

**FIRST  
BANK**

**SBA**

How to Grow your Real Estate  
Brokerage Business with SBA Loans



## How to Grow your Real Estate Brokerage Business with SBA Loans

Entrepreneurs and small business are a vital part of the U.S. economy. Just look at the data from the U.S. Small Business Administration (SBA)<sup>1</sup>:

- Our nation's 28 million small businesses account for 54% of all U.S. sales.
- They provide 55% of all jobs and 66% of all net new jobs since the 1970s.

Furthermore, the rate of small business start-ups has grown by 42%, adding eight million jobs to the economy.

It's no coincidence that this growth has occurred in tandem with an increase in the accessibility and range of SBA loan programs.

**Why should real estate brokers care?** SBA loans provide a unique opportunity for brokers to expand their offerings beyond conventional mortgage loans. With an SBA loan option for their clients, brokers can offer businesses access to the same type of long-term, fixed-rate financing enjoyed by larger firms. Interest rates are equivalent to favorable bond market rates - all backed by an SBA loan guarantee.

## What are SBA Loans?

SBA loans are long-term, low-interest small business loans backed by a government guarantee - alleviating the risk for lenders and opening the doors to financing for businesses who have struggled to get a traditional loan.

SBA loan programs offer:

 <p>Lower down payments, making upfront costs more affordable</p>	 <p>Longer repayment terms, reducing monthly payments</p>	 <p>Refinancing options to reduce debt and release cash flow</p>	 <p>SBA-Capped interest rates</p>	 <p>Easier access to credit for "high-risk" industries such as service, rural, and family businesses</p>
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## SBA Loans Free Up Capital for Real Estate Investments

While not all SBA loans are specific to the real estate market, they can free up small business capital for real estate investments. The SBA 7(a) loan with loans up to \$5 million and fees as low as zero percent, for example, can be used for several purposes, such as **purchasing new land or equipment** (including the cost of construction or refurbishments), **purchasing an existing business**, and **refinancing debt**.

In addition, CDC 504 loans are ideal for businesses to expand through investments in land, buildings, speculation or investment in rental real estate, improvements, or other major assets, the **CDC/504 loan provides long-term, fixed-rate financing up to \$5 million**. Soft costs like architectural and legal fees can also be rolled into the loan.

The low 10 percent down payment is the big attraction of this program. In most cases, the company is required to **inject just 10 percent of the total project cost**, which includes renovations and soft costs. This allows the business to preserve cash for working capital. (Ordinarily, banks require a 20 to 30 percent down payment on the purchase price.)

The advantages to the mortgage lenders include lower risk (since the SBA guarantees the loan), a lower loan to value ratio, and a new option for keeping a growing small business client happy!

Essentially, SBA loans afford a valuable financing option that enables brokers to expand offerings to eligible businesses beyond their current purview by teaming with a SBA lending partner.

## The SBA Lending Landscape is Not a Level Playing Field

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It's important to understand that the SBA lending landscape is not equal.

To service small businesses more efficiently, the SBA has different categories of lender programs - the General Program (GP), the Certified Lender Program (CMP), and the Preferred Lender Program (PLP).

**PLP status is the most desirable accreditation** that an institution can receive since it gives the lender the authority to make the final credit decision which simplifies and expedites the loan-approval process for

all parties. Whereas non-preferred lenders must submit loans to the SBA for approval, a process which can take several weeks - delaying approvals and yields.

Achieving PLP status requires that banks 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 clients, it's recommended that brokers work with an SBA lender who has achieved PLP status.

## Why Expertise is Vital to Securing an SBA Loan

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As you can see, while the SBA lending market offers many unique opportunities for lenders and brokers alike, the SBA lending market is complex and requires significant resources and expertise. Let's break it down:

### Understanding SBA Loans

Each SBA loan program is structured under government-directed guidelines with maximum loan amounts, guarantee percentages, use of proceeds, maximum interest rates, guarantee fees, eligibility criteria, and more. Matching clients to the right program requires a deep understanding of these intricacies. Plus, SBA criteria and requirements are constantly changing. Brokers need to be "plugged-in" to keep up and the support of a team of SBA loan specialists who can help them navigate this critical first stage of the client engagement.

### Staffing & Skill Sets

To participate fully and successfully in SBA financing, lenders and brokers must understand the market well, invest in training and specialized staff, and integrate new risk and compliance protocols to ensure they meet government requirements. That's a lot of talent to find in one person!

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, preferable PLP status.

### Loan Application & Underwriting Processing

Applying for, structuring, and underwriting SBA loans is a multifaceted process that is handled by the bank, not the SBA. Eligibility must be determined, credit analysis completed, forms and paperwork completed and packaged, and more - all in accordance with SBA requirements.

Brokers should work with a lender who has a clear policy on acceptable loans and SBA credit parameters and the skilled staff needed to administer these loans, which leads to my next point.

### Loan Servicing

Once an SBA loan has been approved by the agency, lenders must administer loans in accordance with SBA guidelines, regulations, and policies as outlined in the complex requirements of SOP 50 57.

If a lender fails to demonstrate the continued ability to evaluate, process, close, disburse, service and liquidate small business loans, the SBA may refuse or revoke its SBA lending status. Again, working with a PLP lender is desirable for small businesses and brokers alike to ensure compliance with this critical phase of the loan's lifecycle.

## Real Estate Red Flags to Look Out For

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

### The Appraisal Process

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

### Plan for Environmental Issues

Another surprise that can scupper any deal are environmental issues (mold, radon, land contamination, etc.) and compliance with applicable environmental laws. Work with an environmental consultant to both identify and manage these problems before they derail your client's property transfer or financing transactions.

### Debt Restructuring

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 scupper 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.

## The Bottom Line

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SBA loans are a valuable resource for real estate brokers seeking to expand their base, reduce risk, and offer alternatives to conventional mortgages. But to participate fully and successfully, mortgage brokers must understand the market well and partner with an accredited SBA loan expert.

As you consider adding SBA loan programs to your brokerage services, consider the following questions:

-  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, post-closing reviews, etc.?
-  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 such requirements?

Partnering with an SBA lender is an essential step in not only ensuring that 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 that loan referral along can also pay dividends in terms of your client relationship and the added-bonus of a nice referral fee.