

Compare the features and benefits of SBA Loans

There are a wide variety of SBA Loan Programs. The most common loans used for business acquisitions are 7 (a) and 504 Loans.

At this time, 7 (a) loans are more difficult to obtain for Business Acquisitions. Loans

*are subject **to stricter collateral requirements and goodwill financing restrictions.***

Relevant experience from the Borrower is a key factor.

Programs and terms are subject to change. Ask us about SBA qualified Lenders to meet your financing requirements.

The following is a summary of the key changes made to the new version of the SOP Effective 10/1/09:

- * If a transaction includes \$500,000 or less of intangible assets (including, but not limited to, goodwill, client/customer lists, patents, copyrights, trademarks and agreements not to compete), a lender may process the loan using its delegated authority.
- * If the application includes more than \$500,000 of intangible assets and the borrower and/or seller have contributed a total of at least 25% equity, the loan also may be processed using a Lender's delegated authority. (Seller equity is defined as seller take-back financing that is on full standby (principal and interest) for a minimum of 2 years.)
- * If the loan amount includes more than \$500,000 in intangible assets and the borrower and/or seller are not providing at least 25% equity, then the application must be sent to the Standard 7(a) Loan Guaranty Processing Center in Citrus Heights for review and approval by SBA.
- * Business valuations must be requested by and prepared for lender.

7(a) Loans:

The primary SBA loan program helps small businesses that might not be eligible for loans through normal lending channels. Money can be used for a variety of business purposes. The loans are made through commercial lenders and partially backed by an SBA guaranty. The SBA does not loan the money, so the particular lenders are performing underwriting per their own criteria, which may vary widely lender to lender.

CDC 504 Loans:

Made through a certified development company, a 504 loan provides long-term, fixed-rate financing for real estate, machinery or equipment. Typically, the loan involves a private-sector lender with a senior lien, a certified development company and at least 10 percent equity from the borrower.

A list of CDCs is on the SBA Web site.

	SBA 7(a) Term Loan	SBA LowDoc	SBAExpress	SBA 504 Term Loan
Eligibility	For-profit businesses Small business qualification by SBA guidelines-subject to SOP changes and lender guidelines Size varies by industry type	Same as 7(a) Term Loan	Same as 7(a) Term Loan	Existing, for-profit businesses Net worth \$6MM or less, net profits after taxes \$2MM or less 1 job created for every \$50,000 in SBA loan funds
Loan Size	SBA loan guarantee can not exceed \$1,500,000 Loan ceiling of \$2,000,000	\$150,000	From \$100,000 to \$250,000	From \$150,000 to \$3,000,000 (\$2,000,000 for special purpose real estate) Maximum SBA loan \$1,500,000 (Up to \$4,000,000 for small manufacturers)
Use of Proceeds	– Land – Buildings – Machinery & Equipment – Purchase Business – Inventory – Working Capital	Same as 7(a) Term Loan	Same as 7(a) Term Loan	– Land – Buildings (new purchase, new construction or renovation) – Machinery & Equipment (minimum useful life of 10 years)
Financing	Provided by chosen lender, and SBA provides an 85% guarantee to the lender on loan amounts of \$150,000 or less, 75% guarantee on loan amounts of \$150,000 or more. Usual 20% borrower injection; may be 10% if seller will subsidize down-pavment with seller	SBA provides an 85% guarantee to Lender	Provided by Lender , and SBA provides a 50% guarantee	50% financed by Lender 40% SBA loan through Certified Development Co. 10% borrower injection (increased injection required on new businesses or special-purpose real estate)

	financing.			
Collateral	SBA requires Lender to take a secured interest in business assets and/or a mortgage on real estate. Collateral requirements vary with SBA SOP changes and lender's own underwriting requirements.	Same as 7(a) Term Loan	Same as 7(a) Term Loan	Lender holds first mortgage on real estate, and/or secured interest in equipment and machinery. SBA holds second mortgage on real estate, or second secured interest in equipment and machinery
Underwriting Requirements	<ul style="list-style-type: none"> – Personal guaranties by all owners of 20% or more – Adequate business collateral, or personal assets securing personal guaranty – example: mortgage on home – Hazard Insurance – usually Life Insurance 	Same as 7(a) Term Loan	Same as 7(a) Term Loan	<ul style="list-style-type: none"> – Personal guaranties by all owners of 20% or more – Life insurance on business principals in amount of SBA loan – Hazard Insurance
Loan Terms	<ul style="list-style-type: none"> – Working Capital — up to 7 years – Equipment — up to 10 years (or useful life) – Real Estate - up to 25 years 	Same as 7(a) Term Loan	<ul style="list-style-type: none"> – Revolving line of credit – up to 3 years – Term loan – up to 5 years 	<ul style="list-style-type: none"> – Lender's loan – minimum 10 years on Real Estate; 7 years on Machinery & Equipment – SBA/CDC loan – 20 years
Interest Rates	<ul style="list-style-type: none"> – Rates can be fixed or variable – common NY Prime + 2.25% for term less than 7 years – common NY Prime + 2.75% for term greater than 7 years 	Same as 7(a) Term Loan	<ul style="list-style-type: none"> – NY Prime + 6.5% for loans of \$50,000 or less – NY Prime + 4.5% for loans over \$50,000 	<ul style="list-style-type: none"> – Lender's loan– negotiated rate between borrower and Bank (fixed or variable) – SBA/CDC loan – below market fixed interest payment , loan rate set when debenture is sold

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