

Taking the Mystery out of Small Business Loans:

- Presented by:
 - Kevin J. DeVinney, CFP®
- Vice President, Business Banking

Overview of Presentation

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 - What to look for?
 - What types of financing is available?
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About Eastern Bank

- Founded in 1818, largest mutually owned bank in New England with nearly 100 branches in MA and NH.
- Largest commercial bank headquartered in MA; local decisions.
- # 1 SBA Lender in New England for 7 consecutive years.
- Processed over 850 SBA loans last year.
- 10th most SBA loans in nation.
- Customer Satisfaction – JD Powers & Associates, BBJ (top 10), Boston Globe (top 100)
- Eastern Bank Charitable Foundation has given over \$50 Million to our non-profits and communities in last 10 year, 10% of net income of EB Corp.

About Kevin J. DeVinney, CFP®

- Kevin J. DeVinney is a Business Banker at Eastern Bank, specializing in SBA Loans and commercial real estate financing.
- Kevin holds his Certified Financial Planners (CFP) license and has 18 years experience in Banking covering various financial disciplines from investment services, to retail banking to business banking.
- He has worked at Eastern since 2002.
- Kevin is co-chair of the Bank's Sustainability Network and chair of the Network's Sustainable Business Development initiative.
- Kevin is also Rotarian in Melrose and the past president of the Melrose Chamber of Commerce.
- Kevin is from Long Island and a graduate of Fairfield University in CT.
- He lives in Haverhill, MA with his wife Erin and 3 children; Allison (10), Ryan (6) and Ethan (4).

Business Banking

- What should a business owner look for in a banker?
 - Strong RM, Banker who knows / understands your business needs
 - Will promptly and enthusiastically follow-up
 - A proactive, professional resource for ideas, guidance & advice
 - Is a leader in the community
 - Knows how to get things done!
- What does a banker look for in a business?
 - A good business run by successful passionate people
 - The opportunity to have a complete relationship: Credit, Deposits, Merchant Services, personal banking, etc.
 - Strong Credit quality – see next section.

Business Banking

- What kinds of financing are available?
 - Overdraft Protection – Business Cash Reserve
 - Lines of credit / SBA Lines
 - Term Loans / SBA Term Loan
 - Commercial R/E Mortgage – Purchase or Refinance
 - » Buildings can be either Owner-Occupied (OOCRE) or Investment Real Estate (I-CRE)
 - » Can be Residential (over 4 units), Mixed-Use, Commercial
 - » Commercial can be industrial, warehouse, office, retail, medical, special-use (church, gas station, bowling alley), etc.
 - » SBA 504 CREM's for Owner-Occupied purchases and certain refinances.

The SBA programs at Eastern Bank:

- Eastern has a number of diverse SBA programs to help business owners obtain access to capital
 - 504 Program for Commercial Real Estate and long term equipment deals
 - SBA Express Program* for working capital lines of credit and small term loans
 - SBA 7(a) Program: Used to Refinance existing business debt, purchase equipment, acquire new business, working capital lines, etc.
 - Other Options: Small Loan Advantage (SLA), Preferred Lender Program (PLP), Export Express, etc.

* Express Loans at Eastern Bank are credit-scored up to \$100,000, Express Line up to \$50,000. Require SBA guarantee for low and mid-tier credit scores.

The SBA 504 Program

- 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land & buildings
 - **The Program:**
 - Long term below market fixed rate financing
 - Commercial loan financing for real estate and equipment
 - Term of 20 years for real estate, 10 years for equipment
 - **Structure:**
 - 50% Bank Mortgage
 - 40% SBA 504 2nd Mortgage
 - 10% Owner's Equity
 - **Eligibility:**
 - 51% occupancy for acquisition of real estate
 - 60% occupancy for new construction
 - Used to purchase land, purchase or construct building (refinances will be available soon!)
 - Modernize, renovate or improve building
 - Purchase machinery and equipment with 10 year useful life

Comparison of 504 vs. Traditional CREM: Down Payment

504 Loan Program

- 10% Required
 - Allows borrower to keep more money in the business
 - Takes less time to save down payment

Conventional CRE Lending

- 20% to 30% Required
 - With the larger down payment, monthly payment decreases

Comparison of 504 vs. Traditional CREM: Structure

504 Loan Program

- Two Loans
 - Bank 1st Mortgage for 50% of purchase price, see →
 - CDC 2nd Mortgage for 40%
 - 20-year rate lock, 20-year note, 20-year amortization
 - No interest rate risk.

Conventional CRE Lending

- One loan for up to 80% LTV
- 5-Year rate lock typical
- 10-Y note typical, resetting
- 25-Y amortization

Comparison of 504 vs. Traditional CREM: An Example, \$1MM purchase

504 Loan Program

- 10% Down Payment = \$100K
- \$500K 1st MTG approx. = \$2,850/M*
- \$414K 2nd MTG = \$2,780/M**
- 1st MTG Balloon at 10-Years, \$380K
- In addition to normal closing costs, add \$1,250 to 1st MTG. \$14K fee on 2nd MTG is rolled into financing above.

* 4.75% 1st MTG,

** 5.2% 2nd MTG, \$14K fees financed

Conventional CRE Lending

- 25% Down Payment = \$250K
- \$750K MTG approx. = \$4,275*
- Balloon at Ten Year = \$568K
- Fees between \$10-\$20K for normal closing costs.

* Assumes 4.75% 1st MTG

Business Credit: A 3-Legged Stool

- Cash Flow
- Collateral
- Character



Cash Flow / Capacity

- What is your ability to repay the loan?
- How are the proceeds to be used?
- How will they be repaid?

Collateral

- How can your lender be sure of your ability to repay the loan?
- What can you offer the lender in the event of a default?

Character

- Who are you? What are your FICO / D&B Scores?
- Where is the business located and for how long?
- Do you live up to your obligations?
- What do your suppliers say about you?
- Are there liens or judgments against you?

The other C's of Credit:

Conditions

- State of the economy / industry?
- Environmental issues?
- Competition and Technological issues?

Capital

- How strong is the balance sheet?
- Does the business have a positive net worth?
- How strong is the Personal Financial Statement?
- Do you have additional personal assets to inject into the business if necessary?

Questions or Notes?

Contact Information:

Kevin J. DeVinney, CFP®
Vice President, Business Banking

Office Line - 781-596-4414
Cell Phone - 781-715-3921
E-Fax Line - 781-477-1397

K.Devinney@easternbank.com
<http://www.linkedin.com/pub/dir/Kevin/Devinney>
www.easternbank.com

'How Banks make money' or 'Why Bank's take risk at all?'

- **Customer deposits \$100 to their Bank.**
- **Bank has reserve requirements, has to put a % aside for capital reserve.**
- **So the Bank lends \$85 of that deposit to a small business...**
- **Bank collects 5%, OR \$4.25 annually on that loan.**
- **Bank pays operating costs, FDIC insurance premium, etc and has an efficiency rating of 60%.
\$2.55 is gross profit.**
- **If 1% of loans default, the Bank is still profitable. If 3% of loans default, the Bank will loss money.**

**This is how Bank's think about risk and make loan decisions.
We try to maintain just under 1% loan losses every year. If that is the ratio today, what will happen when the economy turns sour again?**