

BUSINESS LEGAL STRUCTURES AND LIFE CYCLE

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Business Legal Structures

- Providing Loan is an action covered by law
- Loan can be provided either to natural person or to a person created by law
- A RM needs to determine that the business is established legally, its structure, legal stipulations for operations, who has the authority to sign for the business and who is liable for the firm's debt obligations.
- Whether a customer is opening a deposit account or making a business loan, banks require documented evidence that verifies the business is operating as a legal entity.

Types of Legal Structures

Business legal structures affect such critical business issues as the owner's liability and the ease with which capital can be raised.

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- ▣ **Sole Proprietorship**
 - **Business Responsibility**
 - **Business Liability**
- ▣ **Partnership Firm**
 - **Governing Law**
 - **Partnership Agreement**
 - **Business Responsibility**
 - **Business Liability and Activities**
- ▣ **Limited Company**
 - **Governing Law**
 - **Private and Public Companies**
 - **Business Liability**

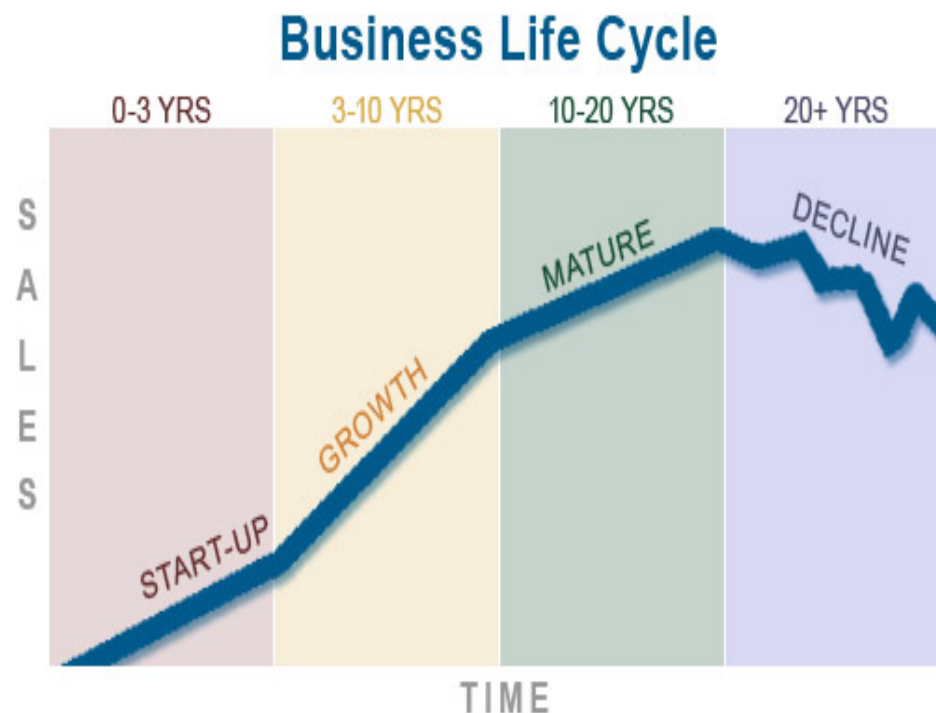
Business Life Cycle

Understanding the concept of a business life cycle gives you an overall or "big picture" perspective of a business borrower.

A **business life cycle** is a macro look at how businesses generally develop over time. Needs of a business change and evolve over time as the business grows and matures.

It is important to understand this process in general, and the stages in the cycle, in particular, in order to anticipate the borrowing needs of a business and possible risks associated with the life cycle stages.

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Risks Associated with Life Cycle

Start-up

- ❑ Cash Flow and Collateral are very weak
- ❑ No proven Market or Track record. Lack of Experienced Management.
- ❑ An unattractive Borrower

Growth

- ❑ Key risk factor is the degree to which sales growth, although profitable, cannot be financed by internal cash flow.
- ❑ Lack of Depth of Supply chain.
- ❑ Efficiency of management to handle the growth. Sales growth may be beyond the company's ability to manage or deliver.
- ❑ An attractive Borrower

Mature

- ❑ Key risk is expecting its stable pattern of sales and cash flow to continue. Possibility of developing new products or acquiring new business may shift the business to Growth Stage
- ❑ Outdated Fixed Assets. Compressing Profit Margins. Increasing Competition.
- ❑ Most Attractive Borrower

Decline

- ❑ Complacent Management or Obsolete Product.
- ❑ Excess Delivery capacity due to Declining Sales.
- ❑ Business may loose substantial market Value
- ❑ Long Term Loans are particularly risky.



Thank you