

# How to Finance a Food Business

U.S. Small Business Administration



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## SBA Financing Your Business

What are your options?

- Family
- Friends
- Personal Savings
- Outside Sources of Financing



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## SBA Outside Sources of Credit

### Traditional Financing Sources

- Banks
- Credit Unions

### Non Traditional Financing Sources

- SBA Micro Loans (RICMI)
- MIDC
- Cities & Towns
- Rhode Island Economic Development Corp.
- Angel Investors

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### What Will a Bank Review?

#### Basic Questions:

- How much money do you need?
- What is the purpose of the loan?
- How will you repay the loan?
- What are you investing?
- What is your fallback plan to repay the loan?

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### What a Lender Looks For

- Quick picture of the business
- Different from the competition
- Realistic Projections
- Owner Experience
- Support Team

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### The 5 “C’s” of Credit

1. Cash Flow
2. Credit History
3. Collateral
4. Character
5. Commitment



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## Cash Flow

- What is it?
- Primary Source of Payment
- Existing vs. Startup
- Debt Service Coverage Ratios
  - 1.25 to 1 minimum (higher=better)

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## Credit History

- Personal
  - Payment History
  - Amount of Outstanding Debt
  - Student Loans
- Business
  - Dun & Bradstreet Report
- No Surprises

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## Collateral

- Secondary repayment source
- All business assets
- Commercial Real Estate
- Personal Assets

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## Types of Collateral

- Endorser, Co-maker, Guarantor
- Mortgage on Real Estate
- Security Interest in all business assets
  - Accounts Receivable
  - Inventory
  - Equipment
  - Furniture/Fixtures
- Life Insurance –Key Person

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## Character

- Owners and/or Management
- Experience, Education and Ability
- Succession Plans

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## Commitment

- Equity Injection
- Level of involvement in business
- Personal guarantees

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## Your Application

- Business Plan
- Explanation of use of loan proceeds
- Amount & source of equity injection
- Listing of Collateral




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## Your Application

- Personal financial statement of 20% and more owners
- Business financial statements (3 yrs.)
- Interim financial statements (current within 90 days)
- Aging of Receivables and Payables
- Cash flow projections

14

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## Other Financial Information

- Record Keeping System
- Advisors – Attorney and Accountant
- Customers and Market
- Insurance coverage
- Mortgage or Lease Details
- Purchase & Sales Agreements
- Agreements with Vendors



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## Access to Capital with SBA

- Role of SBA—Credit Enhancement
- Guaranteed Loan Programs
- SBA Lending Partners

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## Results

- 2005 SBA Guaranteed  
98,000 loans for \$19 billion  
dollars
- SBA Rhode Island District  
Office guaranteed 900 loans  
totaling \$102 million

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## SBA Loans to Food Industry

- #1 Industry for SBA Loans Nationwide:  
Restaurants/Eating Places

10 Year Statistics:

Nation: 36,663 loans for \$7.2 billion,  
15% failed, 4% loss rate

Rhode Island: 46% fail, 30% loss rate

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### Food Industry-Nation wide

• Last 2 years:

Type	No.	\$	Failure Rate
Full Service	8729	\$2 bil	10%
Ltd. Service	6100	\$1.2 bil	8%
Cafeterias	143	\$19.2mil	11%
Snack Bars	846	\$116 mil	9%
Food Service	147	\$36 mil	8%
Caterers	440	\$84.8 mil	8%
Mobile Fd.Serv.	98	\$10.2 mil	11%
<u>Drinking Places</u>	<u>887</u>	<u>\$207.3 mil</u>	<u>8%</u>
<b>Total:</b>	<b>17,390</b>	<b>loans</b>	

19

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### Top 10 Food Franchises at SBA

1. Subway Sandwich Shop
2. Quizno's Subs
3. Quizno's (Fast Food Italian)
4. Dairy Queen
5. Cold Stone Creamery
6. Dunkin Donuts
7. Blimpie
8. Domino's Pizza
9. Baskin Robbins Ice Cream
10. Wingstop Restaurant

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### Top 10 SBA Lenders in RI 2005

1. Citizens Bank of Rhode Island
2. Bank RI
3. The Washington Trust Co.
4. Coastway Credit Union
5. Bank of America
6. Sovereign Bank New England
7. Capital One
8. Westerly Community Credit Union
9. BankNewport
10. Independence Bank

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## Financial Assistance

### Loan Programs

- 7(a) Guaranteed Loans
- 504 Fixed Asset Loans
- Micro Loans (up to \$35,000)

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## Basic 7(a) Loan Guaranty

- Maximum loan \$2 million
- Maximum SBA guaranteed portion \$1.5 million
- Apply for guaranteed loan through SBA lender
- Lender asks SBA to guaranty the loan
- After SBA approval, loan closes and lender disburses funds

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## Use of Loan Proceeds

- Purchase real estate
- Construct , expand or renovate facilities
- Machinery, equipment, fixtures
- Finance receivables and augment working capital

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## Use of Loan Proceeds

- Refinance existing debt  
(with compelling reason)
- Lines of credit
- Purchase an existing business

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## Terms

### Flexible Maturities:

- Based on use of proceeds, useful life of asset and ability to repay
- Working Capital- 7 to 10 years
- Equipment- 7 to 10 years
- Real Estate- up to 25 years
- Weighted average for mixed uses

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## Terms

### Interest Rates:

- Negotiated between bank and borrower
- Based on WSJ Prime + Spread
- May be fixed or variable rate
- Maximum allowed is 2.75% over prime
- Prime today is 7%

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### Guaranty Fees

- Amount of loan determines fee
- Based on the guaranteed portion of the loan
- Fees range from 2% to 3.5%
- Fee may be financed into the loan

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### Eligibility

- Most small businesses eligible.
- To be eligible:
  - Business must be small, independently owned and operated and for profit
  - Financing not otherwise unavailable
  - Owners have good character
  - Reasonable assurance of repayment ability

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### General SBA Size Standards

- Size standards vary by industry
- Based on either 3 year average annual gross receipts or number of employees
  - Manufacturing: 500 to 1500 employees
  - Wholesaling: 100 employees
  - Services: \$6 million - \$21.5 million
  - Retailing: \$6 million - \$21.5 million
  - Construction: \$6 million - \$28.5 million
  - Agriculture: \$750 thousand - \$6 million

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### Benefits of SBA Guaranty

Most frequent reasons for SBA Guaranty:

- Collateral Shortfall
- Longer maturity
- Fully amortized, no balloons
- No prepayment penalty if term is less than 15 years
- Lender's loan limits
- Industry risk
- Start-up risk

31

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### SBA Guaranty

- Does **not** offset risk of poor management, bad character or under capitalized ventures.

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### Who will review your Loan?

- SBA Participating Lenders
- Commercial Lender



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U.S. Small Business Administration

## Online Assistance

[www.sba.gov/ri](http://www.sba.gov/ri)

The screenshot shows the SBA Rhode Island website with a navigation menu on the left, a main content area with 'Local Success Stories' and 'Your Local SBA' sections, and a 'Resources' section at the bottom. The 'Local Success Stories' section features a photo of a family and text about small businesses helping household names. The 'Your Local SBA' section provides contact information for the Rhode Island District Office.

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**SBA**  
U.S. Small Business Administration

## SBA Resource Partners

**JGE Knight SCORE Chapter**  
380 Westminster Street, Room 511  
Providence, RI 02903  
(401) 528-4571

Email: [scoreri@cox.net](mailto:scoreri@cox.net)  
National Web Site: [www.score.org](http://www.score.org)  
Local: [www.sba.gov/ri/ridoscor](http://www.sba.gov/ri/ridoscor) <sup>35</sup>

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## SBA Resource Partners

**Bryant University**  
1150 Douglas Pike  
Smithfield, RI 02903  
(401) 232-6111

Web Site: [www.risbdc.org](http://www.risbdc.org)  
\*Locations throughout RI

36

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## SBA Resource Partners



Center for  
Women & Enterprise  
132 George M.Cohan  
Blvd.  
Providence, RI, 02903  
(401) 277-0800

Email:  
[info@cweprovidence.org](mailto:info@cweprovidence.org)

Web Site:  
[www.cweonline.org](http://www.cweonline.org)

37

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## More Information

Marilyn Bogue  
U.S. Small Business Administration  
Rhode Island District Office  
380 Westminster Street, Room 511  
Providence, RI, 02903

(401) 528-4561, Ext.4585  
Email: [marilyn.boque@sba.gov](mailto:marilyn.boque@sba.gov)

38

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