



## **The Most Versatile Commercial Loan Product**

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Do you want to open a new franchise and need financing to do it?

Do you want to expand your existing business by opening a new location?

Do you want to refinance your business debt & lower your monthly overhead?

Are you tired of paying rent to a landlord? Do you want to own the real estate where you operate your business?

If you answered “yes” to any of these questions, the Small Business Administration (SBA) 7(a) loan may be your answer. This national loan program designed by the federal government is offered by many national lenders can be used for a wide variety of business purposes. The SBA offers loan guarantees ranging from 50% up to 90% of the loan amount to reduce the lender’s risk which, in turn, makes securing an approval more likely. The following information is being provided in outline form to simplify understanding the qualifications and the variety of uses for this flexible loan program.

### **The SBA 7(a) Loan Program’s Four (4) Main Uses**

#### **1. Finance a Start -up Business**

- The SBA 7(a) Loan will finance up to 80% of the total project costs which typically includes the equipment needed to operate your business, organization costs, location buildout, deposits, inventory, operating working capital and franchise fees.
- The owners’ equity injection is typically at least 20% of the total project costs and cannot be borrowed money such as a home equity loan.
- The borrowers must provide their resume(s) demonstrating industry experience, transferable management skills and/or related education

#### **2. Finance the Expansion of an Existing Businesses**

- Same list as a startup business above
- Business tax returns must be able to support the new debt.

#### **3. Debt Consolidation for an Existing Business**

- The funds from the loan are used to refinance existing business debt which can include existing equipment leases and loans of all types.
- The refinancing can include existing credit card debt only if the debt was incurred for business purposes and can be easily identified as business debt.
- The resulting monthly payment must reduce the total monthly payments of all debt being consolidated by 10%.

### **Common Criteria, Terms and Conditions for the Three (3) Uses Listed Above**

- The collateral for the loan is all business assets.

- Addition collateral is often required which is typically residential real estate only up to the loan \$ amount.
- Good personal credit typically 675 credit score or above
- 10-year loan repayment term
- Prepayment penalties typically range from 1-4% over the initial term period
- The interest rate is typically prime rate as published in the Wall Street Journal (4.25%) plus a risk premium typically 2.75% = 7%.
- Closing Costs are approximately 3% of loan amount and are usually added to the loan amount.
- Timing to close - 90 days which varies with the bank work load & the responsiveness of the borrower. Real Estate – Commercial Mortgages
- The SBA loan will finance up to 90% of the real estate acquisition cost.
- The owners' equity injections are typically 10% of the acquisition cost of the real estate and cannot be borrowed money such as a home equity loan.
- The business must occupy at least 50% of the useable space which provides an opportunity to lease out up to 49% of the useable space.
- Terms and Conditions:
  - The collateral is real estate being purchased
  - Good personal credit typically 675 credit score or above
  - Loan Repayment Term ranges from 20-25 years
  - Fully amortized loan with no balloon payment
  - Prepayment penalties – range from 1-4% over the initial term period
  - Interest Rate – Prime (4.25%) plus a risk premium of no more than 2.75%. The risk premium will vary based up the appraisal and the strength of the borrower.
  - Closing Cost – Typically 3% of loan amount added to the amount financed at closing Timing to close - 90 days. Varies with bank work load, time for real estate appraisal & borrower responsiveness.
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## Conclusion

There are many benefits of the SBA 7(a) program to finance your business. You will have only one monthly debt payment amortized over the longest repayment term available with no significant prepayment penalty. The use of funds is nearly unlimited to any legitimate business purpose. Since the SBA 7(a) loan is backed by the federal government, it offers the lowest APR available. Consequently, we recommend you strongly consider this form of financing for the wide variety of uses that this flexible loan product offers for business financing.

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