



SBA Construction Loans for Small Businesses

For small business owners, it's one thing to buy a building; however, it is an entirely different challenge to construct a new one. The business decision to construct a building brings with it many additional variables which translate into more potential risks.

What kind of structure should I build, and who is best qualified to design it? Will construction costs remain stable throughout the project? How do I select a reliable contractor? How do I navigate the permitting process? Will the weather cooperate with my time line? These are just a few of the dilemmas which can be experienced by the business owner who needs to focus on his business rather than managing a construction project. On the flip side of the coin, a newly constructed building will have exactly what the business owner designs into it for meeting the business' needs, and that is a big plus.

The typical scenario in financing small business construction involves obtaining one loan for interim financing and another loan for the permanent financing. The small business owner must find a lender with an appetite for, and expertise in, construction lending. Even in the best economic environment, this task is not always easy. Due to many years of experience in small business construction lending, my associate, Pat Harris, and I understand the benefit of one-stop shopping for the construction and permanent financing of a small business building. We also understand the borrower's need for us to qualify the contractor and to monitor and control the project.

With the SBA 7(a) loan program, we are able to accommodate both the interim construction and the permanent financing of a small business property with only one loan and a one-time closing. We are able to structure loan terms such that the small business has no payment obligations until the construction is completed and the building is occupied. The interest that accrues, while we advance funds to the contractor, is treated as part of the construction costs which we fund with the loan. We use a third-party, professional, construction management company (CMC) to qualify the contractor's credentials, to monitor the job, and to control our loan disbursements. The CMC establishes a draw schedule which the contractor adheres to when requesting funding, and the CMC inspects the job for percentage completion in accordance with the draw schedule and construction contract before advancing loan funds to the contractor. 10% of each draw is retained by Members Choice Credit Union (MCCU), until the construction is completed to the small business borrower's satisfaction, all subcontractor bills are paid, and the Certificate of Occupancy is issued. The borrower is well-protected by this process, and "what's good for the borrower is also good for the lender!"

Finally, SBA construction loans exhibit the same characteristics as all other SBA loans. SBA loans have lower down payment requirements, longer repayment terms, and they are easier to qualify for than with conventional bank loans. For more information about small business construction lending, please contact Pat Harris or Bruce Hurta at Members Choice Credit Union's Business Lending Department.

For more information about SBA loans for small businesses, please contact the author:



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SBA loans may be used for financing small business real estate, equipment, business acquisition partner buyout, business expansion, and debt consolidation. SBA loans have lower down payment requirements, longer repayment terms, and easier qualifying criteria than conventional bank loans. Brokers welcome.