Become an SBA Loan Superhero

Mortgage brokers can help small businesses grow with long-term, low-interest programs

By Shane Pierson

Illustration by Dennis Wunsch

Entrepreneurs and small businesses are a vital part of the U.S. economy. The nation's 28 million small businesses account for 54 percent of all domestic sales, provide 55 percent of all jobs and have added 8 million jobs to the economy since 1990, according to the U.S. Small Business Administration (SBA).

It's no coincidence this growth has occurred in tandem with an increase in the accessibility and range of SBA loan programs. Why should commercial mortgage brokers care? Because SBA loans provide a unique opportunity for brokers to expand their offerings beyond conventional mortgage loans.

With an SBA loan option for their clients, mortgage brokers can offer businesses access to the same type of long-term, fixed-rate financing enjoyed by larger companies. Interest rates are equivalent to favorable bond-market rates and are backed by an SBA loan guarantee.

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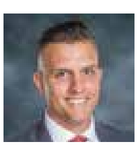

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Each SBA loan program is structured under government-directed guidelines to include maximum loan amounts and interest rates, guarantee fees, use of proceeds, eligibility criteria and more. Matching clients to the right program requires a deep understanding of these intricacies.

Plus, SBA requirements are constantly changing. Brokers need to be plugged in to keep up, so the support of a team of SBA loan specialists is a critical first stage of client engagement.

What are SBA loans?

SBA loans are long-term, low-interest loans tailored to small businesses, the definitions of which vary widely among industries. Small-business loans also are backed by a government guarantee, alleviating risk for lenders and opening doors to financing for businesses that have struggled to get a traditional loan.

SBA loan programs have capped interest rates and offer lower downpayments, making upfront costs more affordable. They also feature longer repayment terms, which reduces monthly payments. The programs include refinancing options to reduce debt and release cash flow; programs for providing easier access to credit for so-called "high-risk" industries like construction, gas stations and home-based businesses; and programs that help free up capital for real estate investments.

The SBA 7(a) program, for example, with loans up to $5 million and fees as low as zero percent, can be used to purchase real estate or equipment — including the cost of construction or renovation — purchase an existing business, or to refinance debt.

Certified Development Company (CDC)/504 loans are ideal for businesses looking to expand through investments in land or buildings — but not speculation or investments in rental real estate. The CDC/504 loan provides long-term, fixed-rate financing up to $5.5 million. Soft costs like architectural and legal fees also can be rolled into the loan. Downpayments as low as 10 percent are a big attraction of this program, because banks often require 20 to 30 percent of the purchase price. That downpayment is based on total project costs in most cases, which includes renovations and soft costs. That allows a business to preserve cash for working capital.

Advantages for mortgage lenders include lower risk, because the SBA guarantees the loan; a lower loan-to-value (LTV) ratio; Community Reinvestment Act credits; and being able to offer another option for keeping growing, small-business clients happy. Essentially, SBA loans offer a valuable financing option that enables brokers to expand offerings to eligible businesses beyond their current purview by teaming with an SBA lending partner.

Work with the right lender

It's important to understand that the SBA lending landscape is not equal. To service small businesses more efficiently, the SBA has three categories of lender programs – General Partner (GP), Certified Lender Partner (CLP) and Preferred Lender Partner (PLP).

PLP status is the most desirable accreditation that an institution can receive because it gives the lender the authority to make the final credit decision, simplifying and expediting the loan-approval process for all parties. Nonpreferred lenders must submit loans to the SBA for approval, a process that can take several weeks, delaying approvals and yields.

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Achieving PLP status requires lenders to have in-house staff expertise and a track record of success in the processing and servicing of SBA loans. To ensure a successful SBA loan application for your client, it's recommended that mortgage brokers work with an SBA lender that has PLP status.

SBA loans offer many unique opportunities for lenders and brokers alike, but can be complex, and require significant resources and expertise. Here's a breakdown of the process:

- **Loan application and underwriting.** Applying for, structuring and underwriting SBA loans is a multifaceted process handled by a lender, not the SBA. The lender must determine a borrower's eligibility, complete a credit analysis and package paperwork, all in accordance with SBA requirements. Brokers should work with lenders that have clear policies on credit parameters and what defines an "acceptable" loan.
- **Staffing and skill sets.** To participate fully and successfully in SBA financing, lenders and brokers must understand the market well by investing in training and specialized staff, as well as integrating new risk and compliance protocols to ensure they meet government requirements. Small businesses are encouraged to seek out lenders with a solid track record of processing SBA loans. Again, this makes it critical for brokers to work with an SBA lender, preferably one with PLP status.
- **Loan servicing.** Once the SBA approves a loan, lenders must administer it in accordance with federal guidelines and regulations. Complex standard operating procedures (SOPs) govern the 7(a) and CDC/504 programs. If a lender fails to demonstrate continued ability to evaluate, process, close, disburse, service and liquidate small-business loans, the SBA may refuse or revoke its SBA lending status.

Real estate red flags

Even with the right SBA partner, there are several proactive steps that mortgage brokers can take to ensure a winning SBA loan application and bring additional value to their client relationships.

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Appraisals can trip up any real estate deal. With construction costs rising each year and the potential for material costs to change during the approval process, financial projections can easily go awry. Work with a good appraiser or get multiple appraisals to ensure you're reflecting the big-picture financials.

Another surprise that can ruin any deal is an environmental issue, such as mold, radon or other land contaminants, as well as a failure to comply with applicable environmental laws. Work with an environmental consultant to identify and manage these problems before they derail your client's property transfer or financing transaction.

Whether a client is looking to buy an existing facility or construct a larger facility, it's likely they already have business debt tied up in existing assets. Rather than increase their debt or hurt their chances of being approved for a loan, become knowledgeable about how SBA refinancing options can consolidate existing debt. Work with your client to understand their debt and how they can save money through refinancing.

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Partnering with an SBA lender is an essential step in not only ensuring your clients are matched with the right loan, but that the loan has the best chance of being approved by the SBA and serviced in accordance with SBA requirements. Sending along a loan referral also can pay dividends in terms of your client relationship and the added bonus of a nice referral fee. ■

Key Points

Questions to ask before expanding into SBA loan programs

SBA loans are a valuable resource for commercial mortgage brokers seeking to expand their base, reduce risk and offer clients alternatives to conventional mortgages. But to participate fully and successfully, brokers must understand the market well and partner with an accredited SBA loan expert. If you're considering adding SBA loan programs to your brokerage service, consider the following:

- **Does your brokerage have a full understanding of the intricacies of the SBA lending market, so you can determine which loan will work best for your borrowers?**
- **Is your team familiar with the complexities of the SBA loan-application process and the precise requirements needed to ensure a successful application?**
- **Could you act as an effective middleman to guide and inform your clients as they proceed through the underwriting and post-closing reviews?**
- **Do your referral options include SBA-accredited banks that have the skills and expert staff to service and report on these loans in accordance with SBA guidelines (1502 reporting)?**
- **Does your lending partner have sufficient back-office capacity and know-how to support SBA lending requirements?**

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