



# ***VIRTUAL SUMMIT***

***FINANCE***



# How to finance your growing business

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# What is a bank looking for?

- Positive Cashflow
  - Collateral
    - Consistent Business
      - Strong management and financial stability
        - 3 years of operating history

# SBA enhances shortfalls in bank needs

## What is the SBA program?

- The Small Business Administration is a government guaranteed loan program
- Loans are funded with the participating bank. The SBA guarantees 75% of loan
- For loans under \$350,000, the bank generally utilizes the Express Program, which guarantees 50% of the debt
- Max SBA program loan limit of \$5,000,000

## Features & Benefits:

- 10-year term
- Loans with real estate can carry a blended term/amortization period between 10-25 years
- Secured by all business assets along with any outside assets held by guarantors, if available and eligible
- Looking for cash flow in historical and projected periods, not always collateral
- Ability to finance tangible and intangible assets
- Post-closing liquidity is considered

# SBA Lending Basics

What can the SBA loan program do for a borrower?

- Offer extended loan terms/amortization which will improve cash flow.
- Reduce the down payment amount.
- Cover collateral shortfalls.
- Provide extension of credit when not available elsewhere.
- Mitigate change of ownership risk by leveraging the SBA guaranty.
- Eliminate financial covenants (but not reporting requirements).
- Consider the entire project for financing - including all soft costs and uses of funds.

# SBA Lending Basics - continued

## Key eligibility rules include:

- Any individual or entity owning 20% or more of the business must provide a personal guaranty.
- Eligible and available owner assets and/or life insurance may be required to secure the loan if a collateral shortfall exists.
- Loans cannot be used to pay delinquent taxes or flow back to owners or key employees of the business.
- Loans must be made to a for-profit entity with a non-passive business model (e.g., no Investment Real Estate).
- Individual business owners must be US Citizens or Legal Permanent Residents.

# Business Acquisitions & Partner Buyouts

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# Business Acquisitions & Partner Buyouts - continued

## Verified and Eligible Equity Injection Required

- SBA requires minimum 10% equity.
  - Equity injection must be 5% from the buyer.
  - The remaining 5% can be met via seller note or equity means from the buyer.
  - Full standby on seller notes required if used as equity injection requirements.
  - Equity injection options can include cash, gift, minority partners or investors, ROBS, 401k distribution, seller note
- Equity injection must be verified via a 90-day lookback with verified statements.
- Seller notes are encouraged and must be subordinate to the bank.
- Secondary seller notes with immediate repayments may be allowed (credit approval required).



# Business Acquisitions

## Guidelines for eligible ownership transfers:

- 100% of the ownership must transfer.
- The seller(s) must exit the firm after 12 months.
- Strict limits on post closing adjustments to purchase agreements.
- Asset values must be allocated prior to closing.
- Partner buy-outs are well-suited to the program.
- The reallocation of shares must be on a pro-rata basis.
- Independent business valuations required on acquisition and change of ownership requests.

# Startups

- A start-up is typically less than 2 years in business.
- Franchise projects must be approved concepts on SBA registry.
- Business experience and/or transferable skills preferred.
- Business plan, 2 years projections, cost breakdowns and sources/uses of project required.
- Strong credit background & financial wherewithal.
- Outside income preferred but not required (spouse or other employment).
- Strong equity injection (up to 30% for start ups), may be less for franchise concepts (20%).

# Debt Consolidation or Refinance

- The SBA issues a term/amortization based upon the use of funds.
- Original source, use and collateral of refinanced debt must be understood.
  - Subsequent refinances must be understood.
  - Similar and like collateral required from prior debt.
- SBA requires a 10% improvement for each individual AND must be on unreasonable terms (as defined by the SBA).
  - Refinance of equipment and real estate can have a blended term.
    - Typically, 25 years to CRE and 10 years to equipment.
  - Refinancing an SBA loan with another SBA loan is possible but unusual:
    - Must obtain a letter from existing bank.
    - Demonstrate advantage for the client (same as above).
    - Credit must go to SBA for final approval (General Processing), which can add time.

# Buy, refinance, or expand with the right loan

TERMS & CONDITIONS	SBA 7(A) LOAN	SBA 504 LOAN	CONVENTIONAL LOAN
DOWN PAYMENT	0%–10%	10%	10%–25%
BALLOON	No	No	Available
STRUCTURE	0%–10% equity 90%–100% HNB SBA loan	0%–10% equity 50% HNB conventional loan 40% 504 loan	10%–25% equity 75%–90% conventional loan
PRE-PAYMENT PENALTY	0–3 years	10 years	Typically 5 years
MAXIMUM TERM	25 years	25 years	Typically 20 years
FINANCIAL COVENANTS	No	No	Yes <sup>1</sup>
RATE	Variable	Fixed	Fixed or variable
COLLATERAL SHORTFALL ALLOWED	Yes	No	No
AVERAGE CLOSING TIME <sup>2</sup>	30–50 days	45–65 days <sup>3</sup>	30–45 days
PARTICIPANTS	1 participant: Preferred Lender Program (PLP) lender	2 participants: Bank & Certified Development Company	1 participant: Bank

<sup>1</sup>Requirements based on Huntington Business Banking Credit Policy and may vary by request.

<sup>2</sup>Average closing time frames are based on the median average of Huntington closed loans during 2017-2018 and are not guaranteed.

<sup>3</sup>Time frame represents bank fulfilled portion only.

All applications subject to standard credit review and approval. SBA loans subject to SBA eligibility.

# Funding Acquisitions

## Capital Options to close:

- Cash
  - Rollover equity
    - Seller Debt
      - Earn-out
        - Banks
          - Non-banks
            - Pure equity

## Market Overview (By Type of Capital)

