



South Eastern Economic Development (SEED) Corp.

REVOLVING LOAN FUND (RLF) PROGRAM

The Decision Process



**ComForCare
Canton, Ma.**



**Katama General Store
Edgartown, Ma.**



**Dra-Cor Industries
Brockton, Ma.**



**Early Education Academy
Abington, Ma.**

CDEA EDA RLF TRAINING COURSE - BALTIMORE, JUNE 14-15, 2018

www.seedcorp.com

BACKGROUND ON SEED

➤ ESTABLISHMENT

- In 1982, SEED was established as a non-profit corporation and approved by the SBA as a Certified Development Company (CDC) under the SBA 504 Program.**

➤ MISSION

- SEED's mission is to assist small businesses to start up, expand and create new jobs in the region.**
- Over the last 36 years, SEED has focused on providing gap financing and technical assistance for small businesses.**



➤ LOAN PROGRAMS

- **Currently, SEED administers three loan programs and is a Community Advantage Lender under the SBA 7A Program, and a CDFI under the Department of the Treasury.**
 - **SBA 504 Loan Program – Loans up to \$5.5 million for real estate and heavy machinery and equipment.**
 - **Micro Loan Program – Loans up to \$50,000, mostly for working capital. These loans are made with SBA loan funds and MA state grants.**
 - **Small Loan Program – Loans up to \$250,000, generally as part of a larger project, made with grant funds from EDA and the CDFI Fund.**



➤ **TECHNICAL ASSISTANCE**

-- **SEED** also provides technical assistance to prospective and existing small business entrepreneurs through:

- Individual sessions;
- Monthly entrepreneurial workshops; and
- A small business library.

➤ **GEOGRAPHIC COVERAGE**

-- **SEED** covers all of Massachusetts and most of Rhode Island. Under the EDA RLF Program, **SEED** covers Southeastern Massachusetts including Cape Cod and the Islands.

➤ **ORGANIZATION**

-- **Membership**: Presently 180 members representing local officials; financial institutions; community organizations; and businesses.

- **Board of Directors**: Presently 32 voting directors. They meet every other month to oversee the affairs of the corporation, and ratify loan approvals.
- **Loan Committees**: Two loan committees with a quorum of at least five members.

➤ STAFF & OPERATIONS

- **Staff**: SEED has a staff of 11 including: commercial loan officers; a closing manager; a portfolio manager; operations staff; business assistance staff; and a marketing manager.
- **Operations**: SEED operates like a “small bank” – underwriting, closing, servicing and conducting loan work out, as needed.

REVOLVING LOAN FUND (RLF) PROGRAM

The best source of flexible loan funds to assist small businesses with expansion and job creation.


➤ SEED'S EXPERIENCE


- Six EDA RLF grants since 1984; the last in 2010.**
- EDA Grant Funds and State Grant Matches: A total of \$3.665 million which has revolved 5 times.**
- Loans Made: 478 loans totaling \$17.7 million and leveraging \$128.2 million (a private leverage of 7.2 to one).**

- **Jobs Created and Retained: 5,500 total jobs (an average of \$3,215 per job).**
- **Loans Written Off: \$433,000 in 34 years— a very low average of 2%.**

➤ **RLF LOAN CHARACTERISTICS:**

- **Loan Amount: SEED makes RLF loans up to \$200,000 which are often 30% or less of the total financing.**
- **Loan Term: Up to 10 years with amortizations up to 20 years and options to defer principal payments or establish seasonal schedules, as needed.**

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- **Interest Rate**: Generally close to prime and fixed. Currently 5%. Interest rates listed on SEED's web site.
 - **Eligible Companies**: Manufacturing, retail, wholesale and service businesses: net worth not in excess of \$2 million; less than \$750,000 average net profit after taxes during the previous two years.
 - **Eligible Projects**: Acquisition of land and buildings; equipment and furnishings; and working capital. There has to be a demonstrated need for the loan, and documentation of gap financing.

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- **Job Requirements**: At least one job for each \$10,000 of SEED investment. SEED will consider other economic development impact in lieu of jobs.
 - **Loan Collateral**: All appropriate business assets, personal guaranties and personal assets as necessary.



➤ **ADVANTAGES OF SEED'S RLF PROGRAM**


- Can fill financing gaps when banks are not willing to provide all or any of the financing needed by a small business.**
- Flexible use of funds and flexible terms.**
- Acceptance of lower personal credit scores, 600+ vs. 680-700 required by banks.**
- Use of Global Cash Flow taking all business and personal income and expenses into consideration.**
- Taking collateral in second and third positions in business and personal assets such as a home, when necessary.**

➤ **LOAN APPROVAL PROCESS**

SEED's Small Business Loan Committee approves most loans via secure email. Once a Credit Memorandum is prepared and sent to the committee it takes less than one week to obtain approval.

-- Loan Information Needed:

- **SEED Application Form signed by applicant.**
- **Brief history and background (Business Plan for start-up business).**
- **Statement on the use of funds (quotes, invoices).**
- **Business IRS returns for the past 2 years.**
- **Interim financial statement no older than 180 days (can be done in-house).**

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- **Projections (at least one year), including a Day One Balance Sheet for start-up businesses.**
 - **List of Business Obligations (SEED form).**
 - **Personal financial statements (form) for principals with 20% or more ownership and personal IRS returns for the past 2 years.**
 - **Resumes of principals or Personal Data Form (SEED).**
 - **Appraisals (copy of existing appraisal or tax valuation accepted).**
 - **Environmental report, if appropriate.**
 - **Bank commitment letter or proof of bank decline.**

**(Application form and other important forms are available
at www.seedcorp.com)**

➤ **CREDIT ANALYSIS AND UNDERWRITING**

- What is the financing need and what are the principals contributing?**
- What does the business do and where is it located?**
- Does the business meet size criteria and other criteria?**
- What management experience do the principals have, and what is their personal financial situation and credit score?**
- Is a financial institution willing to provide a portion of the financing, and if not, is there documentation for a financing gap?**
- Is the business creating new jobs and/or retaining existing jobs?**



➤ **WHAT SEED LOOKS FOR FROM AN RLF BORROWER**

- A small viable business that provides a needed product or service, and has good prospects for growth.**
- Substantial job creation and/or retention.**
- Global Cash Flow of at least 1x for the past year.**
- Reasonable projections for a start-up and a secondary source of income to meet Global Cash Flow requirement.**
- Experienced management with personal credit scores higher than 600, and reasonable explanations for any delinquency.**
- Collateral at 90% Loan to Value using business assets and personal assets. A shortfall will be considered if all assets have been pledged and Cash Flow is strong.**



➤ **CREDIT MEMORANDUM**

-- Small Business: Name & Address

-- Project Address


-- Borrowers/Guarantors: Names/Percentage of Ownership

-- Loan Officer & Credit Analyst: Names

-- Eligibility Criteria:

CATEGORY	
CDFI/IA	
CENSUS TRACT	
CDFI/LITP*	
LMI OWNER	
MINORITY-OWNED	
WOMAN-OWNED	
VETERAN-OWNED	
HANDICAPPED	
URBAN REVITALIZATION	
MANUFACTURING	
NAICS CODE	
JOBS CURRENT	
JOB CREATION	
JOB RETENTION	

***CDFI – Community Development Financial Institution; IA – Investment Area;
LITP – Low Income Target Population**

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- Use of Proceeds**
 - Staff Recommendation: Amount of Loan; Term; Interest Rate; Collateral including Position on Liens; Personal Guaranties; Other Requirements such as Insurance Binder, Appraisal, and Environmental Report.**
 - Project: Explanations of Loan Request –why the funds are needed, what they will be used for, and economic impact.**


-- Financing: Use of Funds and Source of Funds

The use of funds is as follows:

Use of Funds	Amount
	-
	-
Total	-

The source of financing is as follows:

Source	Amount	%	Rate	Term (yrs)	Monthly/Annual
Bank	-	-	-	-	- / -
SEED	-	-	5.00%	-	- / -
Borrower	-	-	-	-	- / -
Total	-	100%	-	-	- / -

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- Financing Gap: Explanation**
 - Background & Management: When was business started, form of organization, product or service, management experience and background.**
 - Jobs: Current jobs and jobs to be created and/or retained in 2 years.**
 - Competition: Start-up or expanding business**

-- **Financial Review: Analysis of sales growth or decline, and net income over the past 2.5 years. Review of expenses and comparison with NAICS.**

Type of Statement	Tax Return	Tax Return	Mgt Prep	NAICS
# of Months:	12	12	6	Statistics
Date of Statement:	12/31/2016	12/31/2017	6/30/2018	
(In Thousands)		%	%	%
Net Sales				
Cost of Sales				
Gross Profit				
Rent				
Depreciation				
Wages				
Officer's Compensation				
Interest				
SG&A Expenses				
Total Expenses				
Net Income (Loss)				

-- Balance Sheet: Explanation of Assets and Liabilities, Current Ratio, Debt to Net Worth, and Accounts Receivable and Payable, if appropriate.

Date	Assets	Liabilities	Net Worth	Cash
-	-	-	-	-

-- Global Cash Flow:

	FYE 2016	FYE 2017	Interim
Net Profit/Loss			
Depreciation			
Interest			
Rent			
Officer Compensation			
Owners' Wages			
Tenant Rent			
Real Estate Taxes	()	()	()
Taxes (Federal)	()	()	()
Total Cash Flow			
SEED Loan (amount/rate/term)			
Bank (amount/rate/term)			
Existing Business Debt			
Personal Rent			
Installment Debt			
Revolving Debt			
COL			
Total Debt Service			
Cushion			
Debt Service Coverage			

-- Principal(s)/Guarantor(s): Explanation of Personal Assets and Liabilities, Income and Credit Scores for the Household.

Personal Financial Statement of: (in thousands)	(Name)	(Date)
Cash	-	Revolving Debt -
Automobiles	-	Notes Payable -
Personal Property	-	Real Estate Mortgages -
Other Assets	-	Total Liabilities -
	-	Personal Net Worth -
	-	Combined AGI -
Total Assets	-	FICO Score (Names) -

-- Collateral: Explanation of Positions being taken, and balances ahead of SEED's loan.

Type of Asset	Date	Method	Amount	Factor	Liens	Net Value
Real Estate						
M&E						
Total						
SEED Loan						
Estimated Collateral Coverage						

-- Strengths/Weaknesses: List all that apply



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