SBA Lending

Structuring, Risk, and Advisory Opportunities for CPAs

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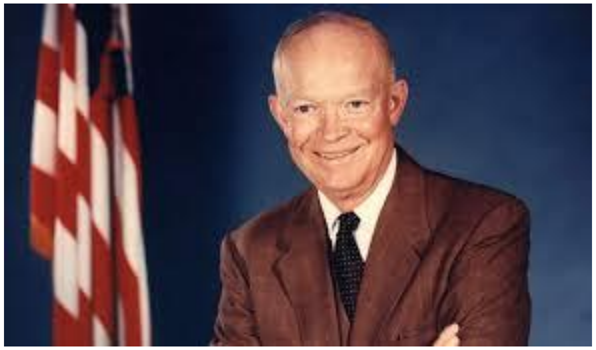
What is the SBA?

SBA = Small Business Administration

- Cabinet-level federal agency of the U.S.
- Formed in 1953



What the SBA does:

- Access to Capital where conventional credit falls short
- Entrepreneurial Development
- Government Contracting
- Advocacy

Lending Programs:

- 7(a)
- 504
- EIDL
- PPP (inactive)

Who Qualifies for SBA Loans?

- U.S.-based, for-profit small businesses
- Eligible industries
- U.S. Citizens (owners and key employees)
- SBA size standards
- Credit Elsewhere Test
- Credit-worthy businesses

When to use SBA Lending?

- Startups or early-stage businesses
- Limited or unique collateral
- Low balance sheet equity or guarantor support
- Business acquisition or partner buyout (collateral airball)
- Industries with higher perceived credit risk

*CPAs often identify SBA viability before lenders do

Benefits of SBA Lending

For Clients:

- Access to capital
- Lower down payments to preserve liquidity
- Longer repayment terms via extended amortizations
- Better rates/terms
- Allows seller financing to count towards equity (with rules)
- Support and resources

For Lenders:

- Reduced risk via government guarantees
- Build long-term relationships
- Qualify for CRA credit

SBA 7(a) – up to $5MM

Uses

- Working Capital, Equipment & Inventory, Real Estate, Business Acquisition or Partner Buyout, Debt Refinance, Startup Financing.

Structure

- Bank makes the loan and SBA provides 75% guarantee
- 10% down payment requirement
- Up to 10-year term for acquisition financing and 25-years for real estate
- Rates can be fixed or variable
    - Max rate of Prime +5% for fixed and Prime +3% for variable
- Fees – Around 3% of the guaranteed amount plus 3rd party costs (No fees for manufacturers up to $950K)
- SBA Express option for $500K or less

Note – Important for borrowers to know if the bank will keep or sell their SBA loan.

SBA 504 – up to $5MM

Uses

- Real Estate & Facilities including construction, Equipment with useful life of at least 10 years.

Structure

- 50% from conventional lender
  - Up to 20-year amortization with 5 or 10-year fixed rate re-price
- 40% from a Certified Development Company (CDC) backed by the SBA
  - 25-year fully amortizing fixed rate
- 10% borrower equity
- Fees - Around 3% of SBA debt plus 3rd party closing costs. (currently NO fees for manufacturers)

Note – Prepayment fees do apply on the SBA debt

Possible to "stack" 504 loans for green initiatives or manufacturing

Case Study

Business Overview

Industry: Specialty Trade Commercial Contractor

Current Owner: Selling to key employees

Purchase Price: $3 Million

Buyer Profile: Limited liquidity, strong operational experience

Structure: Asset Purchase (step-up in tax basis)

Key Financial Metrics

P&L
- Revenues: $10MM
- Net Income: $800K
- EBITDA: $1MM

Balance Sheet
- Cash: $700K
- A/R: $1.2MM
- Total Assets: $3MM
- Current Liabilities: $1MM
- Long Term Liabilities: $0

Proposed Structure

Total Purchase Price: $3 Million
SBA Valuation Price: $2.1 Million

Capital Sources

- **$150,000** - 5% Cash equity from buyers.
- **$150,000** - 5% Seller Note #1 on full standby.
- **$1,890,000** – SBA loan based on 90% of Market Value per Valuation. Placed on 10-year note, fully amortizing at 7.50%.
- **$810,000** – Seller Note #2. Fully subordinated to the bank, with payments allowed as long as the bank note remains in good standing.

*Down payment is based on Final Purchase Price

**Market Value per SBA valuation report was $2.1MM

Key Takeaways

- Lower down payment, longer repayment terms, better rates
- SBA enables transactions that CPAs are already structuring
- SBA lending guidelines + Bank Loan Policy – early CPA involvement increases approval probability