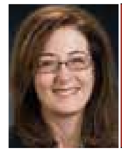

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Know When SBA Funding Is the Right Path

Match your deals with government-backed programs

Illustration: Dennis Wunsch

Commercial mortgage brokers endeavor to provide their clients with the best service in a profitable manner. To this end, they always should be on the lookout for the various loan programs that can meet their clients' specific circumstances. U.S. Small Business Administration (SBA) loan programs can be a viable option if matched appropriately with the right deals. Brokers should learn how to recognize potential SBA loan opportunities, however.

To begin, it is important for commercial mortgage brokers to understand the role that the SBA has played in the market over the years, and also to familiarize themselves with the ins and outs of the various SBA loan programs. With this knowledge, they can guide their clients to the right opportunity and the right loan program.

Loan programs

The SBA's grandparent, the Reconstruction Finance Corp., was created during the Depression. In 1953, the SBA as an agency was founded, and it has funded and guaranteed millions of deals since then. The SBA provides several types of loan products. The two flagship SBA loans programs today are the 7(a) program for general small-business loans and the 504 program for real estate and long-lived equipment loans.

Commercial mortgage brokers should keep in mind that the SBA doesn't lend directly to businesses — except for disaster loans. The SBA 7(a) program provides a guarantee to lenders that otherwise might not provide loans if certain borrower parameters are missing or outside their guidelines and policies. This loan program aims to ensure that small businesses have access to capital. An SBA guarantee typically is paid to the bank only after all other attempts (such as collecting from the borrower or the guarantor, liquidating the collateral, etc.) are exhausted.

Because the 504 loan program has a goal of creating jobs, your client's business must create or retain one job for every $65,000 provided by the SBA, except for small manufacturers, which have a $100,000 job creation or retention goal. The 504 program provides long-term, fixed-rate financing for small businesses to purchase fixed assets such as real estate or long-lived equipment.

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The 504 program involves another lender that is known as a certified development company (CDC).

A CDC is a nonprofit lender that lends about 40 percent of the total loan amount. With banking institutions lending about 50 percent, the borrower contributes the remainder of about 10 percent.

Perceptions

Despite the advantages of SBA loan programs, many of these programs traditionally were associated with lengthy and complex processing, making them a last-resort option for brokers and borrowers alike. Some of these old perceptions have lingered, although the SBA has developed and changed.

Over the years, the SBA has made significant strides in reducing redundancy, centralizing itself for consistency and ease of staffing and training. Many steps have been developed to streamline paperwork, such as revising application documents and regulations along with a host of actions to increase efficiency. In addition, the SBA has been requesting feedback from lenders and the borrowing community, and acting on many suggestions and comments.

With that in mind, commercial mortgage brokers should be aware that what makes an SBA deal go smoothly is the ability to meet the SBA requirements and understanding what SBA lenders typically look for in these deals.

For example, SBA loans typically hinge on cash flow. Commercial mortgage brokers must work with their clients on compiling sufficient proof that a loan can be repaid from the cash flow of its business. Although collateral is important and required, a proof of the repayment ability is key to lenders' decisions. The SBA requires lenders to do a thorough analysis to determine the eligibility points with proof and to include clear and convincing explanations. Similar to conventional loans, lenders seek and review several items (such as business plans, projections, financial statements, entity documents, etc.) that are integral to this analysis.

Advantages

When you come across a deal that seems to meet the SBA general criteria, you should be able to explain to clients why taking an SBA loan makes sense. Here are a few general advantages of SBA loan programs.

1. **Longer terms and no balloon payments:** Conventional lenders typically don't offer loans that are fully amortized on a 25-year term for real estate purchase or refinance. With an SBA loan, that option is available and used often. If construction is part of the transaction, that construction period of time can be added to the loan terms (often with interest only) similar to the case of commercial non-SBA transactions.
2. **Opportunities for startups:** Experienced entrepreneurs with well-conceived business plans for startup companies can take advantage of SBA loan programs. In addition, business acquisitions can be considered under the 7(a) loan program.
3. **Source of working capital:** Businesses struggling to find sources of working capital can take advantage of SBA programs as long as their projects are based on feasible projections and solid records. Payment terms can be for as long as 10 years.
4. **Low downpayment:** With a downpayment as low as 10 percent, the borrower's equity injection or "skin in the game" is manageable. Still, brokers must be ready to provide reasonable documentation as proof.
5. **Financing availability:** SBA-guaranteed loans often provide an option for deals that otherwise wouldn't be funded by conventional lenders because deals fall short of their lending criteria and parameters.

Checklist

Knowing how to identify deals that can be candidates for SBA-guaranteed lending is the first step to recommending this type of financing to borrowers. Here are a few general signs to look for.

- **For-profit business:** Your client's business should be an organized for-profit entity.
- **Small:** The entity must be a small business as defined by the SBA size standards. It also can have an alternative size standard, which varies according to the loan program. An alternative size standard generally is determined by the tangible net worth and the average net income after federal income taxes.
- **Open to the public:** The business can't have a restricted patronage (like a women-only gym, etc.).
- **Not speculative in nature**
- **Owner occupied**

Deals that meet these general eligibility points may be good candidates for SBA lending. With that in mind, you should investigate further by going through the following resources:

- **The SBA website:** The SBA website contains contact details (e-mails and phone numbers) for centralized SBA centers for direction and further guidance. It also offers several helpful tools that are available to anyone, not only lenders.
- **Your local SBA office:** Local SBA district offices maintain a current list of SBA participating lenders and act as a resource for general eligibility guidance.
- **Specialized SBA lenders:** If your client already is working with a lender, determine if the institution has a dedicated SBA department. If not, make sure that your selected lenders have SBA experience.

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The various SBA loan programs can provide funding opportunities for borrowers who otherwise might not be able to get loans. From lenders' perspective, it is a good way to increase lending without taking excessive risk because the loans are guaranteed by the SBA.

Still, there are many issues and details that determine a company's eligibility for this type of lending and help the deal go smoothly through lender's underwriting scrutiny. It is the responsibility of commercial mortgage brokers to make sure that clients are ready to meet SBA guidelines and provide the required information and documents to lenders. With that, SBA lending may be the right answer for your clients.