



Understanding SBA Lending and Partnering to Grow Your Business

October 19, 2016

Agenda and Speaker

Agenda

- Introduction to the SBA
- Using SBA Lending for Working Capital Lines of Credit
- How Your Company Can Use SBA Credit
- Q&A



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Introduction to the SBA



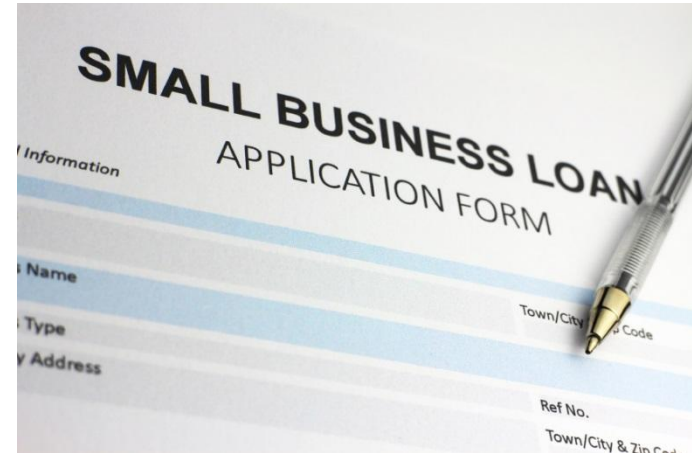
U.S. Small Business Administration

Understanding the SBA

- Began backing loans in 1954 to help businesses:
 - Expand
 - Create jobs
 - Reinvest their profits
- Fifth Third Bank – preferred SBA lender for a quarter century
- Loans were extended to midsized businesses during recent recession

How SBA Loans Work

- Lower down payments
 - Typically 10 percent
- Longer terms
 - 25 years instead of 20
 - Results in lower monthly payment for businesses
- Borrower does not have collateral for the full amount of the loan
- Above all, SBA lending is a working capital solution for businesses of many sizes and industries



SBA Myths and Misconceptions

- **Myth # 1**

“My business will be audited if I apply for a loan”

- The government never interferes with borrowers business. They do not visit or audit borrowers. You are not required to provide financial info other than in limited circumstances in order to get their approval to guarantee.

- **Myth # 2**

“The SBA will guarantee a loan whenever the bank refuses to approve it”

- Not if you aren't creditworthy
- Risky loans aren't guaranteed, regardless of your collateral

The Most Popular Programs

- 7(a) loan
 - Bolster cash flow
 - Banks can lend up to \$5 million
 - Express loan
 - Can lend up to \$350,000
 - Less paperwork and quicker approval
- 504 loan
 - For making a real estate purchase
 - Job creation requirement





Using SBA Lending for Working Capital Lines of Credit



Using an SBA Line of Credit

- Capital when you need it
- Keeping debt in check
- Longer terms/fewer rules

Express Lines of Credit

- Available up to \$350,000
- Total repayment term is seven years
- First three years are interest only followed by a term loan for the outstanding balance repaid in equal payments over four years. Interest rates are capped.
- May be unsecured under certain circumstances
- At present, there is no additional cost for the SBA guarantee for loans \$150,000 or less (\$350,000 if the owner or their spouse is a veteran)

Keeping Debt in Check with SBA CAPLine

- SBA CAPLines are revolving lines of credit up to \$5,000,000
- Loan terms are up to 10 years with no renewals
- Borrower is required to pay principal with the collection of account receivables. This minimizes interest costs to the business.
- Interest rates are capped



Practical Solutions: How Your Company Can Use SBA Credit



How Your Company Can Use SBA Credit

- Purchasing real estate
- Buying a business
- Refinancing existing debt



Purchasing Real Estate

- 7(a) or 504 loan program
- Borrower must:
 - occupy at least 51 percent of property
 - use it for business headquarters or related operations
- Low fixed or variable interest rates for 25 years
- As little as 10 percent down (higher for special use buildings). Keep your cash for other uses.
- Loan payments may be much less than you are paying in lease payments

Buying a Business

- Frequently used by established business owners who are buying out competition or transitioning the business to family members
 - New regions or customer accounts
 - Add product lines
 - Helps business owners who cannot put up full collateral
- Owners cannot sell a portion of their equity. You don't need to sell 100% of the company, but any owner wishing to sell must sell all their interest

Refinancing Existing Debt

- Conventional debt often renegotiated after 3-5 years
- Adjustable-rate loans have balloon payments
- SBA loan is a good resource for both
 - Extend remaining debt over the years on remaining on loan term
 - Avoid large one-time balloon payments. They are not permitted by SBA.

What about start up businesses?

- Fifth Third Bank considers startup entrepreneurs if:
 - Strong managerial experience
 - Ample capital to invest as cash in the business, both up front and during the early stages before revenue has been fully realized
 - A sound, clear, and verifiable business plan is presented which addresses all the risks of opening a new business
 - Pursuing franchise opportunities can improve your chances of approval if the quality of the brand is well-established

Several things you need to know

- Personal guarantees are mandatory for all owners of 20% and more. This is standard for conventional loans as well to a smaller business.
- If your business assets aren't enough to secure the loan, you will be required to pledge personal real estate (home and investment) if there is more than 25% equity in any property. No other cash or property is required to be pledged.

When SBA Loans Aren't Available

- A business must have existing cash flow to service the new debt or must properly justify projected new sources of cash flow
- If you have defaulted on other SBA loans, are delinquent in taxes, or have certain criminal records
- Certain industries are prohibited from consideration
- Certain uses of borrowed funds are not permitted under the program.
- A Fifth Third SBA Specialist has all the details

Improve Your Chances

- Banks look for evidence that owner has:
 - Received good advice
 - Sought out expertise
- Programs available to help
 - SCORE
 - Economic Development Council (SBDC)
 - Ask your banker for advice

How do I apply for an SBA Loan?

- Visit any Fifth Third Financial Center and complete a credit application
- Contact your assigned Business Banking Relationship Manager





Q&A

**If you have additional questions,
please contact a Financial Center,
your Relationship Manager or:
855-306-4470**

[53.com/sbalending](https://www.53.com/sbalending)