

Learn how to spell SBA... ...the CIBM Bank way.

Presented by:
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What is an SBA 7(a) Loan?

- The SBA guarantees loans made to small businesses that cannot obtain financing on reasonable terms through normal lending channels
- The 7a Loan Program is SBA's most common program utilized.
- Provides financial help for small businesses by allowing lower down payments and longer loan terms.
- The SBA 7a Loan can be used to finance a wide variety of items:
 - ✓ purchase, refinance, or construct owner occupied real estate
 - ✓ purchase equipment, furniture, fixtures, and supplies,
 - ✓ refinance other business debt,
 - ✓ leasehold improvements,
 - ✓ purchase existing business including the goodwill
 - ✓ short and long-term working capital.
- The maximum loan amount for a SBA 7a loan is \$5 million.

Who is eligible for an SBA Loan?

- Business must be for profit
- Business must operate in the US
- Business must be considered a small business
- Business, owners, and key employees cannot be delinquent on any existing debt obligations to the US Government
- Funds must be used for eligible business purpose

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Basic Uses of a 7(a) Loan

- The following are eligible uses of proceeds for SBA 7(a) loans:
 - ✓ Purchase of Commercial Real Estate
 - ✓ Construction or renovation of a commercial building
 - ✓ Leasehold improvements
 - ✓ Purchase equipment / furniture / fixtures
 - ✓ Purchase of an existing business (must preserve or enhance the business)
 - ✓ Debt Refinance (must benefit borrower and meet SBA requirements)
 - ✓ Working Capital (i.e. buying inventory, accounts payable, funding long term growth, etc.)

Basic Terms of SBA 7(a) Loans

- Up to 25-year term for loans involving real estate.
- Up to 10 year term on all other loans.
- Floating Interest Rate based on Prime + up to 2.75%.
- Flexibility for an interest only period or seasonal payments.
- Up to 90% financing on total financing package (including closing costs)
- Turnaround time on an SBA 7(a) Loan depends on borrower readiness and use of funds, but generally 60-90 days.

Benefits of SBA 7(a) Loans

- Longer term and amortization than conventional financing
- Increased cash flow due to lower monthly payment and down payment
- No Balloon Payments
- Benefit to landlord if lessee is obtaining 7(a) loan because the lease will need to match the term of the loan (up to 10 years)

Ineligible Business Types and Ineligible Purposes

- Ineligible Business types include:
 - ✓ Non-profit organizations
 - ✓ Businesses that lend money
 - ✓ Insurance Companies
 - ✓ Government-owned Entities
 - ✓ Loan Packagers
 - ✓ Business Pyramids
 - ✓ Businesses that promote gambling, religion, or those that provide sexual material
 - ✓ Passive Real Estate held for Investment
 - ✓ Businesses with a principal owner who is incarcerated, on probation or on parole
 - ✓ Foreign Owned or Foreign Located
- Ineligible purposes include:
 - ✓ Refinance of debt to owners or family members
 - ✓ Refinance of personal debt
 - ✓ Payment of delinquent withholding taxes
 - ✓ Floor plan financing
 - ✓ Purchase partial ownership in a business
 - ✓ Debt refinance that doesn't save the borrower 10%, or debt that is on reasonable terms
 - ✓ Refinance of delinquent loans

Real Estate Occupancy Rules

- When loan proceeds will be used to fund or finance construction of a new building:
 - ✓ Applicant must occupy 60% of the space immediately
 - ✓ Applicant must plan to use an additional 20% of the space within 10 years
 - ✓ Applicant may permanently lease 20% of the space to a third party
- When loan proceeds will be used to purchase or refinance an existing building:
 - ✓ Applicant must occupy at least 51% of the space
 - ✓ Applicant can permanently lease up to 49% of the space to a third party (via a sub-lease)
 - ✓ No loan proceeds may be used to renovate space that will be leased to a third party – vanilla box only
- SBA does not allow loans to real estate holding companies, however, the exception is when the holding company qualifies as an EPC (eligible passive company)
- The Operating Company must either be a co-borrower or guarantor on the loan to the EPC, and this is dictated by the use of proceeds for the project
- Both Companies must meet the size standards
- Each owner of 20% or more of either company **must** personally guarantee the loan

Example 1

John Smith is purchasing ABC Company, which includes real estate and goodwill. He also wants to make improvements on the building and is requesting some working capital to assist with the first few months of operating expenses. Term = 25 years

- Purchase Price Real Estate & FFE: \$1,000,000
- Purchase Goodwill: \$500,000
- Improvements: \$250,000
- Working Capital: \$50,000
- Financing Fees: \$75,000
- Total: \$1,875,000

Sources		Uses			
Borrower Equity	\$ 187,500.00	10.0%	Purchase Price	\$ 1,500,000.00	80.0%
Loan Proceeds	\$ 1,687,500.00	90.0%	Improvements	\$ 250,000.00	13.3%
		0.0%	Working Capital	\$ 50,000.00	2.7%
		0.0%	SBA Guaranty Fee	\$ 45,000.00	2.4%
		0.0%	Closing Costs	\$ 30,000.00	1.6%
Total Sources	\$ 1,875,000.00	100.0%	Total Uses	\$ 1,875,000.00	100.0%

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Example 2

John Smith wants to lease a space for his restaurant. His funding needs include leasehold improvements, equipment, furniture/fixtures, inventory, and working capital. Term = 10 years

- Improvements: \$300,000
- Equipment: \$150,000
- Furniture/Fixtures: \$50,000
- Inventory: \$25,000
- Working Capital: \$40,000
- Financing Fees: \$25,000
- Total: \$565,000

Sources		Uses			
Borrower Equity	\$ 40,000.00	6.8%	Improvements	\$ 300,000.00	50.8%
Landlord Contribution	\$ 50,000.00	8.5%	Equipment	\$ 150,000.00	25.4%
Loan Proceeds	\$ 500,000.00	84.7%	Furniture/Fixtures	\$ 50,000.00	8.5%
		0.0%	Inventory	\$ 25,000.00	4.2%
			Working Capital	\$ 40,000.00	6.8%
		0.0%	Closing Costs	\$ 25,000.00	4.2%
Total Sources	\$ 590,000.00	100.0%	Total Uses	\$ 590,000.00	100.0%

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Questions?

SBA website: www.sba.gov

Contact Information:

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