



Celebrating 25 Years

Small Business Loans for Construction and Beyond

**Featuring Cindy Solano
U.S. Small Business Administration
San Antonio, TX**



**Financing
Your
Business
the
SBA
Way**

- **Financial Assistance** - SBA is a government guarantee loan program offered through SBA participating lenders (banks and credit unions). SBA does not loan money directly.
- SBA is the largest single financial backer of the federal government for the nation's small businesses.
- Used when a small business (**start-up or existing**) cannot obtain financing on bank terms but **is still viable**.
- SBA participating Lenders play the Central Role between you and the SBA.

SBA's financial assistance programs can help you:

- Start your business
- Grow your business
- Expand your business
- Rebuild your business

- It's all about TERM & RISK
- SBA takes CERTAIN risks
- So the lender can provide longer term, stable financing
- The business has better chance of surviving and growing

- Start-up Business
- Insufficient of Collateral
- Lower Than Normal Down payment (Equity)
- Longer Term/Lower Payments to Meet Debt Coverage
- Riskier Industries (Entertainment, High-Tech, Service, Retail)
- Uneven Historical Cash Flow
- Tighter Debt Coverage
- Change of Ownership/Management
- Lending Limits
- Reliance on Projections

- Purchase machinery, equipment, fixtures, buildings and land for business
- Working capital
- Leasehold improvements
- Debt-Refinancing
- Buy existing business
- Construct new buildings
- Franchise
- Lines of Credit

- 7(a) Guaranty Loan Program
- Non-7(a) Loans
 - 504 Debenture Program

- **Benefits for small business:**
 - Provides funding when financing is not otherwise available on reasonable terms
 - Longer **Terms**
 - **Interest Rate** not-to-exceed SBA maximums & driven by prime-rate
 - SBA supports **start-up** position

- Up to 85% SBA Guaranty
- Maximum SBA Loan Amount = \$5,000,000
- Maximum SBA Loan Guaranty = \$3,750,000
- Lender Plays The Central Role
- Lender Request SBA to Guaranty Loan
- SBA One-time Guaranty Fee
- Bank Provides Funds AND Services the Loan



7(a) Specialized Loan Programs

- **SBAExpress Loan Program* – \$350,000**
- **Patriot Express Loan Program - \$500,000**
- **Small/Rural Lender Advantage – \$350,000**
- **Small Loan Advantage - \$250,000**
- **Community Advantage - \$250,000**



	Conventional Financing	Bank + SBA Guarantee
Working Capital	1-3 years	5-7 years max 10 years
Equipment	3-5 years	7-10 years or useful life
Real Estate	10-15 years	Up to 25 years



Comparison: Financing Package



	Conventional Financing	Bank + SBA Guarantee
\$100,000 @ 6%	3 year term: \$3,042/month \$36,505/year	7 year term: \$1,461/month \$17,532/year
\$300,000 @ 6%	20 year amortization w/10 year maturity: \$2,149/month \$25,788/year <i>with</i> \$167,507 balloon payment due @ 10 years	25 year term: \$1,933/month \$23,196/year

- **Microloans** - \$50,000
- **CDC/504 Loan Program**
 - \$5,000,000 up to \$5.5 million

- **Long-term financing program**
 - Land and Existing Buildings
 - Renovate or Expand Existing Facility
 - New Building Construction
 - Acquire/Install Machinery and Equipment
 - Some debt refinancing – 50% of business expansion and with the new SBJA the law allows some small businesses to refinance their owner-occupied commercial r/e mortgages into the 504 (expires 9/27/12)
 - Soft Costs with the Project (i.e. appraisal, environmental assessments, interest on interim loan, etc.)
- **Access through Certified Development Company (CDC)**

- **Business Eligibility**

- For Profit
- ≤ 500 Employees
- Job creation and retention
- Net Worth ≤ \$15 Million
- Net Income After Taxes ≤ \$5 Million

- **Max Debenture CDC/504 Loan Amount**

- \$5.0M for regular 504 loans
- \$5.0M - businesses that meet specific public policy goals
- \$5.5M - for manufacturers, business reducing energy consumption by @ least 10% and for plant, equipment and process upgrades of renewable energy resources.

- Business owner approaches either a Private Lender or a CDC
- The CDC puts the project together in coordination with the Private Lender and SBA
- The CDC submits the project to SBA Loan Processing Center for approval
- SBA sells pooled debentures to get funds for its portion of the project financing

- **Typical Structure**

- Lender 50%
- 504 Program 40%
- Owners' Equity 10%
- Special circumstances
 - Single purpose building +5% Owners' Equity
 - Start-up business +5% Owners' Equity

- **Interest Rates**

- 504 portion typically close to Prime Rate
- 504 portion **fixed** interest rate

- **Longer Repayment Term**

- Heavy Machinery/Equipment 10 Years
- Real Estate 20 Years

- **New Refinance Option**

- Eligible up to 50% of the new project costs



Community Development and/or Public Policy Goals

Opportunity to fund up to \$5.0 Million and requirement to Create one job for each \$65,000 is waived

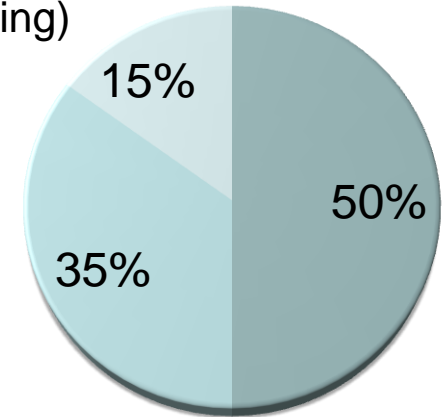
- **Aiding Rural Development**
- **Promoting Women, Minority, or Veteran-Owned Businesses**
- **Revitalizing Economic Development Districts**
- **Retrofitting to Save on Energy Consumption—may go up to \$5.5 million**
- **PLUS OTHERS.....**

504 Cost Example

Purchase building	\$800,000
Renovations	\$100,000
Machinery	\$50,000
Soft costs	<u>\$50,000</u> (appraisal/architect fees/closing)
Total :	\$1,000,000

Financing

Bank - first mortgage	\$500,000 permanent loan	(50%)
SBA 504 - second mortgage	\$350,000 permanent loan	(35%)
Down payment	<u>\$150,000</u>	(*15%)
Total:	\$1,000,000	



*An additional 5% down payment is required for certain projects like special purpose buildings (ie. car wash, hotel) or for start up businesses. For both a new business and a special purpose building, the down payment is 20%

The 50% first mortgage can come from a variety of nonfederal sources such as banks, nonbank institutions or government agencies.

504 Loan Structuring Example

Source of Funds	Amount	% of Project	Rate	Term	Monthly Payment	Annual Debt Service
Bank	\$500,000	50%	6.00%	20 years	\$3,582	\$42,984
CDC/SBA	\$350,000	35%	4.700%	20 years	\$2,355	\$28,260
Borrower	\$150,000	15%	0%			
TOTAL	\$1,000,000				\$5,937	\$71,244

Estimations based on:

- Gross Debenture Loan to be \$366,000 (includes all SBA 504 administrative costs)
- Monthly Payment is estimated based on \$366,000
- Interest Rate is estimated—includes monthly servicing fees
- Final interest rate will be determined at time of Debenture Closing

- **Loans for Federal Declared Disaster Zones**
 - Business
 - Homeowners
 - Renters
 - *Not for secondary homes or vacation properties
- **Physical Damage**
 - Max \$200,000 – Home Loans
 - Max \$40,000 - Personal Property Loans
- **Business**
 - Max \$2.0M – Business Loans
 - Economic Injury Disaster Loans
- **Terms**
 - Interest rates - typically 2 - 4%
 - Up to 30 years



Texas SBA Connection

Corpus Christi Branch Office
361-879-0017

Dallas/Fort Worth District Office
817-684-5500

El Paso District Office
915-834-4600

Harlingen District Office
956-427-8533

Houston District Office
713-773-6500

Lubbock District Office
806-472-7462

San Antonio District Office
210-403-5900

LOCAL
RESOURCES

Your

