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SBA 7(a) & 504 Loan Discussions

Presenters:

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AGENDA

What Will We Cover Today?



Introduction of Discussion Panel:

- William Marin – Laundry Depot – Corpus Christi, Portland & Flour Bluff
- Amy Griffin – VP & Commercial Loan Officer, Plains Capital Bank, Corpus Christi, TX
- Sandra Navarro – Texas Certified Development Company (TX CDC) Consultant
- Jamey Jones – Small Business Development Center Business Advisor



What is a Small Business?



What is a SBA 7(a) Loan?



What are the Requirements of a SBA 7(a) Loan?



Types of SBA 7(a) Loans



What is a SBA 504 Loan?



SBA 504 Loan Project Financing/Amounts/Rate



SBA 504 Loan –Frequently Asked Questions



Discussions & Questions

What is the Definition of A Small Business?

A business qualifies as “small” if:

- ✓ It is a for profit enterprise
- ✓ It is independently owned & operated
- ✓ Does not dominate its field
- ✓ Does not have an average net income over \$5 million after federal taxes for the preceding 2 years

SBA will make loans to sole proprietorships, corporations, partnerships, limited liability companies and combinations thereof.

What is an SBA 7a Loan?

The SBA 7(a) loan program is the SBA's primary program for providing financial assistance to small businesses. The terms and conditions, like the guaranty percentage and loan amount, may vary by the type of loan.

A 7(a) guarantee is provided to lenders to make them more willing to lend money to small businesses with "weaknesses" in the loan applications.

For example, a business start up would not have cash flow history to assure the lender of continued ability to pay back the loan, so the SBA would serve to provide the lender with an increased guaranty against default.

What is an SBA 7a Loan? (continued)

Maximum loan amount: \$5 Million

Maximum SBA Guaranty: 85% up to \$150,000 and 75% for loans greater than \$150,000 up to \$3.75 Million.

Eligibility Decision: By the SBA. Qualified lenders may be granted authority (PLP Preferred Lender Program Status) to make eligibility determinations without SBA review.

What are the Requirements of a SBA 7(a) Loan?

Collateral:

- ✓ Lenders are not required to take collateral for loans up to \$25,000.
- ✓ For loans in excess of \$350,000, the SBA requires that the lender collateralize the loan to the maximum extent possible up to the loan amount.
- ✓ If business fixed assets do not “fully secure” the loan, the lender must take available equity in other equipment and/or personal real estate of the principals as collateral.



What are the Requirements of a SBA 7(a) Loan? (continued)

Credit Decision:

By the SBA. Qualified lenders may be granted authority (PLP) Preferred Lender Program Status to make eligibility determinations without SBA review.

Interest Rate:

Lenders and borrowers can negotiate the interest rate, but it may not exceed the SBA maximum.

What are the Requirements of a SBA 7(a) Loan? (continued)

Maximum Interest Rates:

Loans less than 7 years:

\$0 - \$25,000 Prime + 4.25%

\$25,001 - \$50,000 Prime + 3.25%

Over \$50,000 Prime + 2.25%

Loans 7 Years or longer:

\$0 - \$25,000 Prime +4.75%

\$25,001 - \$50,000 Prime + 3.75%

Over \$50,000 Prime + 2.75%

Types of 7(a) Loans:

- 1. Standard 7(a)**
- 2. 7(a) Small Loan**
- 3. SBA Express**
- 4. Export Express**
- 5. Veterans Advantage**
- 6. CAPLines**

What is an SBA 504 Loan?

The SBA 504 loan program is a partnership between a Certified Development Company (CDC) and a lender.

The SBA 504 Loan Program is an economic development program that promotes growth and job creation.

The loan provides small businesses fixed rate, long term financing for real estate, buildings & manufacturing equipment or machinery.



SBA 504 Loan Project Cost Financing

CDC: Up to **40%**

Lender: **50%** non-guaranteed

Equity Injection: 10% minimum
Additional 5% if new business
and/or
Additional 5% if special use property



What are the Loan Amounts & Rates of a SBA 504 Loan?

The maximum SBA loan amount is **up to 40% of the total project costs** with a **maximum dollar limit of \$5,000,000**.

An exception exists if the applicant meets some **public policy goal**. In these cases, loans of **\$5,500,000** may be obtained if the company meets at least one of the following criteria:

- ✓ Operating company is defined as a small manufacturing company with it's primary NAICS code in sectors 31, 32 or 33 and all of it's production facilities are located in the USA.
- ✓ Business facility meets certain environmental or energy "green" goals.
- ✓ Each Project is for a Small Manufacturer.
- ✓ Each Project reduces the Borrowers energy consumption by at least 10%.



What are the Loan Amounts & Rates of a SBA 504 Loan?

(continued)

The interest rate for 10, 20 and 25 year SBA 504 debentures is loosely **based on a “spread”** or a premium over the 5 and 10 year U.S. Treasury rates. It will vary based on current market conditions.

The interest rate is set:

- ✓ Approximately six weeks after the project is complete
- ✓ Certificate of Occupancy is issued
- ✓ All construction funds have been advanced
- ✓ All lien waivers have been collected



Do “Start-up” Companies Qualify For An SBA 504 Loan?

Because the eligible uses for an SBA 504 loan are limited to real estate and equipment, the loans are geared towards existing businesses that want to expand.

Although, start-up businesses are not excluded from an SBA 504 loan, the SBA will require a higher level of injection from the company.

Are SBA 504 Loans Assumable?

YES!

- As long as the SBA has had an opportunity to review both corporate and personal financial statements on the new borrowers prior to the sale.
- Be aware that the release of the original borrower guaranty is not automatic with a loan assumption.



Can I Construct a Larger Building Than I Currently Need?

YES!

- The SBA permits rental of **up to 40%** of the space in the short term.
- The **borrower's company will occupy 80%** of the leased space within 10 years of the loan origination.
- In other words, **only 20%** of the total area may be leased out permanently.



Is it Possible to Purchase Both Real Estate and Equipment at the Same Time with an SBA Loan?

YES!

Two possible ways:

- 1.** A (20 or 25 year) loan for the real estate, and a companion (10 year) equipment loan.
- 2.** If the weighted useful life of the equipment does not reduce the overall life of the project too low, a single loan application that includes both real estate and equipment.



Can I Refinance My SBA 504 Debt?

YES!

- ✓ **The borrower must have been in operation for at least 2 years**
- ✓ **The loan must be secured by the fixed asset that is being refinanced.**



Can I Refinance My SBA 504 Debt?

(continued)

A change in ownership during the previous two years renders the project ineligible for the debt refinance under the 504 program.

An exception may be made if the change did not result in an unproven business model based on the following:

- 1. New ownership**
- 2. Management experience**



Can I Refinance My SBA 504 Debt?

(continued)

- ✓ The loan(s) being refinanced cannot have any late payments within the last 12 months.
- ✓ The subject property must be at least 51% owner occupied.
- ✓ For refinanced projects, the maximum Loan-to-Value is 90%.
- ✓ One job must be created and/or retained for every \$65,000 loaned by the SBA.



Are Applicants Eligible If They Have Had A Prior Bankruptcy?

YES!

IF the bankruptcy was greater than five years ago

AND

IF there is a satisfactory explanation for it

What Ongoing Restrictions & Loan Covenants Does the SBA Require?

- ✓ A change in ownership or control of the business must obtain prior written consent of the SBA.
- ✓ Each May and October, the business must furnish evidence that real estate taxes have been paid.
- ✓ The business must provide evidence of hazard insurance on the business property annually in the amount equal to the SBA loan.
- ✓ Corporate tax returns or annual financial statements prepared by an accountant on at least a compilation basis must be provided.
- ✓ The business must get SBA consent in writing in order to incur any additional encumbrances of the collateral securing the SBA loan.
- ✓ Life insurance is generally required on all key individuals.

QUESTIONS & DISCUSSION

