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Got SBA?

Brokers who help small-business-owners find funding can unearth new business of their own

By **Harlan A. Friedman,** president, Lightning Commercial Funding Inc.

In commercial lending these days, more-complicated loans such as non-recourse construction loans or high-loan-to-value loans can be hard to fund. Other, more-basic loans, however, such as U.S. Small Business Administration (SBA) loans can be lucrative for commercial mortgage brokers.

Many banks — especially those in SBA's preferred lender program (PLP) — like to book these loans to portfolio, as well as to sell for their fee income. Why? One reason is that the SBA guarantees 7(a) loans for as much as 75 percent of the loan amount if your clients should default. In other words, the SBA will pay back the bank issuing the loan 75 percent of the amount, which decreases the bank's risk.

The SBA finances only owner-occupied business properties. By reaching out to these business-owners who seek to consolidate debt or purchase a property, you can unearth new business.

The SBA can provide debt-consolidation and pay back your clients for their initial startup investment, if they meet certain requirements. The first condition is the payment savings must be at least 20 percent of the monthly payment. This can get sticky if payments are interest-only.

If you cannot categorically prove the 20-percent savings, then debt-consolidation is out of the picture. Remember, however, that this is on a loan-by-loan basis, not a total basis. So as you examine your client's business-debt schedule, compare each payment to the new SBA payment for the same loan amount.

Second, you must make sure that any debt you are refinancing is not SBA debt. While you can add more SBA debt, you cannot refinance SBA debt with another SBA loan.

Third, you must prove that all debt being refinanced was business debt and not personal debt. This point is somewhat more difficult to establish, as many new entrepreneurs commingle their personal and business finances when starting a new venture. They usually take money from any source to pay their bills.

Clients should have one or two credit cards that are strictly used for business debt. That debt can be proven more easily and be potentially eligible for refinancing.

When you talk to your business-owner clients about their debt picture, you also may be able to open their eyes to purchasing the property they occupy. It is much easier for existing tenants to purchase a property than for new buyers of a business to purchase property. The existing tenants have historical cash flow and verifiable tax returns. Lenders are often more likely to finance the purchase of the business real estate for an existing tenant.

Both the SBA 7(a) and 504 loan programs can be used for the purchase of real estate. With the 504 loan program, your clients can come into the deal with as little as 10-percent down. The bank would finance the first-trust deed to as much as 50 percent. The certified development company would then sell a bond debenture for the remaining cost to as much as 40 percent.

Many PLP lenders also allow a 10-percent downpayment for the SBA's 7(a) loan program. The minimum amount is often up to the bank, however, based on the type of use and the real estate being financed. For example, a single-purpose property, such as a carwash or hotel, will likely require a larger downpayment than a multi-use property. Unlike the 504 program, with a 7(a) loan, there is no bond debenture; it is conventional bank financing.

If you provide your clients with information about how they can benefit from SBA loans, you just might take your business to the next level.

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