



HOMES
JOBS
COMMUNITY

PPP and Beyond: Helping Small Businesses with Long Term Recovery Efforts

National Development Council
June 25th, 2020

www.ndconline.org



Small Business Short and Long Term Recovery Efforts



PPP, EIDL and Traditional SBA Lending

- **PPP:** Paycheck Protection Program (PPP) lending provides short-term capital to cover payroll expenses- SUCCESS!
- **EIDL:** Economic Injury Disaster Loans (EIDL) provide a long-term working capital solution to losses caused by COVID-19.
- **SBA 7(a):** Provides long term, well priced capital with an SBA guarantee.

Today's Focus is to prepare for you to use a SBA 7(a) Loan as part of a long-term recovery solution.

SBA 7(a) Loan- What is it?

	SBA 7(a) Small Business Loan
Who Can Apply?	Small businesses who are below the SBA small business size standards or below the alternative size standard
Maximum Loan Amount	Up to \$5 million
Rate	Generally maximum rate of WSJ Prime + 2.75% (with current rate of 6.0%) and often lower
Term	Useful life of the asset to be funded (Up to 25 years for Real Estate)
Security / Collateral	Business and personal guarantee/ Any and all available collateral up to the loan amount
Eligible Uses	Working capital, purchase of FFM&E, leasehold improvements, refinance of eligible debt, and real estate acquisition

SBA 7(a) Loan- What is it?

	SBA 7(a) Small Business Loan
Prepayment Penalties	No prepayment penalty with 15-year term or less. Sliding scale for years one through three for term of 15 years or more
Where to Apply?	...through SBA-approved lenders
Underwriting Criteria	Specific to each lender. Based on an analysis of historical and projected cash flow (for start-ups) and collateral
Eligibility Requirements	Both existing and start-up, for-profit entities can apply
Guarantee from SBA	85% for loans < \$150,000 and 75% for loans > \$150,000 to \$5,000,000.00

Why SBA 7(a) and Why Now?

Flexible and Favorable Terms in a Challenging Economy

- Collateral is not a simple 1:1 analysis.
- Historical cash flow can be at 1:1 (and lower at times).
- 7(a) requires a holistic analysis that determines both the strength of a business and *of management*.



“The Grow America Fund knew me, and my needs more than I did.” – Zachary Phillips of Short Order Productions, LLC

SBA (7a) Loan Program Basics

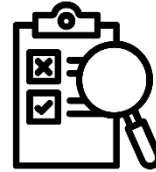
Eligible Borrowers

- Industry and Size of Applicant (includes affiliates)
- History of Owners/Guarantors (criminal, legal, financial)

Eligible Uses of Funds

- Working Capital (accts. receivable, inventory, raw materials, etc.)
- Machinery and Equipment
- Furniture and Fixtures
- Leasehold Improvements
- Refinancing Business Debt
- Real Estate Acquisition, Construction, and Improvements (**must be owner-occupied**)
- Business Acquisition

SBA 7(a) Required Documents



Personal	Business	Project
<i>Tax Returns – 3 years</i>	<i>Tax Return – 3 Years</i>	Quotes and Estimates
<i>Personal Financial Statement</i>	<i>Interim Financial Statements</i>	Purchase Agreement
SBA Form 1919	Business Debt Schedule	Letter of Intent
Resume	Copy of Lease agreement	Seller Financials
Credit Release Form	Business Plan	Applicable contracts
Government Issued ID	Financial Projections and Assumptions	
	Incorporation Documents	

Underwriting an SBA 7(a) Loan



Cash Flow – Can the business repay the loan with operating cash flow?
(Is Existing Cash Flow > Debt Service?)



Collateral – Does the business or owner have adequate collateral to secure the loan as a second way out?



Character – Do the guarantors have the personal and corporate credit history that demonstrates his or her willingness to fulfill the company's financial obligations?



Capacity – Does the owner's personal or business history demonstrate the capacity to manage the business through both good and bad times?
(Management Capacity and Financial Capacity)

Business Cash Flow Analysis

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>4/30/2020</u>	<u>FY 2020</u>
	<u>(Actual)</u>	<u>(Actual)</u>	<u>(Actual)</u>	<u>(Actual)</u>	<u>(Projected)</u>
Net Income (Losses)	\$33,000	\$35,000	\$38,000	\$14,000	\$40,000
+ Depreciation/Amortization	\$5,000	\$5,000	\$5,000	\$0	\$5,000
+ Interest Expense	\$2,000	\$2,000	\$2,000	\$600	\$2,000
+ Other Addbacks	\$0	\$0	\$0	\$0	\$0
Total Cash Flow	\$40,000	\$42,000	\$45,000	\$14,600	\$47,000
+ New Debt Service*	\$26,600	\$26,600	\$26,600	\$8,800	\$26,600
+ Existing Debt Service	\$10,000	\$10,000	\$10,000	\$3,300	\$10,000
+ Owner Distribution	\$0	\$0	\$0	\$0	0
Total Cash Requirements	\$36,600	\$36,600	\$36,600	\$12,100	\$36,600
Cash Flow Coverage	1.09	1.15	1.23	1.21	1.28
Cash Margin	\$3,400	\$5,400	\$8,400	\$2,500	\$10,400

*New Debt Service assumes a loan of \$200,000 @ 5.5% interest and a term of 10 years

Personal Cash Flow Analysis

	FY 2019	
HOUSEHOLD INCOME		
Salaries and Wages	\$55,000	W-2 wages from owner and spouse
Taxable Refunds	\$0	
Pensions and Annuities	\$0	
Schedule C Income	\$5,000	Income from rental property
Schedule E Income	\$0	
Other Income	\$0	
Total Income	\$60,000	
HOUSEHOLD EXPENSES		
Income Taxes	\$1,500	From most recent tax return
Mortgage Payments/Rent	\$14,400	Assumes \$1,200/mo
Auto Loan/Lease	\$3,600	Assumes \$300/mo
Student Loans	\$4,800	Assumes \$400/mo
Credit Cards	\$2,400	Assumes \$200/mo
Other Debt	\$0	
Personal Living Expenses	\$24,000	Assumes \$2,000/mo
Total Expenses	\$50,700	
Cash Surplus/Defecit	\$9,300	

Can the owner(s) cover personal obligations from the salary taken from the business or are they reliant on outside sources of income?

Collateral Coverage – Sample Analysis

COLLATERAL ASSET	Fair Market Value	Collateral Valuation (%)	Existing Liens	Existing Leverage	Collateral Value
Owner's Primary Residence	\$150,000	80%	\$135,000	90%	\$0
New Machinery & Equipment	\$150,000	75%	\$0		\$112,500
Inventory	\$30,000	10%	\$50,000		\$0
Accounts Receivable (<90 days)	\$55,000	10%	\$50,000		\$0
			TOTAL COLLATERAL VALUE		\$112,500
			SBA 7(a) Loan Amount		\$200,000
			Collateral Surplus/Defecit		(\$87,500)
			Collateral Coverage Ratio		0.56

Assumptions:

SBA 7(a) loan of \$200,000 is being used to purchase \$150,000 of equipment and to provide \$50,000 of permanent working capital. The existing business loan has a balance of \$50,000 and is collateralized by Inventory and A/R.

Sample: How a Loan Underwriter Measures Character and Capacity

Character of Owners/Key Staff:

- ✓ Background searches
- ✓ Personal and corporate business history
- ✓ A summary of client and vendor relationships
- ✓ Personal credit reports
- ✓ Personal financial statements
- ✓ Site visit
- ✓ Personal/client references

Capacity of Existing Businesses:

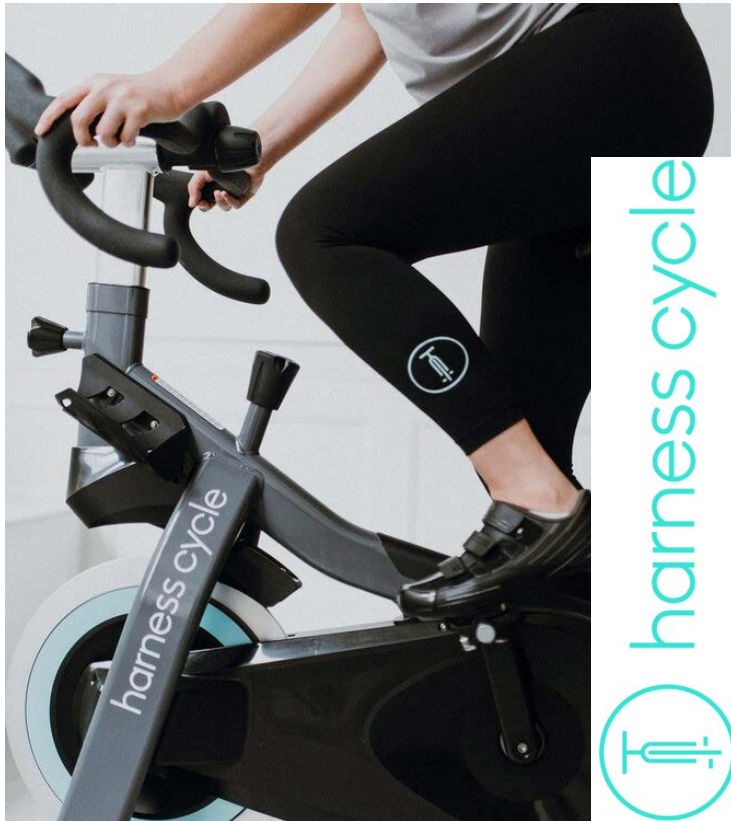
- ✓ Analysis of the balance sheet and the profit and loss statement
- ✓ Equity investment / net worth
- ✓ Adequate working capital
- ✓ Key staff
- ✓ Succession plan
- ✓ Resume
- ✓ Succession Plan

Capacity of Start-up Businesses:

- ✓ Owner's prior relevant management experience
- ✓ Business plan analysis
- ✓ Evidence of cash available as equity contribution
- ✓ Key staff/mentors
- ✓ Smaller loan, third equity

Case Study – Harness Cycle

Harness LLC operates two indoor cycling studios in Cleveland, OH.



- NDC GAF approved a SBA 7(a) loan of \$205,000 on March 3, 2020 to refinance existing debt.
- But, on March 12, 2020 the business made the decision to temporarily close both studios, just days before the Governor of Ohio would mandate the closure of all retail businesses due to COVID-19.
- Immediately, the business was able to pivot to a virtual studio where it could offer classes remotely. Harness began to offer equipment (stationary bikes, mats, weights, etc.) for at-home riders.
- NDC GAF closed the loan in May 2020.

Next Steps for Your Small Business and Additional Resources

Funding for Immediate Support

Paycheck Protection Program (PPP)
SBA Economy Injury Disaster Loan (EIDL)
IRS Employee Retention Credit
Local & Regional Funding Programs
Stretch Accounts Payable
Payment Deferrals/ Restructure
Business Pivot Opportunities
Partnership Opportunities
Family and Friends Loan

Funding for Future Support

SBA 7(a) Loan
SBA 504 Loan
SBA Community Advantage Loan
SBA Express Loan
Traditional Bank Financing

How Do I Increase My Chances of Obtaining an SBA 7(a) Loan Now?



Plan

Be proactive and have a well thought out plan



Organize

File 2019 Tax Return



Prepare

Prepare up to date Financial Statements that includes a period by period comparison

- I.e. June 1, 2019 Vs June 1, 2020



Identify Risk

Identify risk mitigates and repayment sources

- I.e. Collateral, outside income, additional guarantors etc.



Identify Sponsors

Identify advocates and sponsors

Obtaining an SBA 7(a) Loan

...

- ✓ Certification of No Adverse Change is required
- ✓ For approved loans, funds may be disbursed if determined that the small business can remedy the adverse change
- ✓ Lenders may pause disbursement if adverse change cannot be remedied
- ✓ If the Business is not operational, no disbursement should be made
- ✓ Again, an SBA 7(a) loan should not be used in place of a disaster loan

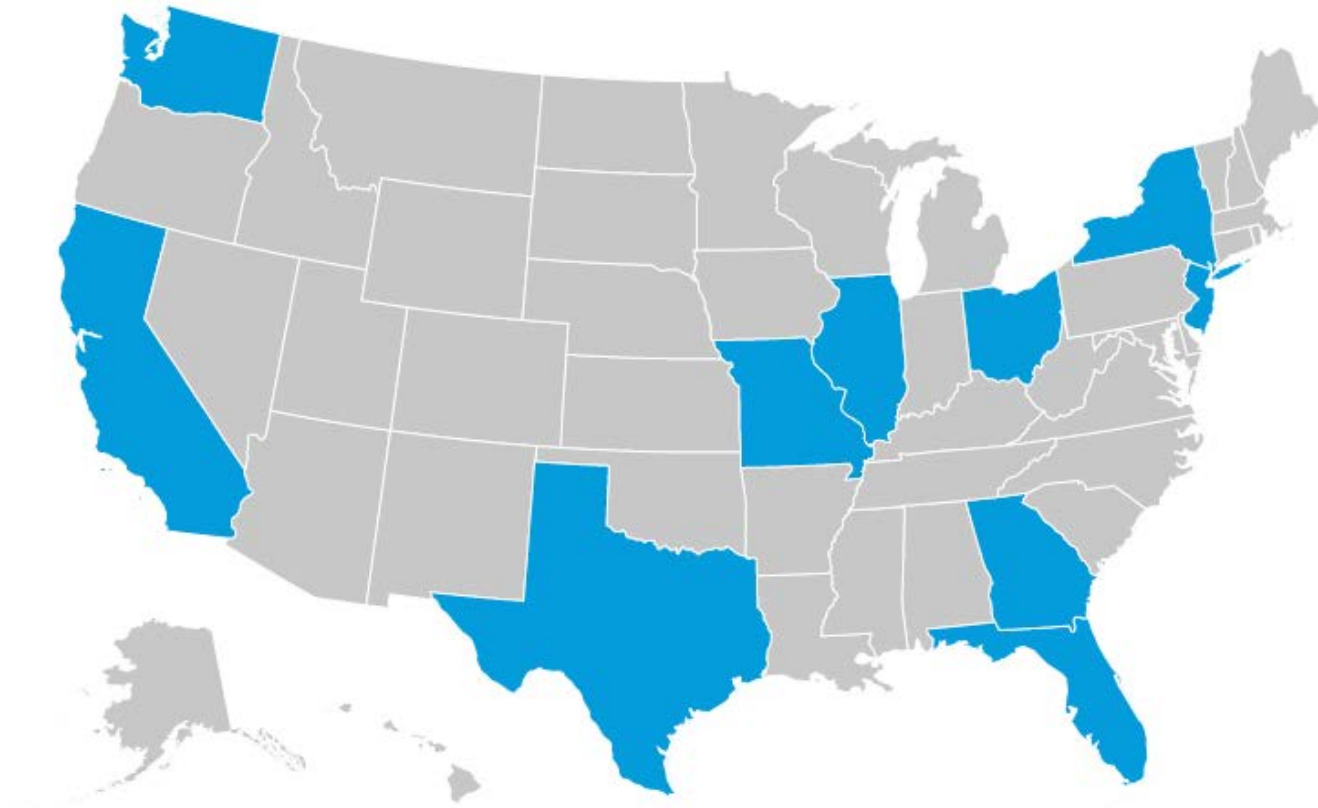
National Development Council

Partners in Community Development Since 1969

NDC's work focuses on HOMES, JOBS and COMMUNITY. Founded as a national nonprofit in 1969, NDC has worked for over 50 years fulfilling its mission to increase the flow of capital for investment in low-income communities. NDC directs capital to support the development and preservation of affordable housing, the creation of jobs through training and small business lending and the advancement of livable communities through investment in social infrastructure. Please visit www.ndconline.org for more information.



NDC Small Business Lending



NDC 50 YEARS



IMPACT AT A GLANCE

\$898M

for Affordable
Housing

\$754M

in New Markets Tax
Credit Allocation

\$2.0B

in Public-Private
Partnership
Development

75K+

Practitioners Trained

\$269M

in Small Business

100+

TA Client

\$70M+

PPP Lending

Other Resources from NDC

- NDC has 25+ years of experience lending directly to small businesses and assisting local governments and nonprofit agencies in designing small business assistance programs.
- For Technical Assistance in establishing or modifying RLFs to capitalize SBA 7(a) loan funds, contact:

<https://ndconline.org/technical-assistance/staff/>

Q&A