

A CHASE THOUGHT LEADERSHIP INITIATIVE.

SBA FINANCING AS A CREDIT STRATEGY: CAPITAL TO GROW AND CASH FLOW TO OPERATE



CONTENT SNAPSHOT

What You'll Learn Inside:

- Hard Lessons from a Soft Economy
- Why Disciplined Cash Flow Matters
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CHASE 

CASH FLOW IS KING. ALWAYS.

Cash flow is the great enabler. It allows business owners to settle debts on time, which in turn impacts the willingness of suppliers to offer credit, landlords to lease workspace and employees to work. It also leads to stronger balance sheets. Companies that diligently analyze, manage and monitor their cash flow activity to square cash in with cash out make themselves more attractive to lenders.

Nothing is more critical to business survival than access to credit and a healthy cash flow. If we view business as the human body, cash flow would be the blood coursing through its veins sustaining all its vital functions – from sales and inventory to pricing and marketing.

When the economy slid into recession a few years back, business owners had those vital functions tested. Some put cost-reduction strategies in place to conserve cash while others pursued financing in what became a credit-averse environment. Many just hunkered down. Most found themselves in uncharted territory that, out of necessity, became an incubator for ingenuity, resilience and change.



Cash flow does not discriminate and affects every operation within a company regardless of its size.

TOUGH TIMES TEACH HARD LESSONS

In their struggle to secure working capital to grow and cash flow to operate, business owners discovered that a soft economy teaches hard lessons. Learning from them, many have emerged leaner, more nimble and better prepared to move their companies forward. Once the cost-cutting initiatives moved beyond the obvious, a number of innovative solutions gained traction as companies took steps to:

- **Close the invoice-to-collections gap.** The growing migration to electronic payments helped accelerate receivables collection and reduced days sales outstanding so cash could be converted faster into operating capital.
- **Automate the accounts payable function to uncover working capital** hidden in supplier invoices. This initiative not only helped lower operating costs, reduce payment risk and eliminate paper, it enabled companies to leverage supplier discounts in exchange for expedited settlement.
- **Upgrade the management, oversight and control of the purchase-to-pay cycle.** The increased use of Purchasing Cards made it more cost-effective for businesses to track and analyze low-value, high-volume indirect spend transactions.

Despite the air of uncertainty over taxes, healthcare and other issues, there is a growing sense of cautious optimism among small and independent business owners.

The [Index of Small Business Optimism](#), compiled by the NFIB Research Foundation, is one indicator. Tracking trends and offering a realistic assessment of the business owner mindset, the Index showed a modest gain in April 2012, reaching its highest reading since December 2007.

WHY DISCIPLINED CASH FLOW MANAGEMENT MATTERS

More businesses fail for lack of cash flow than for lack of profit. Even in the best of times, profitable businesses with sales growth and loyal customers can still end up closing their doors. In fact, a recent survey fielded by a leading financial organization revealed that poor cash flow management **caused 82% of all business failures**.

While this may sound illogical, business owners are sometimes unrealistic when forecasting cash flow, tending to overestimate income and under-project expenses. The inability to anticipate cash flow gaps and game-plan for them in advance makes them more vulnerable despite the strong vital signs.

The amount of revenue expected in the future is irrelevant if there is not enough cash available in the present to cover operating costs. It's unrealistic to expect employees to voluntarily delay their paychecks or suppliers to extend credit until customers pay. A disciplined cash flow management process must link collecting receivables and controlling disbursements with covering cash shortfalls and forecasting cash needs – even investing idle funds. To make it work successfully, business owners should consider these best practices:

- **Create an accurate cash flow forecasting model.** Based on a range of seasonal, monthly, daily, and cyclical data as well as trends, forecasts help offset cash flow uncertainties and time disbursements to meet incoming receivables to create a balanced cash flow process.
- **Conduct regular reviews of the cash management system.** A thorough analysis helps management focus on improving existing processes from collections practices to payment float and provides some degree of assurance that financial data is timely and accurate without engaging in a formal audit.
- **Carefully choose a cash management financial partner.** Quality service and depth of experience trump price and have become the new benchmarks for businesses seeking financial partners to support their cash management and credit needs.

SBA FINANCING SOLUTIONS IN THE CASH FLOW EQUATION

As more business owners step up to fund their operations, create jobs and help expand the economy, financing options for working capital will need to be vetted. That process should include a solution that might have been overlooked in the past but cannot be dismissed in the present.

Financing from the Small Business Administration (SBA) has become an increasingly important resource to finance the growth or creation of business.

No longer considered the loan of last resort, SBA financing provides access to the working capital needed to achieve a wide range of goals – from the simple to the sophisticated. Designed around favorable terms that distinguish SBA lending from other types of business financing, these loans enable business owners to **free up cash** while deploying new capital to meet short- or long-term objectives.

Should a business find itself facing cash flow challenges that are draining operations, an SBA loan with flexible terms can be used to help restructure its existing debt to relieve the financial pressure and restore a steady flow of cash.

Available to **for-profit** businesses, SBA financing should be considered when borrowers need credit to fund significant, capital-intensive initiatives ranging from real estate financing, debt refinancing, and accounts receivable and inventory financing to construction and improvements, equipment and machinery, and business acquisition or expansion.

Poor cash management is responsible for the majority of all business failures.

Remember, every dollar in accounts receivable is a dollar less cash.

Often easier to qualify for than conventional business loans, SBA financing offers the advantages of:

- Longer repayment terms and lower monthly payments
- Borrowing up to 90% of the collateral's value
- Directly financing any applicable fees by rolling them into the loan

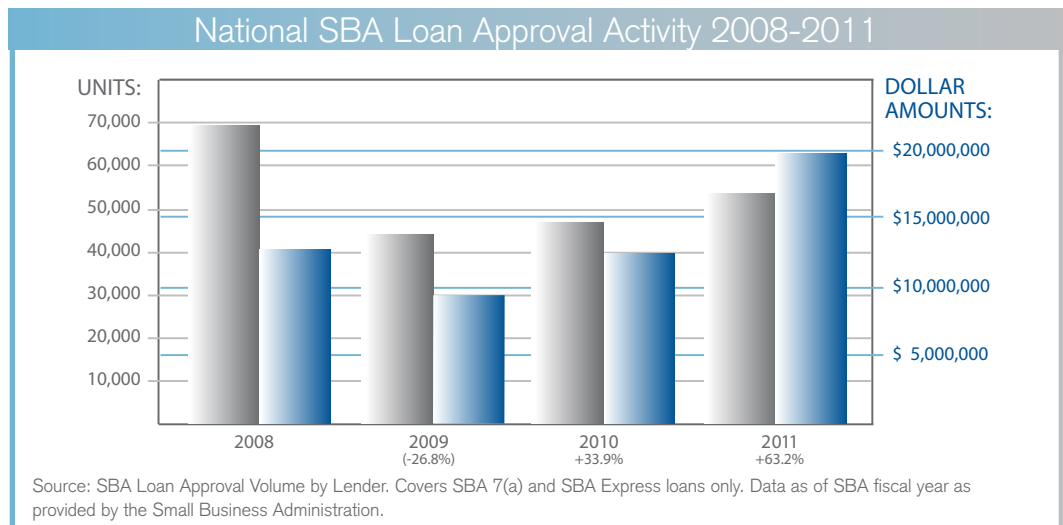
As a result, business owners, entrepreneurs and military veterans have more financing options to consider, provided their businesses meet SBA guidelines. For example:

- Mature businesses that waited out the uncertain economy and now are moving off the sidelines might not have sufficient collateral to secure a loan through traditional channels and could find SBA financing particularly useful for obtaining credit.
- Business owners who put their expansion and acquisition plans on hold and now view the time as right to move forward can capitalize on longer maturity terms and accelerated approvals.
- Startup or young businesses without a record of proven financial performance may find an SBA-guaranteed loan attractive to fuel growth and keep the entrepreneurial drive alive.
- Veterans and other eligible members of the military community looking for funds to start or expand a business can take advantage of a special SBA lending program that offers high loan amounts, expedited loan approvals and low rates.

The role of the SBA is to establish the guidelines for loans, which are then made by its preferred lending partners represented by banks, community development organizations and micro-lending institutions. By guaranteeing that these loans will be repaid, some of the risk to its lending partners is eliminated.

SBA LOAN ACTIVITY GAINS TRACTION

The chart below illustrates the combined approvals for both SBA 7(a) and SBA Express loans and the corresponding dollar amounts between 2008 and 2011.



The loan performance mirrors the ebb and flow of the U.S. economy over that same timeframe with the low point reached in 2009, followed by the start of an upward trend across both 2010 and 2011.

The SBA attributed the increased number and amount of its 7(a) loans approved in 2010 and 2011 specifically to the program's temporary fee subsidies offer and 90% maximum loan guaranty percentage. Both were in force during most of 2010 and the first quarter of 2011, according to the [Small Business Administration 7\(a\) Loan Guaranty Program](#), published by the Congressional Research Service.

Longer terms offer lower payments to free up cash and increase liquidity.

Approvals for both SBA 7(a) and SBA Express loans began trending upward in 2010.

SBA PRODUCT SET AT-A-GLANCE

The range of SBA loan programs are many and varied, and the qualification criteria for each are quite specific. To make it easier to digest, core features, benefits and terms by product are summarized below.

Leverage lower monthly payments, longer repayment terms and direct financing of any applicable fees.

Loan Solutions		
SBA 7(a) Loan Program	SBA Express Term Loan	SBA 504 Loan Program
<ul style="list-style-type: none"> • Loan amounts: Up to \$5MM • Benefits: Often easier to qualify; longer maturity terms, lower down payment on fixed assets • Standard terms: Working capital up to 7 years; equipment up to 10 years; real estate up to 25 years • Structure: SBA guarantees up to 75% (guaranteed portion capped at \$3.750MM) • Pricing: Negotiated; fixed and variable rate options 	<ul style="list-style-type: none"> • Loan amounts: Up to \$350M • Benefits: Longer maturity terms, accelerated process; SBA fees can be financed • Standard terms: Working capital up to 7 years; equipment up to 10 years; real estate up to 25 years • Structure: SBA guarantees 50% of the loan • Pricing: Fixed and variable rate options 	<ul style="list-style-type: none"> • Loan amounts: No maximum • Benefits: Lower down payments, favorable terms and pricing • Standard terms (Lender): Minimum 7 years for equipment or 10 years for real estate with up to 30-year amortization • Standard terms (SBA): 10 years for equipment or 20 years for real estate • Structure: Up to 40% or \$5MM maximum funded by the SBA • Pricing: Favorable pricing; fixed for 20 years
Best match for borrowers needing funds for expansion, to purchase another business or manage cash flow	Best match: Same as 7(a)	Best match for borrowers planning to expand business through land acquisition, building acquisition, construction, and equipment finance

SBA Express Sub-Programs for Specific Applications

- **Patriot Express** loan program offers veterans and eligible members of the military community term loans up to \$500M – with SBA loan guarantee up to 85% – to start or expand a business
- **Export Express** loans up to \$500M are available for companies that export goods and want to expand or who need working capital to enter a new overseas market

Meet short-term and cyclical working capital needs with an SBA revolving line of credit.

Line of Credit Solutions	
SBA Express	SBA CAPLine
<ul style="list-style-type: none"> • Available Financing: Line of Credit up to \$350M • Benefits: Accelerated process compared to 7(a) program; SBA fees can be financed • Standard terms: Revolving; lines up to 3 years • Structure: SBA guarantees 50% with guaranty fees based on guaranteed amount • Pricing: Variable rate 	<ul style="list-style-type: none"> • Available Financing: Line of Credit \$350M-\$5MM • Benefits: Revolving line of credit to finance contracts, manage cash flow cycle, ramp up and create jobs • Standard terms: Revolving; initial approval for 24-month term with annual 12-month renewals thereafter • Structure: SBA guarantees 75% of borrowed amount • Pricing: Variable rate
Best match for borrowers needing funds for expansion, to purchase another business or manage cash flow	Best match for borrowers needing short-term and cyclical working capital

All loans, lines and leases are subject to credit approval. In addition, SBA loans are subject to SBA eligibility.

THE SBA CAPLINE PROGRAM FOR SHORT-TERM WORKING CAPITAL

The CAPLine program has been redesigned to help more businesses finance public and private sector contracts and meet short-term and seasonal working capital needs through an SBA revolving line of credit. The revolving credit line provides funds at the beginning of a project to hire workers and buy materials when the cash-on-hand needed is insufficient and company cash flow cannot be interrupted.

In addition to funding the costs of construction, service and supply contracts, financing operating capital and consolidating short-term debt, the SBA CAPLine program:

- Enables businesses to pledge accounts receivable, inventory, contracts and purchase orders to secure an SBA revolving line of credit
- Makes it easier for subcontractors to obtain an SBA-guaranteed line of credit to finance work on a contract with a federal prime contractor
- No longer requires business owners without buildings or equipment to use their personal assets as collateral to secure financing
- Allows businesses engaged in a contract requiring surety bonding to obtain an SBA-guaranteed line of credit

MOVE YOUR BUSINESS FORWARD

Business owners who are ready to reinvest in their companies and help grow the economy would do themselves justice by evaluating the short- and long-term benefits of SBA financing in comparison with other sources of business credit.

When performing this due diligence, it's a best practice to choose a financial partner with in-depth market knowledge, broad-based experience and a proven track record of success in SBA financing.

As a leading SBA lender, Chase is well positioned to help. Why not take the next step and speak with your local Chase Banker about the benefits of SBA financing for your business? Your Chase Banker will guide you through the expanded array of options and work closely with you to identify the proper SBA financing solution based on objectivity, insight and forward thinking.

For more information, please contact your local Chase Banker today.

