NAVIGATING TODAY’S “CREDIT JUNGLE”
AN OVERVIEW OF SBA FINANCING
ALTERNATIVES

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Discussion Topics for Today...

- SBA Financing Programs;
  - 7A Loan Program
    - Express
    - CAPLine
  - Export Programs
  - 504 Program
Who is the “SBA” anyway?
SBA

- Agency of the U.S. Government
- Started over 50 years ago
- Key focus on the “Three – C’s”
  - Capital Access
  - Counseling
  - Federal Contracting
- Record year fiscal 2011
- Michigan #1 District in the country!
Why an SBA loan?
SBA Financing Can Be an Excellent Tool to Navigate Today’s “Credit Jungle”

- Mitigate credit risk for the lender so you can “get the deal done”
  - Industry risk
  - Start – Up situation (less than 2 years)
  - Leveraged balance sheet
  - Erratic historical earnings/losses
  - Collateral shortfall
- While offering enhanced financing to the borrower
  - Lower down payment/Smaller equity contribution
  - Longer amortization
  - No balloon payment
How do these loan work?
SBA 7A Program

- Banks serve as a primary point of contact and partner with the SBA.

- Preferred Lender Status provides a bank with delegated loan authority from the SBA. The bank underwrites, approves, documents, funds, and services the loan. The SBA simply provides a guarantee.
Maximum Guarantee & Loan Size

- Standard 7(a) Guarantee;
  - $150,000 or less – 85%
  - Over $150,000 – 75%

- Combined SBA Loans cannot exceed $5,000M
  - Aggregate SBA guarantee may not exceed $3,750,000 (=75% of $5MM)
Loan Maturity/Amortization

- Based on useful life of underlying assets
  - Working capital: up to 10 years
  - Machinery/Equipment or Leaseholds: generally 10 years, maximum of 25
  - Land/building: up to 25 years, plus time to complete construction/renovation

- No balloon payments permitted – maturity = amortization
Maximum Interest Rates Allowed-7A

- Base Rate (Prime or LIBOR+300)Plus ....

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Maturity &lt; 7 years</th>
<th>Maturity 7 years +</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,000 +</td>
<td>2.25</td>
<td>2.75</td>
</tr>
<tr>
<td>$25,000 - $50,000</td>
<td>3.25</td>
<td>3.75</td>
</tr>
<tr>
<td>Up to $25,000</td>
<td>4.25</td>
<td>4.75</td>
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</tbody>
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SBA (One-Time) Guaranty Fee

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Fee on Guaranteed Portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $150,000</td>
<td>2.00%</td>
</tr>
<tr>
<td>$150,000-$700,000</td>
<td>3.00%</td>
</tr>
<tr>
<td>&gt; $700,000</td>
<td>3.50%</td>
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<tr>
<td>&gt; $1,000,000 (for the portion &gt; $1,000,000 only)</td>
<td>3.75%</td>
</tr>
<tr>
<td>Term 12 months or less</td>
<td>0.25%</td>
</tr>
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- Guarantee fee paid by borrower – can be included in loan amount
- Lender may also charge a reasonable packaging fee - but cannot charge points.
Am I eligible? Do we qualify?
Determining Eligibility

- Must be a for-profit operating (not passive) business, engaged in an eligible industry, located in the United States
- Must be a “small business” under SBA size standards
- Must be able to demonstrate a need for SBA financing
  - “Credit Elsewhere” Test
  - “Personal Resources” Test
“Small” Business Size Standard

- Traditional size standard measured using annual revenue/employment depending on NACIS code.

- However; an alternative size standard for 7(a) loans is also available on a temporary basis.
  - Tangible Net Worth less than $15 million, AND
  - Net Income (two-year average) after tax less than $5.0 million (excluding any carry-over losses).

- Affiliates must be included in calculation – Affiliate is any related business entity of the borrower, or owned separately by any 20%+ owner.
Demonstrate Need for SBA Financing

- The applicant must demonstrate a **need** for an SBA guaranty on the loan

- Lender must determine;
  - Applicant is unable to obtain the loan on reasonable terms without SBA guaranty, **AND**
  
  - Some or all of the loan is not available from;
    - Resources of the applicant business **OR**
    - Personal resources of the business’ principals – Personal Resource Test
How does the bank underwrite my loan?
Credit Underwriting

- Lender must analyze each application in a commercially reasonable and prudent manner.
- *Cash flow* is the primary source of repayment (not liquidation of collateral).
- Application must be declined if cash flow is inadequate to provide reasonable assurance of timely repayment, regardless of collateral.
- Business acquisition – must have an independent valuation performed if "goodwill" over $250M.
Equity Requirements

“Skin in the game”

- Rule of thumb: 10%-20% of total project cost is recommended
- Equity includes cash (not borrowed) and certain hard assets. Subordinated debt may be eligible
- Lenders required to verify injections prior to disbursing loan proceeds
Collateral Requirements

- Loan should be fully secured by *fixed* assets with aggregate liquidation value equal to loan amount, to the extent such collateral is available, *However*;

- The SBA will not decline a loan solely on the basis of insufficient collateral

- If liquidation value of business collateral is inadequate to secure loan, lender must take all available personal assets of principals
Personal Guarantees

- All owners of 20% or more are required to pledge a full, unlimited personal guaranty.
- If a spouse owns 5% and the combined ownership of spouses totals 20%, both must fully guaranty.
- Full or limited guaranties of other parties may be required if necessary for credit reasons.
- Guarantees may be secured by personal assets depending on situation.
What can be financed with an SBA loan?
Eligible Uses of Proceeds

- Working capital (revolving credit must be financed using an Express line or the CAPLine program)
- Land, buildings
- Equipment
- Business acquisitions/change of ownership
- Debt refinancing (subject to certain limitations)
What are some of the specific SBA loan programs my banker may suggest?

- Express loan
- Working capital “CAPLine”
- Export financing
- 504
SBA Express Program

- Streamlined process for SBA Loans up to $350,000
- Standard eligibility criteria apply
- 50% SBA guarantee
- Can include revolving credit facilities
SBA Working Capital CAPLine Program

- Revolving credit to finance working capital based on accounts receivable and inventory
- Maximum line amount $5,000M (subject to aggregate SBA loan exposure of $5,000M)
- SBA guarantee of 85% $150M or less and 75% over $150M
- Maximum maturity 10 years, subject to annual review.
- Applicable 7a eligibility criteria apply
- Uses bank documentation and process
- Limitations on ability to refinance existing debt
SBA Export Financing Programs

- Export Express
  - Multiple use of proceeds related to development/expansion of export markets. Term or revolving credit.
  - Up to $500M
  - 90% SBA guarantee up to $350M (75% $351-500M)
  - Streamlined process

- Export Working Capital (EWCP)
  - Working capital financing to support export sales
  - Up to $5,000M
  - 90% SBA guarantee

- International Trade Loan Program
  - To provide term financing for Capital investments to improve global competitiveness
  - Up to $5,000M
  - 90% SBA guarantee
SBA Export Financing Programs

- SBA also partners with Federal Agencies including;
  - Export-Import Bank of the United States
    - Risk protection including credit insurance for foreign receivables
    - Credit support for foreign buyers
    - Working capital financing programs
  - U.S. Commercial Service/Department of Commerce
    - Trade consulting
    - Market intelligence
    - Business matchmaking
    - Commercial diplomacy
SBA 504 Program
Purpose of 504 loan

- Designed as an economic development program, to provide business with access to capital for real estate and equipment purchases on very attractive terms.
SBA 504 Program

- Borrower eligibility similar to SBA 7a - plus job creation/retention requirements
- Projects are financed between a combination of bank financing (50%); an SBA debenture (30-40%) and borrower’s equity (10-20%)
- The bank provides interim financing for project, then holds 50% of the permanent financing package.
- The bank works in partnership with a Community Development Corporation (CDC) to put the deal together
  - Certified Development Companies (CDCs) are non-profit corporations, certified and regulated by the SBA, to package, process, close, and service 504 debentures, which are 30-40% of the financing package.
- Maximum Debenture size $5.0-5.5MM
Borrower Benefits

- Provides a way for a bank “to get the deal done” by mitigating credit risk
- Minimal capital requirement
- Long term note and amortization
- Low fixed rate debenture
- Assumable
Bank Benefits

- Less risk with 50% loan to value
- Ability to offer borrowers better terms than conventional financing
  - Low down payment
  - Longer maturity
  - Low fixed interest rates
- Community Reinvestment Credits
Eligible Uses

- Construction of new building
- Purchase existing building
- Leasehold improvements
- Renovating or expanding existing facility
- Purchase of machinery and equipment
- Soft costs and professional fees
- Refinancing of existing debt used for such purpose
Navigating The Credit Jungle - A Few Tips...

- Select an experienced banker – SBA Preferred Lender status important
- Start early in the process
- Let your banker and advisors do the “heavy lifting”
Citizens Bank

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