After A Disaster

Establishing A Small Business Disaster Loan Fund Program

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VEDC

- VEDC is the largest non-profit small business lender in Metro LA serving 4,000 businesses annually
- Leading small business CDFI in country lending $15 million annually
- Largest SBA Microlender and EDA RLF in CA.
- Sponsor of SBA 504/state guarantee lender
- Sponsor of federally chartered credit union and SBA 7a lender
Disaster Experience

- 1987 Loma Prieta Earthquake
- 1992 Los Angeles Civil Unrest
- 1994 Northridge Earthquake
- LA Response to 9/11
- 2007 Sylmar Fire
Chambers and EDCs as Second Responders

- Establish contact with all affected businesses
- Business Damage Assessment and Outreach
- Assist businesses to relocate out of Red Tagged buildings
- Notify local municipalities of non life threatening building/business damage
Lessons Learned

- Businesses are the last to be helped: first is life threatening conditions, second is residents, third is infrastructure
- YOU ARE ON YOUR OWN: Help is at least 7 to 10 days away
- 50% of small businesses that close after a disaster will never reopen if they are closed for more than 30 days
- As always, Cash is King
SBA DISASTER ASSISTANCE

● Business Assistance is in the form of a Loan that requires calculated Debt Service Abilities

● Physical Injury Assistance: Destroyed business assets including building, inventory, equipment, net insurance

● Economic Injury: Calculated net income lost to disaster; no profits, no loan

● Unless you have a loan package ready to go, up to 90 days before money
Sources of Funds for Disaster Assistance to Small Business

- Private (Bank, Corporation, Foundation): hard to raise, easy to give out, especially as grants
- Economic Development Administration (EDA): easiest federal dollars to lend, fewest restrictions, maximum impact
- Community Development Block Grant (CDBG): hardest money to lend, environmental restrictions make this least attractive to lend
Financial Restructuring Assistance Program Revolving Loan Fund (EDA)

- Small Businesses loans up to $700,000 to restructure existing debt as well as rebuild, new equipment, inventory and working capital
- Terms: 5 year maturity, 25 year amortization depending on collateral
- Interest rate: market, it's about access, not rate
- Save and create jobs
- Projected rather than historical cash flow
- Collateral as a mitigation to poor credit
- $6 million grant deployed in 2 years; 83% repayment
APPLICATION

- Application
- 3 years business, personal tax returns
- Interim financial statements
- Credit Authorization
- Debt Schedule
- Personal Financial Statement
- 1 year monthly projection
- Lease or grant deed
Underwriting Criteria

- **Credit**: No Bks, Foreclosures, Repos in past 3 years; no collection accts, chargeoffs, no payroll tax liens
- **Collateral**: Business assets, commercial or residential property, vehicles
- **Cash flow**: 1.2 DSC on a projected basis
- **Job creation or retention**: of at least $35,000 cost per job
Approval Process

- Experienced business loan officer underwrites and prepares loan recommendation and financial spreads that fully describes business, explains recovery strategy, discusses credit, collateral and cashflow considerations
- Experienced consultant or volunteer Chief Credit Officer signs off on loan
- Presentation to Loan Board consisting of 5-7 bank representatives, real estate professionals and CPAs
Loan Closing and Disbursement

- Lawyer prepares closing documents and certifies proper execution of security
- Title insurance on real estate
- Specific UCC filings and liens on vehicles
- Controlled disbursements to vendors or through escrow
Servicing

- Outsource to bank or CDFI with existing loan portfolio management system to service loans
- ACH all loan payments
- Collect quarterly financials and annual tax returns
- Keep interest income and fees separate from principal
COLLECTION

● Start calling business at 30 days late
● Never defer payments, always collect at least interest monthly
● Default loan at 90 days and repossess vehicles, initiate foreclosure immediately
● Contract with experienced collection professional on a hourly or flat fee basis, not contingency.
● Use attorneys only for litigation
Loan Fund Mechanics

- No industry sector concentration above 20%
- Loan delinquencies of up to 90 days late should be less than 10% at any one time
- Loan defaults should be less than 5% at anyone time
- Loan net chargeoffs should be less than 2.5% annually
Program Administration

- Need trained, seasoned lending staff to generate loan requests and underwrite for Board decision.
- Quarterly performance review for all loans along with Annual Performance Review required for each loan.