

# Taking the Mystery out of Small Business Loans:

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

# Overview of Presentation

- About Eastern Bank
- About the Presenter
- Business Banking
  - What to look for?
  - What types of financing is available?
- SBA Programs:
  - 504 Loan Program
  - Other SBA Programs
- Business Credit: A 3-Legged Stool
- The other C's of Credit
- Q&A
- Contact info
- Appendix A: How Bank Make Money, Why Take Risk at All?

## 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.
- 10<sup>th</sup> 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 1<sup>st</sup> Mortgage for 50% of purchase price, see →
  - CDC 2<sup>nd</sup> 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 1<sup>st</sup> MTG approx. = \$2,850/M\*
- \$414K 2<sup>nd</sup> MTG = \$2,780/M\*\*
- 1<sup>st</sup> MTG Balloon at 10-Years, \$380K
- In addition to normal closing costs, add \$1,250 to 1<sup>st</sup> MTG. \$14K fee on 2<sup>nd</sup> MTG is rolled into financing above.

\* 4.75% 1<sup>st</sup> MTG,

\*\* 5.2% 2<sup>nd</sup> 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% 1<sup>st</sup> 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](mailto:K.Devinney@easternbank.com)**

**<http://www.linkedin.com/pub/dir/Kevin/Devinney>**

**[www.easternbank.com](http://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?