



# Using SBA Financing to Strengthen Your Bank's Balance Sheet

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# Who is Byline Bank and what is Small Business Capital?

- \$4.8 Billion Bank Headquartered in Chicago
- Acquired Brookfield, WI – based Ridgestone Bank in October, 2016
- Ridgestone -> Small Business Capital Division within Byline
- #6 SBA Lender in the US
- #1 SBA Lender in Wisconsin & Illinois
- USDA Experts

# My goal today

- Spread the word on government guaranteed lending options
- Walk through some case studies
- Be in your rolodex

# My price of admission

- Connect to me on LinkedIn:
  - <https://www.linkedin.com/in/thomas-lyons-924ba45/>
  - Or search for: Thomas Lyons, Byline Bank, SBA, Madison, WI
  - Or go to the BankBeat page for this webinar and follow the link:

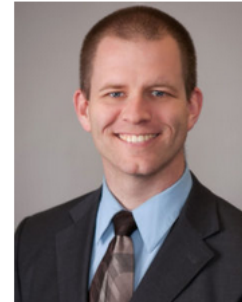
## Use SBA Financing to Strengthen your Bank's Balance Sheet

**Guest Presenter:** Tom Lyons, loan officer with Byline Bank's Small Business Capital Division

**Webinar Date:** February 21, 2019

**Webinar Time (CST):** 12:10pm

Register Now



Learn how government guaranteed loan options can help you close more business and/or protect your balance sheet. Specifically, you will learn how to minimize the likelihood of a default ever occurring and discover options for deploying watch-list and classified assets after a closing.

- Audience: Small Business/ Commercial Lenders, or those who want to be
- Registration: Free
- Start Time: 12:10 p.m. CST
- Length: 35 minute presentation with 10 minute Q/A
- To register, click [here](#)



**Tom Lyons** is a Madison, Wis.-based loan officer with Byline Bank's Small Business Capital Division. Byline was the No. 7 SBA volume lender in the nation for the fiscal year ending 9/30/18, as well as the No. 1 Lender in Wisconsin and Illinois. Lyons has 11 years of experience in banking and finance and focuses on deploying his lending experience and SBA expertise to provide government-guaranteed lending options to each of his customers. He assisted with the launch of the SBA program at a former bank, which soon led the Madison market in new SBA loan volume. Tom joined Ridgestone Bank in 2015 which was acquired by Byline Bank in 2016. Today, he continues to provide SBA and USDA lending options to businesses throughout Southwestern Wisconsin and the Madison area with Byline Small Business Capital.

Follow Tom at: 



# Background on Small Business Administration

- Started in 1953
- Variety of programs, including loan programs for banks
- Lots of benefits to a small business owner



## Perks of SBA to a Bank

- 7A program provides to the bank an additional 75%-90% guaranty against a loan loss
- Express Program provides a 50% guaranty for small loans
- 504 allows a bank to limit their exposure to 50% of a deal.

- Can mitigate other risks
  - Balance sheet position
  - Industry risk/concentration
  - Startup nature of the borrower
  - Collateral deficiency
- Other perks
  - 75% of your loan is secured by a bond from Uncle Sam
  - Active secondary market for the guaranteed paper
  - Regulators tend to be friendly to the program



## Perks of SBA to a Borrower

- Can get a deal done while lite on down payment
- Can get a deal done without adequate collateral
- Boosts their cash-on-cash return with a longer repayment period

# Why isn't every deal an SBA deal?

- Eligibility
- The fear of a bad guaranty
- Complicated
- Time consuming



# Quick Snapshot of the Process

- Underwrite with consideration to SOP needs
- Approve subject to SBA Approval
- For GP Lenders -> Ship packet to California -> Authorization
- Close the loan and pay the guaranty fee
- Service

## Best practices for strengthening your guaranty

- Assign someone on your staff to read SOP
- To PLP or not to PLP
- Your Authorization is a secondary closing checklist
- Feel free to call or email me at any time

# Equipment Financing Scenario

- Customer needs equipment financing
  - Long time customer, established relationship
  - Excellent credit, stable management, solid industry
  - Has \$125,000 in cash for the expansion
  - Total bill is \$500,000 for equipment
  - Last year's EBITDA was \$120,000, appears stable
  - Customer projects EBITDA of \$175M with the new equipment

# Option 1: Conventional Financing

Source of Funds		Use of Funds	
125,000	Borrower Equity	<u>500,000</u>	<u>New Equipment</u>
<u>375,000</u>	<u>Bank Financing</u>		
500,000	TOTAL	500,000	TOTAL

\*75% loan to value

\*5-year amortization at Prime + 1 -> \$87.5M annual debt service

\*\$120M ÷ 87.5M = 1.37x DSCR

## Option 2: SBA Financing

Source of Funds		Use of Funds	
60,000	Borrower Equity	500,000	New Equipment
<u>450,000</u>	<u>Bank Financing</u>	<u>10,000</u>	<u>Uncle Sam's Fee</u>
510,000	TOTAL	510,000	TOTAL

\*10-year amortization at Prime + 1.5 -> \$62M annual debt service

\*\$120M ÷ 62M = 1.94x DSCR

\*Collateral coverage v. SBA's backing

# Conventional v. SBA

- Option 1 is faster to close, cheaper, is repaid faster, and likely to always have adequate collateral coverage
- Option 2 preserves liquidity, has Uncle Sam's guaranty, and will cash flow better
- Option 1 will be likelier to default post-closing
- Option 2 is slower to close, costs us a fee, and may have an LTV issue



## Another outlet for SBA loans...

- Maximum amortization is from 10-25 years
- Longer amortization -> adequate cash flow faster
- Watch list & classified loans

# Other things we do

- Startups
- Changes of ownership/partnership buyouts
- Franchises
- Businesses in leased space
- Debt need exceeds value of fixed assets
- Turnaround situations
- We look at anything

# Where SBA cannot help you

- If your client is not a business
- If your client is buying residential or multifamily property
- If your client is buying investment real estate
- If your commercial client is not “small”

# Contact Info



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