1. Introduction & Industry Overview

1. Alternative Financing Options
   • Merchant Cash Advance
   • Cash Advance Loans
   • Brokers
   • Peer-to-Peer Lending
   • Fundation

2. Traditional Financing Options
   • SBA 7(a) Program
   • SBA 504 Program
   • Line of Credit

3. Questions
### Summary & Introduction

- The **small balance commercial loan market (SBCL)** has and continues to be deemphasized by the banking system, the primary drivers of which are:
  - Underwriting using manually intensive processes is cost inefficient
  - A tolerance for risk that leaves many worthy borrowers underserved
  - The vast majority of the small business economy is comprised of service based businesses that have a general lack of high quality collateral that can secure loans
  - Dramatically different risk characteristics from one industry compared to another

- These structural challenges have resulted in a **proliferation of non-bank lenders (currently referred to as "Alternative Lenders")** that are meeting the debt financing needs of the small business market through the following:
  - Higher level of tolerance for taking credit risk
  - Business process automation
  - Adoption of new sources of data that can be used to underwrite loans more efficiently

"Alternative Lending" comes in two primary forms:

- **Short-Duration Products**
  - Daily payments
  - 3 – 18 month repayment periods
  - Structured as a purchase of receivables or fixed payment contract ("cents on the dollar")
  - ~30% – 120% APRs
  - Primarily a liquidity tool for short-term cash flow management or small inventory turns

- **Term Loans**
  - Semi-monthly or monthly payments
  - 1 – 5 year repayment periods
  - Structured as traditional loans that accrue interest
  - ~8% – 30% APRs
  - Primarily utilized for ‘productive investments’ like expansion, renovations, hiring, marketing
Need for Capital in Home Health Care

Expansion Opportunities
- New location
- Expanding services into a new territory

Expansion Project For an Existing Locations
- New Hires
- New Programs/Services
- Technology Upgrades

Working Capital
- Cashflow stability
- Support lag time receiving reimbursements

Refinance Existing Debt
- Capital structure improvements

Regional Differences in Industry Loan Performance

Home Health Care Industry

<table>
<thead>
<tr>
<th>Region</th>
<th>Default Rate by Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>2%</td>
</tr>
<tr>
<td>Midwest</td>
<td>4%</td>
</tr>
<tr>
<td>Average</td>
<td>6%</td>
</tr>
<tr>
<td>Southwest</td>
<td>8%</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>10%</td>
</tr>
<tr>
<td>Pacific</td>
<td>12%</td>
</tr>
<tr>
<td>Southeast</td>
<td>12%</td>
</tr>
</tbody>
</table>
SBA & Banks View on Home Health Care Industry

- Banks primarily focus on two items when underwriting small businesses loans:
  - Collateral
  - Cash Flow

- Banks are very efficient at underwriting commercial loans when commercial real estate ("CRE") is involved – this provides the bank with a "hard" asset which mitigates the primary risk or lack of collateral that is consistent across small business loans

- Banks are hesitant to lend to the home health care industry for two major reasons:
  - Lack of "worthwhile" assets when lacking CRE; typically concentrated on Accounts Receivable ("A/R")
  - Inability to get comfortable with the industry specific A/R structure related to government/insurance reimbursement programs and collection rates which strain cash flow
  - Approvals may depend on the aggregate banking relationship

Shift Towards Real-Estate Secured Loans

<table>
<thead>
<tr>
<th>Aggregate Community Bank Loan Portfolios *</th>
<th>NON Real Estate Loans</th>
<th>Real Estate Secured Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>41%</td>
<td>36%</td>
<td>26%</td>
</tr>
<tr>
<td>59%</td>
<td>64%</td>
<td>74%</td>
</tr>
</tbody>
</table>

* Source: FDIC; Includes banks with $100 million - $1 billion of assets

There has been a secular shift towards commercial real estate lending in the community bank sector - the institutions that should be best equipped to address the SBCL market.
Banks Are Ill Equipped to Address The SBCL Market

- The loans are too small relative to their cost of origination to generate any significant profit
- Entrenched and high cost underwriting methods resulting in unfavorable economics for small ticket deals
- Regulatory influence to focus on asset backed loans and to create “thick” files
- Legacy technology systems that are inflexible
- Lack of skilled commercial lending staff that is trained to lend on cash flow
- Branch personnel are closest to SBCL customers but are not credit trained
- Lack of risk appetite post recession
- Very heterogeneous market

The Risk Profile of Small Businesses

Underwriting models and processes must be designed to take into account the important differences in risk and profitability metrics throughout the SBCL universe. A lender cannot adopt a “one size fits all” strategy.

* Source: Small Business Administration, Program 7(a) loans for 2000 - 2010
Section 2

Alternative Financing Options

The “Barbell”

The market has been saturated by firms offering ultra high cost, short duration products.

Fundation’s and other lenders’ loan products are designed to meet a market need as a “bank alternative” for prime customers and to address the funding gap for “low prime” customers.

The “only game in town” for bank delivered small business lending but requires arduous levels of paperwork.

Competitive cost of capital, IF AVAILABLE!

Bank Loans

Credit Card Merchant Financing

Existing Online Models

Accounts Receivable Factoring

Mid-Prime Lenders

Prime Oriented

Low Prime Oriented

Non Prime Oriented

SBA Guaranteed Loans
**Merchant Cash Advance**

<table>
<thead>
<tr>
<th>Program</th>
<th>Merchant Cash Advance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$10,000 - $500,000+</td>
</tr>
<tr>
<td>Factor Rate</td>
<td>~1.20 – 1.60</td>
</tr>
<tr>
<td>Repayment Term</td>
<td>*Fixed percentage taken daily from credit card receivables (undefined)</td>
</tr>
<tr>
<td>Closing Time</td>
<td>1 week</td>
</tr>
<tr>
<td>Documentation Required</td>
<td>Online application, last 3 months of credit card or bank statements</td>
</tr>
<tr>
<td>Origination Fee</td>
<td>~3% - 5%</td>
</tr>
</tbody>
</table>

- Lender collects a fixed daily percentage from the customers credit card sales until the loan is paid back in full.
- This creates an ebb and flow repayment process for the business owner because the amount they repay varies with their revenue.
- On the downside, if a business sees tremendous credit card sales in a short period of time, the repayment could take as little as a month.
- Sometimes these products make sense for businesses trying to get “back on track” or plug a cash flow hole.
- Merchant Cash Advance can be used for the following:
  - Working Capital
  - Emergency Financing
  - Trouble Making Payroll
  - Other Cash-Flow Problems
Merchant Cash Advance Loan Example

**Example:** Merchant cash advance lender agrees to “loan” you $50,000 at 1.30 factor rate with a 5% origination fee and takes 30% of credit card receivables.

- **$50,000** "Loan Request"
- **1.30 Factor Rate** (Customer pays $1.30 for every $1.00 borrowed)
- **$65,000 Total Repaid** Estimated repayment time TBD

**Key Figures**
- **$47,500 Funded to Customer** (origination Fee comes out of funds dispersed)
- **APR is TBD** pending on time frame of repayment

**Repayment Model**
- **$1,000 in credit card sales**
- **$300.00 debited from your business account that day**

**Cash Advance Loan**

<table>
<thead>
<tr>
<th>Program</th>
<th>Termed Cash Advance Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount</strong></td>
<td>$10,000 - $500,000+</td>
</tr>
<tr>
<td><strong>Factor Rate</strong></td>
<td>~1.15 – 1.60+</td>
</tr>
<tr>
<td><strong>Term</strong></td>
<td>3 – 18 months</td>
</tr>
<tr>
<td><strong>Closing Time</strong></td>
<td>&lt; 1 week</td>
</tr>
<tr>
<td><strong>Documentation Required</strong></td>
<td>Online application, last 3 months of bank statements</td>
</tr>
<tr>
<td><strong>Origination Fee</strong></td>
<td>~3% - 5%</td>
</tr>
</tbody>
</table>
Cash Advance Loan

- Many businesses utilize these products because nothing else is available – This can be dangerous for both healthy and stressed businesses

- This is not a loan, it’s a “payment contract” – typically with APR between 30%-100%

- Average term for this type of loan is six months, and the repayment is a fixed-amount daily debited from the commercial bank account

- Sometimes these products make sense for businesses trying to get “back on track” or plug a cash flow hole

- Cash advance loans can be used for the following:
  - Working Capital
  - Emergency Financing
  - Trouble Making Payroll
  - Other Cash-Flow Problems

Cash Advance Loan Example

Example: Cash advance lender agrees to “loan” you $50,000 at 1.30 factor rate with a 5% origination fee and a 6 month term.

$50,000 "Loan Request" \[\times\] 1.30 Factor Rate (Customer pays $1.30 for every $1.00 borrowed) \[=\] $65,000 Total Repaid over 6 months (no discount for early payments)

Key Figures

- $47,500 Funded to Customer (origination Fee comes out of funds dispersed)
- $492.42 Daily Payment debited from your business account
- ~70% APR
Cash Advance Overview

- Merchant Cash Advances and Cash Advance Loans are a substantial and growing part of the SBCL market, advancing billions of dollars every year.
- This industry is driven by loan brokers - MCA lenders provide "buy rates" to brokers so they can upsell the price of the "loan" to their clients for their fee.
- Some merchant cash advance lenders allow brokers to white label the loan documents so it appears as if the broker is a direct lender.
- Recent scrutiny of the cash advance industry may result in increased regulation focused on transparency and business practices.
- This product should only be utilized by borrowers who cannot find other means of accessing capital.
- Let's see what happens when we Google "small business loans".

Brokers

- Commercial loan brokers are individuals or entities that try to help business owners access capital by guiding them through the traditional and alternative lending landscape.
- Most brokers work with cash advance companies and get paid very well by these lenders.
- Some brokers get up to 12–15 points when closing an MCA deal:
  - Example: 10 points on a $50,000 = $5,000 broker fee (comes out of the client's pocket).
- It's common for brokers to send out a client's application to multiple direct lenders, which can hurt an owner's credit score due to the multiple credit inquiries.
- Brokers will send their clients to other brokers - thus creating another layer of fees for the client.
- Brokers will often advertise and position themselves as direct lenders.
- Some brokers have created a digital presence to streamline the lender selection process.
Peer-to-Peer Lenders

- Peer-to-Peer (P2P) platforms were designed to allow individuals to invest in term loans requested by other individuals
- The first platforms offered consumers 3 or 5 year term loans up to $25,000 and allowed retail investors to fund these deals
- The space evolved to also allow institutional investors to fund deals which dramatically changed the capacity of these platforms to scale
- The largest players in this market are Prosper and Lending Club which now offer consumer loans up to $35,000
- Lending Club recently entered the commercial lending market offering business loans up to $100,000 with 1-5 year terms
- Many other P2P Commercial Lenders have been emerging in recent years

Peer-to-Peer & Crowdfunding Models

Funding Process
1. Loan/Investment Request
2. Credit Evaluation
3. Investor Commitments
4. Loan/Investment Funding
Fundation Term Loan

<table>
<thead>
<tr>
<th>Program</th>
<th>Fundation Term Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$50,000 - $500,000</td>
</tr>
<tr>
<td>Terms</td>
<td>2, 3 and 4 years</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>Starting at 7.99%</td>
</tr>
<tr>
<td>Closing Time</td>
<td>3 - 7 days</td>
</tr>
<tr>
<td>Origination Fee</td>
<td>1% - 3%</td>
</tr>
<tr>
<td>Prepayment</td>
<td>No Prepayment Penalty</td>
</tr>
</tbody>
</table>

Fundation Term Loan

- Fundation is considered a bank alternative, providing business owners with a fixed rate term loan product (fixed payments of principle and interest)
- Our product was specifically designed to fill a major void in the SBCL market
- Fundation has developed an efficient, intelligent and scalable technology solution to address this market opportunity and provide a seamless experience for borrowers
- Fundation focuses their lending efforts on a handful of industry verticals:
  - Home Health Care is a priority given the expected growth in the industry and need for a working capital solution
- Fundation can be used for the following:
  - Expansion Opportunities
  - Capital Improvements
  - Equipment & Inventory Purchases
  - Working Capital
  - Debt Refinancing
  - Marketing Campaigns
Customer Profile: Home Health Care Agency in Florida

**Business Information**
- **Industry:** Home Health Care Services
- **Location:** Davie, FL
- **Annual Sales:** $2,000,000
- **Type:** S-Corporation
- **Tenure:** 10 years
- **# of Employees:** 30

**Loan Profile**
- **Loan Size:** $250,000
- **Loan Term:** 3 Years
- **Security:** Blanket lien and Personal Guarantee

**Loan Purpose:** Business Expansion

**Customer Situation:** Customer was looking to expand his customer base by hiring two business development associates along with qualified nurses to help service the growing agency. He was utilizing a bank line of credit which was used to help finance past projects and was unable to access additional bank financing.

**Foundation Solution:** Structured a loan that met the owners hiring needs and became comfortable taking a junior position to the bank loan that was outstanding given the current performance of the business.

Emergence of New Data Will Shape the Future

- **Commercial data repositories** are collecting business payment data on both financial and non-financial accounts giving lenders insight into a business’s willingness and ability to pay:
  - SBFE
  - Paynet
  - SBRI

- Real time checking account access allows for **instant bank account verification and cash flow analysis**, making debt service capacity calculations much more efficient and accurate.

- Quickbooks, payroll services, and other online accounting platforms have already and will continue to integrate with lending platforms.

- Public records are readily available in online format.

- Alternative consumer and commercial data may prove to be worthwhile in the future as well:
  - Lifestyle choices & purchases
  - Management choices
  - Social media presence (business and personal)
Section 3

Traditional Financing Options

SBA Overview

• The SBA is not a lender!

• The SBA guarantees a percentage of the loan in the event of a borrower default, thus mitigating the primary risk or lack of collateral to the traditional lending institutions

• This guarantee structure was designed to incentivize banks to make more small business loans

• When a business applies for an "SBA loan," it is actually applying for a commercial loan, structured according to SBA requirements with an SBA guaranty

• Financial institutions including non-bank institutions administer the SBA program via 3 programs: GP (General Program), CLP (Certified Lender Program), and PLP (Preferred Lender Program);

• It is up to the bank to decide whether or not they utilize an SBA program

• Any small SBA red flag (tax liens, personal credit issues, etc.) will either cause the process to be drastically extended or the request will be denied

• Very difficult to access additional capital during the course of the SBA loan due to the requirement to pledge all "available" assets for the SBA loan
SBA 7(a) Loan

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>SBA 7(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amounts</td>
<td>Up to $5 Million</td>
</tr>
</tbody>
</table>
| Loan Term   | Working Capital - 7 years  
                 Equipment - 10 years  
                 Real Estate - 25 years |
| Closing Time| 45 – 90+ days |
| Documentation Required | 40+ page application |
| Fees (depends on amount funded) | 3% - 3.75% |

SBA 7(a) Loan

- For standard 7(a) loans, the SBA guaranty is for 85 percent of loans up to $150,000 and 75 percent of loans greater than $150,000

- The maximum standard 7(a) loan is $5 million

- Loans typically are limited to seven years if working capital is the use of proceeds.

- When a loan is used for fixed assets (non-real-estate), such as machinery and equipment, loans are limited to the useful life of the assets.

- Loans made for acquisition and improvement of land and buildings are limited to 25 years

- SBA 7(a) loans can be used for the following:
  - Acquisition, rehabilitation, and expansion of land, buildings, equipment, and fixtures
  - Leasehold improvements
  - Working capital
  - Refinancing existing debt
  - Inventory purchases
SBA 7(a) Loan

SBA 7(a) Loan - Business Requirements:

• Operate for profit
• Be small, as defined by SBA
  • Home Healthcare – NAICS: 621610 – Maximum Revenue: $14.0MM
• Have reasonable invested equity
• Use alternative financial resources, including personal assets, before seeking financial assistance
• Be able to demonstrate a need for the loan proceeds
• Use the funds for a sound business purpose
• Not be delinquent on any existing debt obligations to the U.S. government
  • Small tax liens can disrupt process

SBA 504 Loan

<table>
<thead>
<tr>
<th>Loan Program</th>
<th>SBA 504</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amounts</td>
<td>Up to $6 Million</td>
</tr>
<tr>
<td>Loan Term</td>
<td>Equipment – 10 years</td>
</tr>
<tr>
<td></td>
<td>Real Estate – 30 years</td>
</tr>
<tr>
<td>Closing Time</td>
<td>45 – 90+ days</td>
</tr>
<tr>
<td>Documentation</td>
<td>40+ page application</td>
</tr>
<tr>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>3.5% + origination fee</td>
</tr>
<tr>
<td>Guarantee Fees</td>
<td></td>
</tr>
<tr>
<td>Loan Guarantee</td>
<td>50% lender, 40% SBA, 10%</td>
</tr>
<tr>
<td>Structure</td>
<td>borrower equity injection</td>
</tr>
</tbody>
</table>
SBA 504 Loan

- The SBA 504 loan program provides small companies in development areas with guarantees on loans for major fixed assets such as land and buildings for economic development.

- Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

- SBA 504 loans can be used for the following:
  - The purchase of land, including existing buildings
  - The purchase of improvements, including grading, street improvements, utilities, parking lots and landscaping
  - The construction of new facilities or modernizing, renovating or converting existing facilities
  - The purchase of long-term machinery and equipment

SBA 504 Loan - Business Requirements:

- Operate as a for-profit company
- Has a tangible net worth less than $15 million and an average net income less than $5.0 million after taxes for the preceding two years
- Not have funds available from other sources. SBA does not extend financial assistance to businesses when the financial strength of the individual owners or the company itself is sufficient to provide all or part of the financing
- Ability to repay the loan on time from the projected operating cash flow of the business
- Good character
- Relevant management expertise
- Feasible business plan
Line of Credit Overview

- Typically structured as a revolving line of credit – Interest only payments with principal payments when cash flow permits
- Line of credit offers more flexibility than a traditional term loan
- Operating businesses must demonstrate positive cash flow and must have a working capital need during operating cycles
- This type of program is appropriate for businesses that have seasonal operating cycles or variable working capital demands
- This is a flexible loan product that can be used to help bridge expenses in the slow season or help finance inventory needed to meet demand
- Lines of Credit can be used for the following:
  - Working Capital
  - Inventory Purchases
  - Small Expansion Projects

If you have an outstanding SBA loan, your best option to access a line of credit would be through the bank that funded the SBA loan

It’s very difficult to access a line of credit through a new lending institution due to the junior position against the business and all “available” assets

Even without an existing loan, most banks will only issue a line of credit with some form of asset backing the facility

SBA offers guarantees for lines of credit but only 682 were approved in FY 2013

Some banks are terming out lines of credit – restructuring them into term loans in order to decrease their exposure by mandating principal pay down
QUESTIONS?