

Small Business Administration (SBA) Lending 101: *Pharmacy Edition*

Who doesn't have questions about borrowing money to purchase or start a pharmacy? In the article, we will discuss Small Business Administration (SBA) lending and the role First Financial Bank (FFB) plays.

SBA lending is the most common form of lending in the Independent Community Pharmacy segment. Commercial banks are Asset Based Lenders, and when it comes to a pharmacy, the largest asset is an off-balance sheet asset: the Rx files. An SBA loan can be collateralized in different ways to make it possible to acquire the loan.

The SBA was founded in 1953 to give small businesses access to capital (Business Financing), entrepreneurial development (Education, Information, and Technical Assistance & Training), government contracting (Federal Procurement) and advocacy (Voice for Small Business). The mission of the SBA is to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation. The SBA has delivered millions of loans, loan guarantees, contracts, counseling sessions and other forms of assistance to small businesses.

WHAT DOES THE SBA ACTUALLY DO?

The SBA does not lend money directly. They set the guidelines for the loans - the banks lend the money. The SBA also partners with the banking lenders to guarantee repayment of the loan. The loan is a commercial loan structured according to SBA requirements with an SBA guaranty. Some lenders, like FFB, are a Preferred Lender Participant (PLP) lender. For these lenders, the SBA has given them authority to underwrite and approve loans without having to send them to the SBA for approval. This means a shorter turnaround time for the loan closing process.

WHO IS ELIGIBLE FOR AN SBA LOAN?

To be eligible for assistance, the business must operate for profit, be small as defined by the SBA, be engaged in or propose to do business in the United States or its possessions, and have reasonable invested equity. Additionally, the borrower cannot find alternative financial resources, including personal assets, before seeking financial assistance. Since it's difficult to get a commercial loan and most people don't have \$1-2 million at their disposal, the need is common. Additional

requirements include being able to demonstrate a need for the loan proceeds, being able to use the funds for a sound business purpose, and not being delinquent on any existing debt obligations to the U.S. government

SO WHAT IS A SMALL BUSINESS?

Is your business considered "small" by the Small Business Administration?

You must be defined as a small business when submitting a proposal for SBA financing. SBA uses the North American Industry Classification System (NAICS) as the basis for its size standards.

WHAT IS A SMALL BUSINESS SIZE STANDARD?

Usually the number of employees, or average annual receipts, are used to determine size. For Pharmacies and Drug Stores (NAICS code 446110), the size standard is based on average annual gross income. The size standard for Pharmacies and Drug Stores totals \$27,500,000 of annual gross income. There are few Independent Community Pharmacies that exceed this level.

WHAT DOES AN SBA LOAN LOOK LIKE AND WHAT DO I HAVE TO DO TO OBTAIN ONE?

The first question is: what are the fees? SBA fees are comprised of the borrower paying a guarantee fee which depends on the loan amount and closing costs from the lender that are usually rolled into the loan.

Next is filling out an application. You will need to provide, among other documents, a personal financial statement and provide the last three years of your tax returns.

For an acquisition, you will need to complete a pharmacy questionnaire, provide the last three years of the business' tax returns, as well as your most recent financial statement.

For a startup, you will need a business plan with three year projections.

Once your loan officer gets the complete document package, they may present it to the Loan Committee for approval. Upon approval, you will sign a commitment letter.

At this point, the clock starts its countdown to the closing of the loan and your becoming an owner. The closing process usually takes 45 to 60 days. Please be patient

during this process as there are lots of documents, policies, title work, inspections, appraisals, etc. to be done. But with a lender like FFB, you have your Loan Officer throughout the whole process. FFB's Loan Officers stay with you every step of the way, including loan operations, underwriting, closing etc. Their cell phone number and email address are the only numbers you need.

WHAT DOES A BANK LOOK FOR IN A BORROWER?

One of the tools we use are the 5 C's of credit. They are:

- Character – Can you run the business?
- Credit score – Generally looking for around 700.
- Cash flow - Does the deal generate a positive cash flow after the loan payment is deducted?
- Capital – Do you have some cash, at least \$50,000, to bring to the table?
- Collateral – This is very important to a conventional lender; not as important to an SBA lender

In addition, the following will be considered:

- Acquisition – Will historical cash flows support the business, the debt and pay you a reasonable pharmacist salary?
- Startup – Are the projections reasonable? Do they cover expenses, the debt and pay you a salary?

WHAT TYPES OF LOANS DO YOU OFFER?

The Professional Services Division of FFB can assist you with a variety of loans, including:

- Transition
- Start-Up
- Working Capital (Expansion)
- File Buy
- Partner Buyout
- Refinance
- New Construction
- Commercial Real Estate Purchases

SBA loans are a good fit for independent pharmacies. The key is choosing a bank that has the expertise in the industry, is a PLP lender, and provides you with the personal service you need.

Now that you have enough information to get started, reach out to First Financial Bank when it's time to invest in your business or purchase a new pharmacy. With our experience, we can ensure your loan process is as smooth and timely as possible.