

SBA Offers New Loan Terms Available to Real Estate Brokers & Agents

Like everyone else, real estate brokers have been feeling the credit pinch. In response to the Passage of the Small Business Jobs and Credit Act of 2010, the Small Business Association (SBA) has eliminated fees for both 7(a) and 504 loans and increased its guarantees up to 90% on 7(a) loans through December 31, 2010. The National Association of REALTORS® (NAR) wants its members to be aware of these new opportunities to gain access to affordable credit and urges NAR members to investigate new SBA incentives for small businesses.

Eligible Uses of SBA's 7(a) Loans

- Obtain long-term working capital including the payment of accounts payable and/or for the purchase of inventory.
- For short-term working capital needs including: seasonal financing, contract performance, construction financing, export production, and for financing against existing inventory and receivables under special conditions.
- To acquire equipment, machinery, furniture, fixtures, supplies, or materials.
- To purchase an existing business.
- To refinance existing business indebtedness which is not already structured with reasonable terms and conditions.
- To establish a new business or to assist in the operation, acquisition or expansion of an existing business.
- To purchase land or buildings, to cover new constructions as well as expansion or conversion of existing facilities.

Ineligible Uses of SBA's 7(a) Loans

- For a non-sound business purpose.
- To refinance existing debt where the lender is in a position to sustain a loss and SBA would take over that loss through refinancing.
- To effect a partial change of business ownership or a change that will not benefit the business.
- To permit the reimbursements of funds owed to any owner. This includes any equity injection, or injection of capital for the purposes of the businesses continuance until the loan supported by SBA is disbursed.
- To repay delinquent state or federal withholding taxes or other funds that should be held in trust or escrow.

Eligible Uses of SBA's 504 Loans

Proceeds from 504 loans must be used for fixed asset projects such as:

- Purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping.
- Refinance certain owner-occupied real estate mortgages (not involving expansions) into long-term, fixed rate loans.
- Construction of new facilities, or modernizing renovating or converting existing facilities.
- Purchasing long-term machinery and equipment.

Ineligible Uses of SBA's 504 Loans

The 504 Program cannot be used for commercial real estate debt that was incurred more than two years before the date of the application, is not a commercial loan, is subject to a federal guarantee, is not collateralized by eligible fixed assets, and for which the borrower has not been current on payments for more than one year before the date of the application.

What You Need to Know

- You must be ineligible for conventional financing.
- You must use an SBA-approved lender.
- 7(a) loans are available up to \$5 million.
- 504 loans are available up to \$5.5 million, depending on the purpose of the loan.
- On \$300,000 7(a) loan, you would save \$8,100 by eliminating fees and having SBA guarantee 90% of the loan.

Frequently Asked Questions From SBA Website

How do I apply for these loans?

Borrowers apply for loans directly with their lending institutions, including banks, credit unions, and Small Business Lending Companies. The SBA works with thousands of small and large lenders nationwide. Lenders evaluate loan applications under their lending standards and decide whether to:

- Make the loan through conventional financing -- without a SBA guarantee --because the borrower meets their conventional credit standards;
- Make the loan with a SBA guarantee if the borrower does not meet conventional standards and is eligible for SBA programs; or
- Decline to make the loan.

Is there a limit on how much I can apply for?

The maximum loan amount for a 7(a) loan is \$5 million. For 504 loans, the loan structures and amounts vary since lenders and borrowers each determine how much equity they are putting into the loan.

What kind of savings will I see from the temporary borrower fee elimination?

Fees for a 7(a) loan are based only on the guaranteed portion of the loan and depend on the size of the loan. The fees range from 2% to 3.75%. For example, a \$300,000 loan with a 75% guaranty would have a guarantee fee of 3%. With the temporary elimination of fees, you would save \$6,750.00 ($\$300,000 \times 75\% \times 3\%$). Under the new 90% guaranty your savings would be \$8,100 ($\$300,000 \times 90\% \times 3\%$).

For a Section 504 loan from a Certified Development Company, the 1.5% application fee that is frequently charged to small businesses when they apply to the Certified Development Company for a loan will not be charged. For a typical 504 loan of about \$600,000, fee savings would equal about \$9,000. In addition, the SBA charges the first mortgage lender a fee equal to ½% of the first mortgage in a Section 504 loan transaction. The SBA will temporarily eliminate that fee as well, further encouraging the first mortgage lender to get involved with the development project.

What if I was already turned down by a bank in the past six months? Can I qualify for any of these new programs?

You are eligible to apply, but you will need to provide updated financial information that is current within 90 days. Over the past year the financial position of many individuals and businesses has deteriorated along with the economy, making some unfortunately no longer creditworthy.