



# Commercial Mortgage Advisors

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## SBA and USDA Loan Programs:

- **SBA 7(a):** The 7(a) program provides the bank with a guarantee from the Federal Government on a portion of the loan. In short, the SBA effectively “insures” repayment of a portion of each loan.
- **SBA 504:** 504 loans can be used to acquire (or construct) fixed assets (land/building, equipment) and are most often used for loans fully secured by commercial real estate projects. 504 loans are offered in conjunction with a local Certified Development Company and are typically structured with the borrower injecting 10%, the lender offering up to 50%, and the CDC offering up to 40% of the total project.
- **USDA B&I:** USDA loans are available for projects located in rural areas of the United States (defined as having a population of less than 50,000). Much like the 7(a) program, the Federal Government provides the lender with a guarantee of a portion of the loan.

## Program Highlights:

- **Borrowers generally will be required to make a down payment of 10%-30% of the total costs of their project.** This down payment should come from the borrower's cash reserves. Smaller down payments (10%) are usually reserved for existing businesses to purchase or complete construction on commercial real estate. Eligible refinance of debt requires little to no down payment. When the seller is willing to finance a portion of the purchase price then the borrower's down payment can sometimes be reduced by 5%-10%. This is accomplished by substituting the sellers loan for a portion of the down payment.  
**Loans are available from \$250,000 to \$5,000,000.**
- **Rates are based on a spread over the Wall Street Journal Prime Rate** (for example, WSJ Prime + 2.5%). The rates range from fixed to variable, adjusted quarterly. The rate for each loan is set after reviewing a variety of risk factors such as management experience, personal credit, collateral, length of time in business, business cash flows and overall financial strength of the business. The rate is unique to each individual borrower and can be discussed in a loan prequalification meeting.
- Loan repayment periods (also known as “amortizations” or “loan terms”) vary from 7 years to 25 years. The longer terms (25 years) are reserved for commercial real estate loans & the shortest terms (7 years) are typically for working capital loans. Terms between 7 and 25 years are also available for other needs such as the purchase of equipment. All loans are fully amortizing meaning that much like most home mortgages - the borrower makes a monthly payment and at the end of the designated repayment period - the loan is paid in full.
- **Borrowers are required to pay customary loan closing fees and expenses.** These costs vary from project to project and are dependent on the unique features of each transaction. An estimate of closing costs is available upon request but typically includes such standard items as: SBA Guaranty Fee (for 7a loans), appraisal, environmental audit, title insurance, doc stamps, intangible taxes, and the like.  
**Borrowers are required to offer all available collateral to fully secure a SBA loan to the extent it is possible and this typically includes their personal residence.**

## **Businesses that are eligible for government guaranteed financing:**

- Most businesses in the United States are considered “small” and qualify for SBA financing. This includes (but is not limited to) the following business types: retail stores, restaurants, dry cleaners, gas stations, convenience stores, hotel/motels, print shops, day cares, machine shops, doctors, dentists, veterinarians, car washes, manufacturing firms, wholesalers and other owner operated businesses.
- Loans are available to start-up companies, mature companies and everything in between.
- The business must demonstrate sufficient cash flow to repay the loan.
- The business must be operated legally and for a profit (in other words businesses such as charities and churches are not eligible).
- As previously noted - USDA loans are available for those businesses located in areas that are designated as rural.

## **Use of loan proceeds:**

- Loans can be for single or multiple borrowing needs; including purchase or refinance of commercial real estate, purchase of equipment and working capital.
- Construction (improve/renovate/expand existing commercial real estate or completely new construction).
- Purchase of an existing business.
- Refinance eligible existing debt

## **Standard Items Needed to Prequalify a Loan Request:**

- Last 3 years of personal and business tax returns with all schedules and attachments.
- Year-to-date business financial statement (a balance sheet and profit/loss statement).
- A listing of all the monthly loan and/or lease payments made by the business (form available upon request). Personal Financial Statement from each owner (form available upon request).
- Applicant Authorization Form from each owner (form available upon request).
- A summary business plan with financial projections for start-up businesses.

It is important to acknowledge that this Information Sheet provides only basic information and is not intended to detail every possible loan scenario. Each Small Business Administration (SBA) and USDA B&I loan request is evaluated on its individual merits. You are encouraged to contact one of our representatives when you are contemplating a specific transaction so that detailed information can be provided that is unique to your particular situation.