

## SBA and Other Business Loans

There are different kinds of loans available to buy or upgrade a business. Most involve real estate as collateral but, strictly speaking, these loans are not real estate loans. In fact an SBA (Federal Small Business Administration) guaranteed loan can be obtained on a leased location business. This is also true of US Department of Agriculture Business and Industry ("B&I") loans.

Both SBA and B&I loans are "guaranteed" by the respective agencies. The SBA and USDA themselves do not fund the loans. Because they are guaranteed for up to 90% by the SBA and 80% by the USDA, banks find it much easier to make these loans. The banks with which we work are "preferred lenders." That means that these banks have the authority to make these loans on their own. They do not have to go to the SBA or USDA for approval. When the time comes to fund the loan, preferred lending banks merely obtain a loan number from the SBA. If you and I are working to obtain a business loan for you, we will be working directly with a bank and not having to talk to government agency.

SBA loans come in two varieties. One is the 7A program. 7As are adjustable rate loans. All 7A loans are fully amortized (no "balloon payment" or call date), with terms ranging from 7 to 25 years depending on the purpose of the loan. Working capital loans are limited to 7 years, equipment purchase or tenant improvements 10 years, and purchase or construction of business real estate can be as long as 25 years. Recently the SBA 7A loan limit has been raised to \$5,000,000.

The other SBA loan program is the 504. The 504 program involves what is termed a "debenture" in 2<sup>nd</sup> lien position combined with a conventional commercial loan in 1<sup>st</sup> lien position. 504 loans are 20 year fixed rate loans. However 504 loans carry severe prepayment, that is, early payoff penalties. A 504 lending package can exceed the maximum limit that 7A loans have, due to the ability to combine the 504 Debenture of up to \$5,500,000 with the conventional loan of up to \$8,000,000 or more.

Unlike typical real estate investment loans, an SBA loan can exceed 80% of the purchase price or the appraised value of the collateral. The higher the loan amount compared to the value (the "LTV"), the more risk that there is in the loan and, therefore, the more stringent the qualifying. An SBA loan can be for 90% or more LTV. In fact, if a business is strong a borrower could acquire a building with as little as 5% cash down with a 5% seller carry note.

Because an SBA loan is intended to help a business, if the owner's business real estate is to count as collateral, the business must occupy at least 51% of the square footage at its location. In general there must be enough collateral value to secure the lender.

If a new building is being constructed, then the business must occupy 60% at completion and have a plan to occupy at least 80% within a reasonable time. However, if a property is being pledged as collateral or additional

collateral to support a loan for another eligible purpose (such as working capital, equipment purchase, or to further support an "upside-down" refinance of an owner-user property) then an investment property or even a residence would be acceptable.

Whether a 7A or 504 works or works best in a given situation depends on the situation. Which loan to pursue is always a matter of the "whole picture". It also depends on the purpose of the loan, as the eligibility guidelines of the two programs differ. We and the banks with whom we work have many years experience putting together business loan.

For instance, hotels/motels/inns are eligible, but apartments are not. Until recently this has also meant that self-storage, executive suites, and mobile home parks were not eligible unless the majority of their income came from other than space rentals. Recent changes have made even these business types eligible if the owner controls entry and exit to the property and other eligibility requirements are met.

Besides SBA loans proper there are SBA "clone loans." A clone loan may have similar terms as a regular SBA loan but does not afford the lending bank the government guarantee. The requirements may be less but the lending, absent the guarantee, may be more conservative. These programs typically only go up to 60-65% loan to value, but do offer some fixed rate options. This type of loan would be an attractive alternative for lower LTV situations where competitive fixed rate pricing is desired.

B&I loans are in many ways much less restrictive than SBA loans. For example, although there is a need to show that jobs in rural areas will be created or preserved, purely tenant occupied properties are eligible (office/warehouse/manufacturing/retail/etc.)

USDA B&I loans are intended for rural areas. To determine whether a business location qualifies for a B&I loan, we must check the exact address against a database.

There are other types of loans available for businesses such as advances on future receipts, known as "factoring." We may not be able to function as your broker for such loans but, never the less, we will be happy to guide you toward getting such loans. We have built up a sizable referral base of satisfied former clients. Even if we do not make money helping you in a given situation, we are happy if helping you results in you coming back to us the next time that you need financing and/or referring other to us.

If you are interested in a business loan Please Call me at

619-249-4713 most any time or [CLICK HERE](#) to email me