Case Study: Would You Lend to a Business That Was Losing Money?

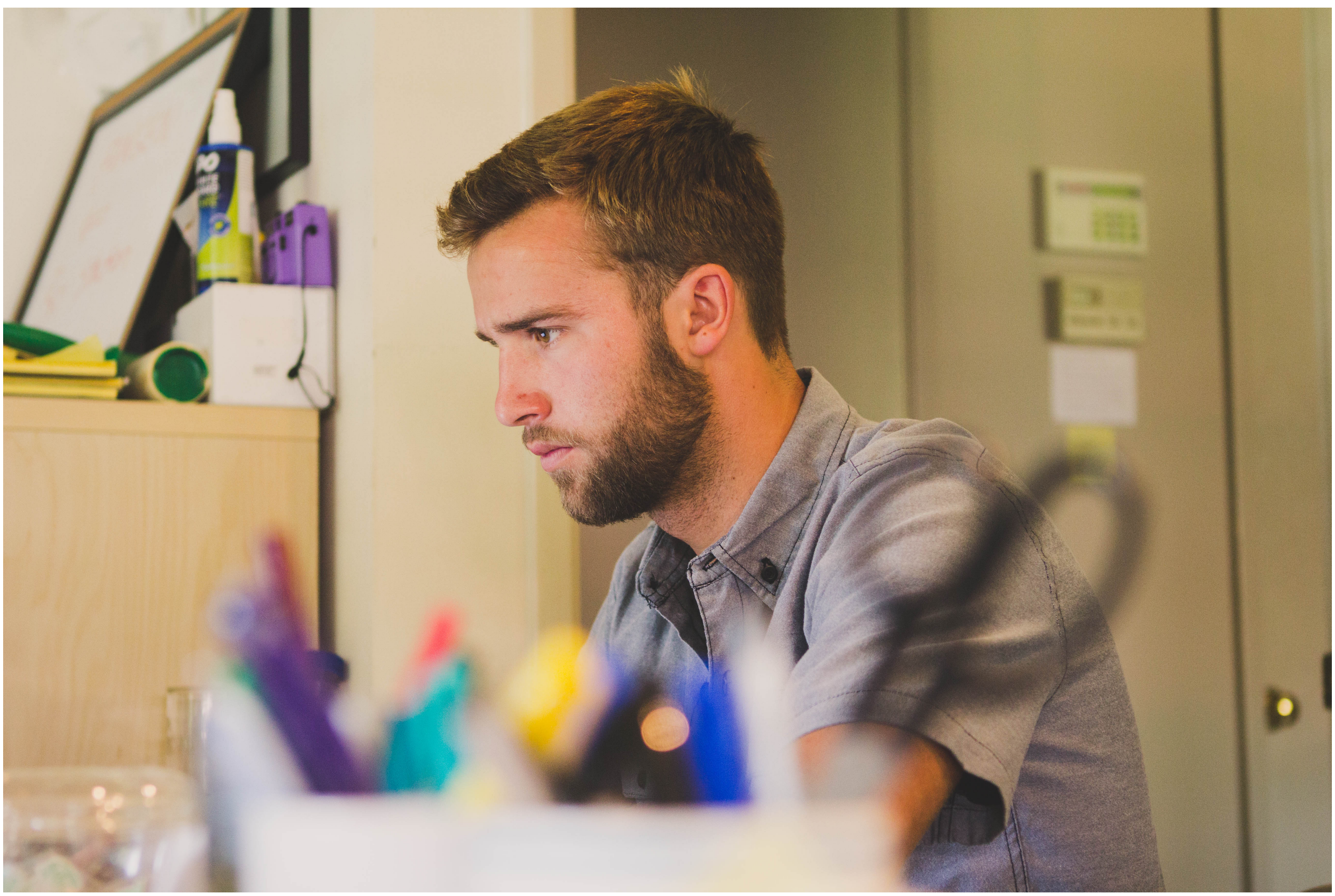
Provide the credit small businesses need to succeed while managing risk.

A borrower, an electrical contractor, grew his business over 35 years from a home-based operation to one with 24 employees, an office building, vehicles, inventory and a warehouse. Things were going so well, the owner brought his son into the business, and eventually began transferring ownership of the company to him. Things were going to work out great.

And they did, until 2007.

For the next four years, the business really struggled. The average annual profit was ***-$38,000.*** The entire construction industry was in a major slump, and both the business owners and their lender knew that dramatic changes were needed. They asked VITAL for help.

We assessed the borrowers' business operations, and with the expertise of an outside business coach, implemented process improvement, strategic planning, and a behavioral assessment of the management team.



Using an SBA 7(a) term note, VITAL refinanced eight existing loans and included all other outstanding debt such as credit cards and vehicle loans. We also incorporated permanent working capital and cash to pay expenses and closing costs. Extending the term of the loan for 10 years minimized the monthly payment and allowed the business to build desperately needed cash.

The bank sold the guaranteed portion of the outstanding loan balance – $519,449 – for a high premium of 17.13%. The gross amount of noninterest income was $88,981.62, which was all taken into income the year the loan was sold.

In addition to the noninterest income, the bank received the WSJ Prime Rate + 2.75% on the unguaranteed portion they retained. This represented an increase on the interest rates the bank received for similarly sized C&I loans by approximately 1.25%. This increased rate remains in place for the life of the SBA loan. The unguaranteed portion of the loan was $175,000, which amounted to an extra $2,187 in additional interest income received. The total increase in income to the bank was more than $90,000 the first year.

In just four months, the effects of both the debt restructuring and management assistance showed clear benefits for the borrower. The financial performance of the company improved dramatically. In 2013, the company experienced both record sales and profits. The company has internalized a new way of doing business and managing debt that should produce stellar results year after year. The lender played an important part in preserving jobs, tax base, and goods and services for the local community – all while boosting its income statement and managing bank risk by incorporating a government guarantee.

Who knows, a record year might be just around the corner for you, too.

Learn more about why community lenders thoughout the Midwest are partnering with **VITAL Financial Services** to support small business borrowers and minimize risk through SBA lending.

Visit the VITAL Website