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COVER STORY

NEW Industry Changing Engagement and Equity Injection Tools for COMMUNITY BANKS

By Larry Carnell

The one constant in our lives is that things change. Unfortunately for Kelly, the change was an unwelcome surprise. Over 25 years, Kelly had climbed the corporate ladder and risen to a prominent position in the company with a healthy income. Then, on a Friday about one year ago, Kelly and several colleagues were informed that their department was being eliminated. As a part of their termination, the department would be receiving a severance to help cover living expenses for a brief period.

Kelly, age 48 with a spouse and two children, began the search for a new career. Even with a severance, the family was forced to tighten their belts, hoping it would be a short time before landing a new job. However, several months and dozens of interviews later, Kelly was still looking. As the family's savings were depleting, desperation was settling in. What was happening? Kelly had a successful career with great experience, reflected in an attractive resume. And, at age 48, has plenty of earning years ahead. Why was this process so difficult? What compromises would have to be made?

Using retirement funds for a business is a popular option of entrepreneurs

Kelly is not alone. Many executives moving into their mid-to-late 40s and older are facing a growing trend in Corporate America known as ageism. Due to rising healthcare and payroll expenses for experienced executives, employers are more apt to target these employees in an effort to reduce operating costs. These employees often have no legal recourse for termination if they receive a severance package. Sources like payscale.com have revealed that peak earning years decline quickly as we age, while downsizing risks increase. Additional trends include the following:

- Replacement jobs can take up to twice as long to find, contributing to the erosions of savings
- Replacement jobs often result in 20-30% pay reduction
- Replacement jobs often have lower job satisfaction and last an average 2.4 years

For Kelly's family, the preferred solution had become clear. The best way to replace Kelly's income was through business ownership but how could they afford a business when their cash reserves were shrinking? How would the family live while the business was getting off the ground? After researching a variety of options, franchise ownership looked to be the most promising, so the family met with a broker. With limited savings for a down payment, Kelly initially investigated a smaller business opportunity, but after evaluating the net income after servicing the debt, and running into lender concerns (post-closing liquidity, debt-ratio, etc.), the deal fell through.

Kelly discovered that many national lenders were often not attracted to smaller deals, but community banks and regional lenders had a stronger appetite for businesses in their footprint. Realizing Kelly had limited cash reserves, the local community bank loan officer offered two innovative funding solutions discovered while attending a recent lender's conference. These resources help those in the lending community and people like Kelly to more effectively purchase a business.

TWO PROGRAMS CHANGING THE LENDING LANDSCAPE

The two funding programs that have undoubtedly changed the lending for small businesses were engineered by Benetrends Financial, a business funding and consulting firm established in the early 1980s. The first program has been a relatively well-known vehicle in the franchise community for decades and its popularity has accelerated in the SBA and lending communities after receiving a formal Small Business Administration approval over a decade ago. Known as a **ROBS** (Rollovers as Business Startups) **Arrangement**, it was first introduced by Benetrends Financial as **The Rainmaker Plan®** in 1983. A ROBS plan is a debt-free funding solution that allows a person to draw from their retirement funds without incurring upfront taxes or early withdrawal penalties.

The recently introduced **Rainmaker Advantage Plan®** revolutionized how people buy and sell their businesses, especially following the recent Tax Reduction and Job Creation Act of 2018 (TRJC). This program allows business owners to realize the full appreciation of their business tax-free upon the sale of the business, given certain circumstances.

HOW EACH PROGRAM WORKS:

A ROBS plan allows business owners to use their retirement funds, tax-deferred and penalty-free, for the purchase or startup of their business, using a four-step process.

It can also be used as the equity injection for an SBA loan.

The Rainmaker Advantage Plan works best for entrepreneurs who have the means to self-fund their business or have adequate post-closing liquidity required for an SBA loan. Modeled after the Rainmaker Plan, this funding option provides business owners with a way to build wealth and allows for an exit strategy that dramatically lowers – or eliminates – taxes on the profits from the sale of the company. Further than that, the plan has other benefits:

- Unlike traditional IRAs, the Rainmaker Advantage Plan proceeds are never subject to required minimum distributions (RMDs). This creates and maintains better life-long federally tax-free wealth for owners that is protected from growing personal liability risks as you grow older
- Tax-free wealth and inheritance for children since children inheriting traditional IRAs from parents are often at their peak earning years and are often subject to much higher tax brackets. The Rainmaker Advantage Plan leaves tax-free wealth and up to twice the inheritance to family members

BENEFITS FOR ALL PARTIES

Lenders are finding that these resources are creating enhanced motivation for business ownership in an economy where low unemployment is often a greater competitor than another lender and creates a greater fall-out rate. The perceived security of a job often discourages people from assuming the risks associated with buying or starting a business. When presented, these resources are proving to be effective in helping to engage more borrowers, improve lending approval rates, reduce defaults and leverage larger loans by providing greater access to liquid capital for injection needs, thereby reducing borrowers' fears while creating dramatic benefits for both the borrower and lender.

SIGNIFICANT LENDER BENEFITS: HIGHER LOAN APPROVAL RATES & LARGER LOANS

- Provides a competitive edge for many community banks offering programs that others do not
- Quick access to capital
    - If started early in the loan process, equity injection funds are available in approximately 15-20 business days
- Improves post-closing liquidity, income-to-debt ratios and reduces default rate
- Leverages larger loans

- Access to additional capital could lead to real estate purchases or multi-unit consideration
- Instantly provides additional equity injection for future loans – this can accelerate growth for existing businesses.
- Increased loan volume
  - Owners often sell the business and then leverage proceeds to acquire a bigger business

SIGNIFICANT BORROWER BENEFITS

- Creates better wealth protection for spouse and children
  - Future sales proceeds transferred into a retirement plan are better protected from future personal liability risks
  - Bankruptcy due to rising healthcare costs has tripled and been rising since the 1990's
- Creates a vehicle that helps accumulate, grow and build protected wealth faster than many traditional wealth-building vehicles while deferring, reducing and/or eliminating taxes
- **Conserves cash for personal living expenses**
- Added resources to help you qualify for future expansion capital or loan
- Reduces fears and anxieties
- ROBS Plans require government to assume up to 50% of equity injection risk as the funds being used are pre-tax dollars

Ultimately, Kelly decided to go with the Rainmaker Plan in order to provide his cash injection for his SBA loan. With a healthy retirement account and dwindling cash savings, Kelly was still able to fully fund the new business and have the necessary cash reserves for living expenses.

To learn more, hold a free educational webinar for your organization, or if you have a client who may need expert advice, register your request at benetrends.com/action/?ID=Greg@mybankermag.com.

Benetrends Financial founders Len and Cheryl Fischer

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About the Author:

Larry Carnell is Vice President of Business Development with Benetrends Financial. He is a national award-winning entrepreneur and management consultant, as well as a respected business and funding expert at Benetrends. Because of his extensive experience within the franchise development, franchise broker, business broker and funding arenas, he is often sought out for his expertise. Larry lectures across the country at seminars and events with other notables such as Suze Orman and Donald Trump. He is also a LinkedIn international top recommended professional. To reach out to him or learn more, call 770.652.5393, email Larry@Benetrends.com or visit his LinkedIn page.

Benetrends Financial has been helping entrepreneurs successfully launch their dreams for 35 years. Founded by ERISA Attorney Len Fischer, Benetrends is the number one referral source by CPAs, attorneys and lenders. Benetrends is the only fully certified retirement design firm that provides comprehensive liability protection for a lender's SBA guarantee. Benetrends helped obtain SBA approval and adopted/established new equity injection SOPs and policies.