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AN SBA PREFERRED LENDER

A Very Versatile Business Real Estate Loan

SBA government-guaranteed loans are small business loans with partial government guaranties from the U.S. Small Business Administration. They are available to small businesses in amounts up to $5 million per borrower. SBA loans are offered by state and nationally chartered banks and credit unions, as well as by a handful of licensed, non-bank SBA lenders.

The participating lender provides loan funds from their own assets. In the case of depository institutions, they are lending out their depositors' money. In the case of licensed, non-bank SBA lenders, they are lending out investors' money. Both types of lenders can offer more leeway on their credit decisions for small business borrowers requesting SBA loans, due to the partial government guaranty which reduces the lending risk for their depositors and investors. For the small business borrower, this usually means lower down payments, longer repayment terms, and easier qualifying criteria than they will receive from conventional bank financing. Due to the loan size limitation, SBA loans are not generally used by middle market and public companies which have outgrown the $5 million credit need, as well as the SBA size standard which defines a small business.

An eligible small business "real estate" loan request includes financing for the following types of projects:

- Purchase real estate to be used and occupied by the small business (business must occupy at least 51% of the square footage under roof)
- Funds to remodel or expand an existing small business facility (business must occupy at least 60% of the proposed square footage under roof)
- Funds to buy land and construct a new small business facility (business must occupy at least 60% of the proposed square footage under roof)

The SBA loan features which make it really attractive for small business real estate financing include the following:

- Real estate is eligible for a 25 year permanent mortgage with SBA financing. Banks are typically short term lenders for small business real estate. Short term loans, that require refinancing on a periodic basis, will expose the small business to renewal risk. (In other words, will the small business qualify for refinancing at renewal time? Who will own and who will be controlling management of the bank at that time? Will their credit criteria have changed? What will be the state of the economy and the small business at renewal time?)
- SBA real estate loans can sometimes be structured and qualified with only 10% down. (The typical down payment for conventional bank real estate financing is 25%-30%.)

- Since an SBA real estate loan is a small business loan, the SBA does not limit the use of loan proceeds to real estate. (If the business needs funds for new equipment, for moving costs, or for other business expansion needs, those funds can be included in the SBA real estate loan. As long as over half of the loan proceeds are designated for real estate, the eligible SBA loan term is 25 years. If less than half the loan proceeds are designated for real estate, the eligible loan term is 10 years.)
- SBA lenders can provide interim construction financing as part of the same loan as the permanent financing. Enough time (usually 9 months) is allocated for the construction, and the small business has no payment requirements during construction. (SBA lenders understand that small businesses are usually still paying rent or building up a new business during the construction period, and they do not want to strain the business cash flow with payments required before the building is completed. Interest that accrues during construction is treated as part of the construction costs which the lender is funding.)

In summary, SBA “real estate” loans are actually “long-term small business” loans available for any legitimate business spending category. They provide lower down payments, longer repayment terms, and easier qualifying criteria than conventional bank financing. SBA loans allow small businesses to take advantage of growth opportunities in earlier stages of business development than a conventional bank lender can, due to the partial government backing on the loan. The multiple eligible uses of loan proceeds, along with the more liberal underwriting criteria, make the SBA loan program a most versatile financing option for small businesses with growth opportunities.

For questions and accommodation with SBA financing, contact:

Bruce Hurta
Business Lending Manager
281.754.1112 office
281.384.2595 cell
bhurta@mccu.com
mccu.com