
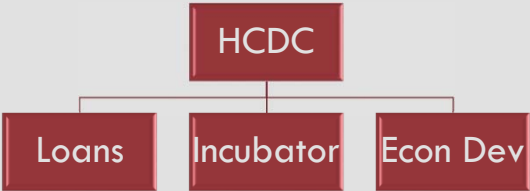




2018 OHIO BASIC ECONOMIC DEVELOPMENT COURSE...
**SMALL BUSINESS
DEVELOPMENT &
PROGRAMS**

About Us 



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graph TD; HCDC[HCDC] --- Loans[Loans]; HCDC --- Incubator[Incubator]; HCDC --- EconDev[Econ Dev];
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*Public Sector Involvement
in Business Financing* 

“The role of the public sector is to invest in ventures or projects where the economic and social benefits outweigh the risk of financing.”

~ Ohio Basic Economic Development Class Manual

The Major Player...

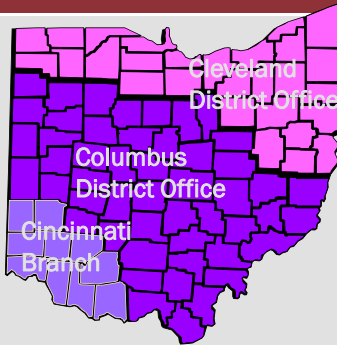


Small Business Administration



- SBA-backed financing
- Government contracting opportunities
- Disaster assistance
- Training & counseling programs
- Website information/resources

SBA Ohio Districts



Purpose of SBA Financing



- Access to Capital
- Achieve Social and Economic Goals

SBA's Role



- SBA does not make direct loans!
- SBA sets the guidelines for loans, which are met by its partners
- SBA guarantees loans will be repaid, thus minimizing risk to the lenders

Parameters for SBA Financing



- Operating business
- Organized for profit
- Located in the U.S.
- "SMALL" as defined by SBA
- Demonstrate need for credit
- Must show credit is not available elsewhere on reasonable terms

What is a SMALL Business?



- SBA defines a small business as independently owned and operated, organized for profit, and not dominant in its field

How Big is a Small Business?



- Either annual receipts or number of employees
- Combination of less than \$15 million in net worth and two-year average net income of \$5 million or less

Affiliates



- Size is based on the combined operations of an applicant and all its affiliates
- Affiliates are businesses that have common ownership, common management, or contractual relationships
- SBA reviews franchise businesses to ensure there is no affiliation between the franchisor and franchisee

Ineligible Businesses



- The SBA lists 20 types of businesses as ineligible for loans. The most common are:
 - Non-profits
 - Passive businesses
 - Businesses with an associate of poor character
 - Prior government default

Two Main SBA Programs



- Access to Capital:
 - **7(a) Loan Program**- Administered by banks & financial institutions
- Economic Development:
 - **504 Loan Program**- Administered through Certified Development Companies (CDC)

What is a 7(a) Loan?



- Most common type of loan with \$27.5 Billion of lending authority in FY 2018
- Bank loans all proceeds
- SBA guaranty up to 50-85% of loan amount
- Borrower contributes usually 10-30% of project costs
- Loan maturity is up to 10 years for working capital and generally up to 25 years for fixed assets

SBA 7(a) Loan Uses



- Working capital
- To purchase real estate, including land and buildings
- To purchase equipment, machinery, furniture, fixtures, supplies, or materials
- To construct a new building or renovate
- To establish a new business or assist in the acquisition, operation, or expansion of an existing business
- To refinance existing business debt, under certain conditions

When to Use an SBA Guaranty



- | | |
|--|---|
| □ Start-up businesses | □ Uneven historical revenues or profits |
| □ Lack of collateral | □ Tighter than normal debt coverage |
| □ Lower than normal down payment/equity | □ Change of ownership/management |
| □ Longer term/lower payments required to meet debt coverage requirements | □ Lending limits |
| □ Riskier industries (entertainment, high-tech, service, retail) | □ Reliance on projections |
| | □ Credit score |

SBA 7(a) Program Conclusion



- Classic access to capital program
- Decision to use 7(a) driven by lender
- Not all lenders participate in 7(a) program

What is 504?



- **Definition:** *The 504 Loan Program is economic development financing specifically designed to stimulate private sector investment in long-term fixed assets to increase productivity, create new jobs, and increase the local tax base. The stimulus is provided by making long-term, low down payment, reasonably priced fixed-rate financing to healthy and expanding businesses which have the highest probability of successfully creating new jobs and competing in the world marketplace*

504 Loan Program



- **Key Players:**
 - U.S. Small Business Administration
 - Certified Development Companies
 - Third-Party Lenders
 - Small Business Applicant

MOTR Pub



The Woodward Theater 



Formerly Greg's Antiques 



Project Costs



- \$375,000 – Purchase Price
- \$845,000 – Renovate
- \$30,000 – Professional Fees

- \$1,250,000 – Total

Putting the Deal Together

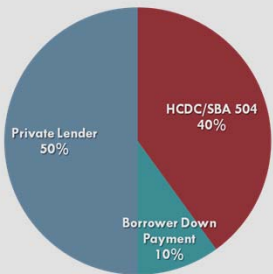
- Big Financing Gap
 - Insufficient cash flow
 - Down payment
 - Collateral value

- High Risk!!!

Enter HCDC Lending



SBA 504 Loan Structure



Financing Structure



Third-Party Lender	\$625,000 – 50%
SBA 504	\$500,000 – 40%
Borrower Equity	\$125,000 – 10%
	\$1,250,000 – 100%

Loan Size Standards



- The loan size cannot be more than 40% of the total project cost with a maximum of \$5 million and a minimum of \$25,000
- For manufacturing businesses and certain “green” projects the maximum is \$5.5 million “per project”
- Single-purpose facilities and financing to start-up businesses require a larger equity contribution

SBA 504 Loan = Economic Dvpmnt



- One job created/ retained per \$65,000 of the SBA loan
- Meets SBA Public Policy Goals such as assistance to women, minority, veteran-owned, project in rural area, or project in a revitalizing district with written redevelopment plan

Construction



Construction



Construction



Construction



Construction



Open for Business



Open for Business



SBA 504 Loan Benefits



- 90% financing, low down payment
- Long-term; no balloon payments
- Fixed interest rates
- Savings that result in improved cash flow for small businesses
- Lowers private lender risk

SBA 504 Program Conclusion



- Access to capital, but unlike the 7(a) program, businesses that could qualify for conventional financing use the 504 program
- SBA requires a 504 project to result in the creation of jobs or meet another public policy goal
- Narrower focus compared to 7(a): primarily real estate

SBA 7 (a) & 504 Loans



- Questions and Answers

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