansion?

Is it to secure more modern quarters or equipment?

The premise establishes the relative importance of the factors.

7. Loan Officer's Check List

BALANCE SHEET

1. Debt to worth ratio.

2. Condition of accounts receivable.

3. Inventory analysis (Turnover).

4. Working capital.

5. Is accounts payable current.

6. Are the other accruals current (social security, etc.)

7. Why is the money wanted.

8. What will sales, inventory, and accounts receivable be?

Loan Officer's Check List (continued)PROFIT AND LOSS STATEMENTS

1. OPERATING TREND

Trend of Sales

Trend of cost (%)

Trend of profits (related to sales)

2. OTHER FACTORS

History of company

Management (ability and background)

Product

Methods of production

3. MISCELLANEOUS

Accounting techniques

Insurance coverage

Are taxes paid to date

Compensating balances

FINANCING RESTAURANT NEEDS

The following is a speech given by Mr. H. Andrews Hays, vice president of the American State Bank, Lansing, Michigan. Mr. Hays presented his talk to the Restaurant Association Conference held at Kellogg Center on February 6, 1957.

A. IMPORTANCE AND SCOPE OF RESTAURANT BUSINESS

My conception of the restaurant industry has, heretofore, been limited to a speaking acquaintance with a dozen or so restaurant operators, a financial acquaintance with a half dozen operators, and to taking my family out to dinner occasionally.

The sheer magnitude of your importance was brought to my attention when I examined the reports of the Michigan Department of Revenue and found that in Michigan alone you gross sales of 406 million dollars in fiscal year 1955-1956 and that these sales will probably exceed 440 million dollars in the current fiscal year.

Further research revealed that annual expenditures in the United States for meals outside the home exceed 17 billion dollars and part of this expenditure is apportioned among 195,000 different restaurants. You rank fourth in size among all industries.

Please excuse this repetition of facts that you already know, but you are big business and an important segment of our economy.

B. UNUSUAL CHARACTERISTICS OF RESTAURANT BUSINESS

An examination of the financial statements of most restaurants will reveal that they have certain characteristics and factors that are unusual in comparison with most other businesses and industries. A recent compilation by the Robert Morris Associates, a national association of bank loan officers and credit men, shows these unusual characteristics. This study included 9974 financial statements covering 143 different types of manufacturing, wholesale and retail trades.

In the section of this study devoted to restaurants, there were a total of 29 financial statements furnished. Twenty-one of these were of restaurants with total assets under \$250,000.00 and eight statements covered restaurants with total assets over \$250,000.00. These statements were averaged so that they show one total; since any average is drawn from a group of figures that deviate from it, any particular restaurant may not conform to the averages of this study.

The first of these unusual characteristics is that restaurants operate on virtually a cash basis. Assuming that Cash, Receivables, and Inventory are the three main items that make up current assets, let us examine these three categories in relation to other business.

(a) Cash - amounted to 12.3% of total assets for the 21 restaurant group and 30.6% for the total 29 restaurants

reported. This percent really is not out of line with other businesses but does show that within the restaurant industry itself that the eight larger restaurants had retained earnings to a great extent and materially increased the average for the whole group.

(b) Receivables - in the restaurant business are very low and comprised an average of 2.4% of total assets. This is very low and really is to your advantage. Businesses that have high receivables often have 25.30% of their assets tied up for 30-45 days, or longer, prior to getting their money from sales; this constitutes great hardship and has resulted in the relatively new development of Accounts Receivable financing. Fortunately, you do not have much money tied up in receivables so you are not faced with this problem. Exceptions would be private clubs and are not considered as applicable to this group.

About the only field that has a smaller percentage of receivables than restaurants is the retail wine, liquor and beer business.

(c) Inventory - is generally very low in your business due to your ability to turn it over rapidly. The average inventory of the 21 smaller restaurants covered in this study amounted to 8.6% of assets and this inventory was turned every 16 days. A rough average of other business inventories was about 30%. Here again, you are fortunate that you do not have to tie up large sums of cash in inventory. Some businesses are able to finance inventories

pending sale of their products by means of Floor Planning or Warehousing.

(d) Total Current Assets - is merely the sum total of cash, receivables and inventories and amounted to 23.6%. In statement analysis, however, it is generally a rule of thumb that the higher the percentage of current assets the better is the position of the business.

(e) Fixed Assets - comprise the highest percentage of your total assets and in this study amounted to 65% of the assets of the 21 restaurant group. Incidentally, out of all 143 businesses included in this study, restaurants had the highest percent of Fixed Assets and herein lies the crux of your entire financing problem. Equipment and furnishings in a restaurant are expensive; unfortunately, the real value of this equipment is in direct proportion to the ability of the restaurant to make money. A Chattel Mortgage on the equipment of a run down restaurant that is just breaking even or losing money offers a lender little peace of mind about his loan.

C. WHY DOES A "GOING" RESTAURANT NEED FINANCING

We have shown the importance of restaurants in our economy and have pointed out some of the unusual characteristics that your financial statement might show when compared to other businesses. Let us try to enumerate what you might need financing help for.

1. Add additional equipment to reduce operating costs or improve efficiency.
2. Replace worn out or obsolete equipment.
3. Remodel kitchen facilities to increase efficiency.
4. Remodel to increase seating capacity and customer satisfaction.
5. Provide off street parking.

There are probably other purposes for which you might need help but the problem that stands out is that your needs are not short term in the sense of a 30, 60 or 90 day loan. As pointed out previously, your needs for inventory and carrying receivables are negligible.

When you do need financial help, it is generally going to be needed for a long period of time and will have to be repaid out of earnings, therefore, you must evolve a plan to show to your prospective lender.

D. EVOLVING A PLAN

Your decision to add or replace a piece of equipment, to enlarge or remodel must be based on sound business judgment and not just on emotional whim. A faulty merchandising policy is not necessarily going to be corrected by the addition of more equipment. The first person you should convince is yourself and in doing so you will want to consider:

- (a) Will I save money - how much?
- (b) Will I earn more money - how much?
- (c) Will I merely maintain my same volume and profits

and if so, can I repay this debt out of this same volume and profit without impairing my working capital?

In your consideration you must allow for seasonal and industrial fluctuations and all other factors you think might effect your ability to service this loan.

Assuming that you convince yourself that your project is necessary and that you are capable of properly servicing a loan you now may have to sell someone else of need in order to secure a loan. You have several sources to approach for this loan and banks, I have found out, are not the most common source, but being a banker, the first one I will mention is a bank. (Most of the points that apply to banks also apply to small business administration loans).

E. APPROACHING YOUR BANKER.

Just how do you go about approaching this character who is always portrayed as having ice water in his veins and a glass eye that evinces more humor and sympathy than his good one.

First of all, go to the bank where you have your business account--that at least is sufficient reason for him to give you consideration, and in today's tight money market, many banks are making loans only to present customers.

Approach your banker with your problem and needs well thought out and planned. One shortcoming of many potential borrowers is a sort of vagueness as to the reason for seeking credit and a lack of a program for repayment. Vagueness

creates a poor impression as to your managerial ability and immediately causes a shadow of doubt as to the wisdom of your program.

If you haven't furnished financial and operating statements at least yearly since you have been in business, take along your statements for the past three or four years. Incidentally, I feel it to be good business practice to render periodic financial and operating statements regardless of whether you contemplate the need for credit or not.

From your financial and operating statements, your banker will be able to see how your business has progressed and how your earnings have been. He will be particularly interested in earnings and the stability of your business. Naturally, if your earnings do not show the ability to properly repay a loan, you will have a hard time convincing him that these earnings will magically improve as a result of obtaining it.

Another thing your operating and financial statement will show is your ability and willingness to retain part of earnings to build up net worth. A business that is being milked of all profits, either isn't earning enough, or the owner or stockholders are not properly providing for future expansion and replacement needs. This is an indication of poor judgment and management.

Go over your ideas concerning your needs and outline what you think it will do for your business and how

you will be able to pay it back. It will be best if you have some of your own money to put into this plan--if it is equipment you need, you should be prepared to pay a quarter to a half down and finance the balance. If it is modernization you should have some money to pay for part of it. This will demonstrate to your banker that you have faith in your own ideas and don't want to shift all the risk to someone else.

If your relationship to your banker hasn't been close, he will have to do some investigation himself and here is a word of advice--give him time to study your proposal. Too many borrowers have an irritating habit of coming in to borrow money they have already spent the day before.

F. YOUR BANKER'S APPROACH TO YOUR REQUEST.

Your banker is going to judge your request from the standpoint of the three C's of credit--Character, Capacity, and Collateral.

Character to the banker means the reputation of the firm or individual for meeting his obligations. It is the history the borrower has established for himself in meeting his promises and in the way he conducts his business. Is he above-board in all dealings or does he indulge in sharp and shady practice? Does his place of business look clean and orderly or is it dirty and poorly maintained? No matter how small the loan requested is or how well secured a loan might be, character is distinctly important.

The second fundamental by which your loan request is going to be judged is known as Capacity, and here is considered the ability of the borrower to repay a loan in accordance with his promise. No matter how honest the individual, or how rotty he is, if his financial ability and earnings are not great enough to repay a loan, he does not have the capacity to do so.

Under this characteristic I would include management ability, which, in your business, involves the economical purchasing of unprepared food, having it properly prepared, having it served in tempting and proper portions at a price that will yield a profit. Poor service, poor preparation, faulty purchasing and improper portion control reduce Capacity. Inasmuch as 88% of all business failures are related and attributable directly to poor management in the form of (1) inexperience in line (2) lack of managerial experience (3) unbalanced experience or (4) incompetence, capacity therefore is an extremely important consideration.

The third principle your banker will apply to your request is known as Collateral and may either be something of tangible value to pledge, to secure a loan or simply the equity shown in your financial statement. Equity or net worth is the difference between what you own and what you owe. If this equity is sufficiently large, the loan may be made on an unsecured basis.

After applying these three principles to your request for credit, your banker is going to consider several other

things in relation to the restaurant business.

One of these considerations is the great number of restaurants and the large number of failures. I asked one older banker if he could give me a few tips on this speech in regard to financing restaurant needs; his answer was "Don't make the speech."

What I presume he actually meant was, that it is a field that by reputation has a large number of failures and therefore loans are high in risk.

It has been estimated that the average life of a restaurant is seven years and that failures run as high as 15-30%.

Another source states that each year some 37,000 food service establishments open for business and each year 24,000 close their doors for the last time.

Another consideration is that, historically, banks supply short term seasonal credit to commerce and industry. A bank receives funds from depositors for credit to checking accounts that are payable on demand and funds for credit to savings accounts that are payable by practice on demand or very short notice. Therefore, a bank can hardly make a large portion of its loans for long periods of time. A bank must maintain a reasonable liquidity so that it may always meet the demands of its depositors to whom it has a primary obligation.

When the proceeds of a loan are to be invested in Fixed Assets, the loan is said to be a Capital Loan, i.e.,

the loan can be repaid only over a period of time and out of earnings. The number of these loans, in a bank loan portfolio, has historically been small in number and dollar amount although in larger cities there has been a trend toward making more of these loans on a term basis. Because these Capital Loans run for a longer period of time the risk is greater and if banks are to make them, they should build up a large loan loss reserve to safeguard their depositors. Unfortunately banks are presently handicapped by laws that restrict the practicality of setting aside funds for such loan loss reserve except in small amount. Until such time as a more realistic approach is made to allow adequate loan loss reserves, banks must restrict their lending for capital purposes.

Unfortunately, most of your needs fall into the category of Capital Loans because the funds you need are for Fixed Assets. If your request is reasonable, however, and can be paid out of earnings over a year to two years, your banker may grant it on a monthly payment basis. Loans of this nature will normally bear a 6% discount interest rate.

3. OTHER FINANCIAL RESOURCES

1. Restaurant Equipment Suppliers - apparently do a large volume of the financing of equipment on a direct basis with the operator, after the operator advances what the supplier considers to be an adequate down payment.

The supplier may carry the loan himself, if financially able or he may discount it to a bank or finance company and "back" the loan. Bank rates will run 6% and finance companies may run more (about double).

If the loan goes sour the Equipment Supplier being an expert in the field, generally can sell the equipment and pay off the loan.

One disadvantage of this type loan is that you may not be able to "shop" for the make of equipment you want.

Another disadvantage might be that the operator allows himself to be "sold" instead of developing his own plan and determining his real needs in advance.

2. Surveyor Financing - seems to be quite a general practice in the trade. It is, I understand, almost possible for an operator to get completely set up in business through surveyor financing with very little investment of his own.

This practice tends to open the field up to inexperienced, undercapitalized operators who often fail; this tends to give a black eye to the trade as a whole.

It does limit the operator to purchasing from the surveyors who finance him; he must buy their product and is in no position to shop around for more economical sources.

One local ice cream company uses the \$1.00 per gallon annual sales as a rule of thumb to limit the size of the loan. Thus, \$2,500.00 would be a good sized loan in this area.

3. Landlords - if a building is leased - are often a good source for assistance. Inasmuch as leasehold improvements should be considered carefully and in relation to length of lease to allow write-off it may be necessary to negotiate for lease adjustment. Often a landlord will assist if he is properly approached.

4. Small Business Administration - out of 1290 loans made from January 1 to June 30, 1956 from the published list I could determine that at least ten had been made to restaurants. Five of these loans were made directly to the operators and five of them had bank participation. These loans ranged in amounts from \$4,000 to \$90,000.

Loans made by this agency to small manufacturers, wholesalers, retailers, and service establishments are made for a maximum of ten years to:

1. finance business construction, conversion or expansion
2. finance the purchase of equipment, facilities, supplies or materials
3. to supply working capital.

See Page 148 of this appendix - Practical Credit Requirements.

See page 148 of this appendix - Ineligible Applications.

Borrower must first seek credit from bank; if bank is unable to make loan, borrower may apply direct to S.B.A.

CONCLUSION

In conclusion, it would seem to me that your need for financing should be a result of careful thought and long range planning concerning something that will improve your business. This project will probably have something to do with your Fixed Assets and will have to be repaid out of earnings. It should be supported by figures that will prove to yourself and the lender that you have the capacity to repay the loan. Some funds for this project should be furnished by you out of previously retained earnings.

You may have to use some sources other than banks, until such time as you have an established record, and can borrow on the strength of your financial statement supported by your proven ability as a sound businessman and manager. These other sources seem to be generally available; by all means use them if you deem it prudent and to your advantage.

OUR RESTAURANT LENDING EXPERIENCE

1. Direct requests have been infrequent, however.

- (a) Can remember one loan of several thousand dollars for expansion that was short term due to the terrific seasonal trade.
- (b) A loan made to purveyor on the strength of a restaurant operator's endorsement.
- (c) Have several operators would give unsecured credit if they requested it.

(d) Have made several real estate mortgages on restaurant buildings owned by operators; all but one handled satisfactorily.

2. Indirect loans through equipment dealer; installment contracts turned in to us on full recourse basis. We know and rely on dealer and he has ability and know-how to sell equipment if loan goes in default. This dealer has volume approaching one million dollars and 85% sales are for cash. He tries to carry the 15% himself for the income it produces but often is forced to turn them in to us; he required 1/3 to 40% down payment and finances balance for 12 to 24 months.

3. Banker friend - non-customer (\$000) turn down - (non-customer).

4. Payroll loans -

5. Insurance agent - burglary, fire, comprehensive general liability, business interruptions, worker compensation, theft.

ROBERT MORRIS ASSOCIATES
STATEMENT STUDIES
Year ended on or about December 31, 1955

RESTAURANTS		RETAIL TRADE		
ASSET SIZE	UNDER \$250K	\$250K & LESS THAN \$1M	\$1M & LESS THAN \$20M	ALL SIZES
Number of Statements	21			29
ASSETS	%	%	%	%
Cash	12.32			30.58
Receivables Net	2.41			5.06
Inventory Net	8.62			9.23
Marketable Securities				1.39
All Other	.20			.90
Total Current	23.56			47.21
Fixed Assets Net	65.45			42.53
All Other	10.99			10.27
Total Non Current	<u>76.44</u>			<u>52.79</u>
Total Assets	100.00%			100.00%
LIABILITIES	%	%	%	%
Due to Bank	9.96			1.24
Due to Trade	11.63			10.14
Income Taxes	2.07			8.08
All Others	3.13			6.85
Total Current	31.84			26.31
Due to Banks Long Term	.34			.53
Other Long Term Debt	12.31			6.53
Total Debt	45.49			33.36
Net Worth	<u>54.51</u>			<u>66.64</u>
Total	100.00%			100.00%

ROBERT MORRIS ASSOCIATES
STATE-LET STUDIES
Year ended on or about December 31, 1955

RESTAURANTS		RETAIL TRADE		
ASSET SIZE:	UNDER \$250K	\$250K & LESS THAN \$1M	\$1M & LESS THAN \$10M	ALL SIZES
Number of Statements	21			29
INCOME DATA	%	%	%	%
Net Sales	100.00			100.00
Cost of Sales	50.11			55.75
Gross Profit	49.89			44.25
All Other Expense/Net	45.67			36.42
Profit Before Taxes	4.22			7.92
Income Taxes	1.82			3.92
Net Profit or Loss	2.42			3.90
RATIOS				
Current Assets/Liab.	74.00			179.00
Worth/Fixed	87.00			157.00
Worth/Debt	120.00			200.00
Sales/Receivable (2)	15708.00		(6)	5940.00
Cost Sales/ In-				
ventory (16)	2204.00		(20)	1305.00
Sales/Inventory	4798.00			3238.00
Sales/Fixed	580.00			707.00
Sales/Worth	696.00			451.00
Profits/Worth	16.82			17.53
Sales/Total Assets	379.00			300.00
Profits/Total Assets	9.17			11.72

ROBERT MORRIS ASSOCIATES
STATEMENT STUDIES
Year ended on or about December 31, 1955

RESTAURANTS		RETAIL TRADE		
ASSET SIZE:	UNDER \$250K	\$250K & LESS THAN \$1M	\$1M & LESS THAN \$10M	ALL SIZES
THOUSANDS OF DOLLARS	\$	\$	\$	\$
Net Sales	7697			86545
Total Assets	1029			28804

S. I. A. PARTICIPATION LOANS
Up to June, 1957

<u>WHERE</u>	<u>KIND</u>	<u>AMOUNT</u>	<u>S. I. A. PARTICIPATION</u>	<u>BANK PARTICIPATION</u>
Clarkville, Indiana	Drive-In	\$ 8,000	75%	25%
Cedar Falls, Iowa	Cafe	4,000	75%	25%
Coffeyville, Kansas	Drive-In	8,000	Direct	--
Dearborn, Michigan	Restaurant	50,000	Direct	--
Clare, Michigan	Hotel and Restaurant	55,000	65%	35%
Warba, Minnesota	Cafe	6,000	Direct	--
North Canton, Ohio	Diners	50,000	Direct	--
Knoxville, Tennessee	Restaurant	70,000	Direct	--
Knoxville, Tennessee	Restaurant	45,000	90%	10%

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Dies, W. J., President, East Lansing State Bank, East Lansing, Michigan.

Dybert, C. E., Vice President, East Lansing State Bank, East Lansing, Michigan.

Featherston, C. T., Loan Officer, Merchants National Bank, Indianapolis, Indiana.

Foster, Joseph B., Vice President, American State Bank, Lansing, Michigan.

Grant, Miles, Vice President, Michigan National Bank, Lansing, Michigan.

Hays, Andrews W., Vice President, American State Bank, Lansing, Michigan.

Murley, Frank and Hellum, Richard, Loan Officers, Indiana National Bank, Indianapolis, Indiana.

Johnson, B. B., Loan Officer, American Fletcher National Bank and Trust Company, Indianapolis, Indiana.

Minich, Edward E., Assistant Vice President, Michigan National Bank, Lansing, Michigan.

Rock, Walter S., Assistant Vice President, Bank of Lansing, Lansing, Michigan.

Schetzler, Harold E., Retired attorney and businessman, Lansing, Michigan.

Steele, Earl W., Assistant Vice President, The Detroit Bank and Trust Company, Detroit, Michigan.

Tharp, Carter B., Assistant Cashier, American Fletcher National Bank and Trust Company, Indianapolis, Indiana.

Wells, John S., Jr., Assistant Cashier, National Bank of Detroit, Detroit, Michigan

Mr. X, Restaurateur, Lansing, Michigan.

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Sexton, Mark L., Assistant Cashier, "Division E", The First National Bank, Chicago, Illinois; November 2 and December 4, 1956.

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Lee, Edward F., partner, Horwath and Horwath, accountants and consultants, Chicago, Illinois, October 29, 1956.

Reck, Walter C., Assistant Vice President, Bank of Lansing, Lansing, Michigan, July 26, 1956.

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