

CLOSE WITH CONFIDENCE:

The SBA Loan Playbook

Exploration of the U.S. Small Business Administration (SBA) and its impactful lending programs, focusing on the flagship 7(a) loan program.

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MEET THE TEAM

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Meet Kevin and Maria, experienced SBA Loan Officers at Paradise Bank. With years of expertise in Small Business Administration lending, they are passionate about helping entrepreneurs achieve their dreams. Kevin and Maria are dedicated to guiding clients through every step of the SBA loan process, offering personalized solutions tailored to meet the unique needs of each business. Their commitment to excellence ensures a seamless experience, making Paradise Bank the trusted partner for small business growth.

UNDERSTANDING THE SBA

WHAT IS THE SBA AND HOW DO ITS LENDING PROGRAMS WORK?

- The U.S. Small Business Administration (SBA) offers small businesses many lending programs and other resources. This presentation will focus on the SBA's primary lending arm – the 7(a) loan program.
- Under the 7(a) loan program, the SBA enables its lending partners to provide financing to small businesses on reasonable terms by guaranteeing major portions of loans made to small businesses, typically 75% of the loan. This helps lenders be more comfortable with a loan they might otherwise not approve.
- SBA loans made for **FY 2023 included over 63,000 loans totaling \$28 billion under the 7(a) loan program and over \$6 Billion under the 504 loan program.** The actual cost of the government is less than a billion dollars. Studies conclude that the tax receipts generated by job formation from SBA lending initiatives far outweigh the program's cost, giving the government a very favorable internal rate of return.

TYPES OF LOANS AVAILABLE

- 7(a) Loan Program is the biggest loan program and can handle all eligible use of proceeds. The Bank lends its own money, and the SBA guarantees a portion of the loan. The maximum loan amount is \$5,000,000.

ELIGIBLE PROPERTIES

Almost any property occupied by a business owner that meets zoning. Typical properties include:

- Office buildings and office condos
- Medical Facilities for doctors and Assisted Living Facilities
- Warehouses
- Single-Purpose Buildings
- Car Washes
- Child Care Facilities
- Self-Storage
- Gas Stations
- Restaurants
- Repair Shops
- Auto Dealerships
- Hotels, Motels, Bed & Breakfasts
- Liquor Stores
- Veterinary Hospitals and Clinics

UNDERSTANDING THE SBA

INELIGIBLE PROPERTIES/ BUSINESSES

- Any building occupied less than 51% by the business owner
- Properties with environmental contamination
- Pure investment properties and apartment buildings (hotels are fine)
- If the majority of owners are not US citizens or possesses an LPR card
- If the owners had prior defaults on other federally guaranteed debt
- If owner is currently on probation. The Bank must clear prior convictions Non-profit organizations (consider USDA Program)
- Pure gambling enterprises (must be less than 20% of revenues)
- All lending/ financing companies
- 'Adult businesses'
- Public companies
- Companies that exceed SBA size standards (see the prior topic. About 95% of all business qualifies under the size standards)

FEATURES AND BENEFITS OF SBA LOANS

- The #1 benefit - access to capital. The ability to finance single-purpose properties such as hotels, gas stations, and car washes that are difficult to finance, plus funds for companies with high growth or young companies still in their ramp-up.
- **Lower down payments - 90% real estate financing** helps the business owner preserve needed capital to grow their business. Business Acquisitions can obtain up to 85% financing. Conventional loan-to-value is typically 75%.
- **Longer terms - 25-year amortization with no call features or balloon payments allowed for deals including real estate and 10-year amortization on leasehold deals.** This typically translates to lower monthly loan payments. Conventional loans typically have a five-year balloon.
- Assumable loans, with a qualified buyer - Helps some business owners sell their business.
- Competitive interest rates.
- Easier qualifying guidelines with the SBA Guaranty. The loan guaranty helps a good deal get approved. It doesn't make a bad loan good, though.

CREDIT CRITERIA & SBA EXPERTISE

CREDIT CONSIDERATIONS

- While startup companies are eligible for SBA financing; Paradise bank prefers established businesses. Exceptions include second locations/expansions, franchises, and certain favored industries such as medical, car washes, and whereby the principals are well seasoned in the industry and inject a larger down payment.
- Bank considers the deal's overall strengths, including the following; the historical ability to service the proposed debt; collateral; is the business well-capitalized; management; industry; and personal and business credit.
- For startup and change of control loans (business acquisitions or partner buyouts), the principals must inject at least 10% of the total project costs.
- Must be a for-profit (no non-profits, churches, etc.). It can be any business structure, i.e., Corporations, LLC, Partnership, and Sole-proprietorship.
- Be considered 'small' by SBA standards as follows for most businesses: **Businesses with a tangible net worth of no more than \$15 million and a two-year average net income of \$5 million after federal income tax are eligible to participate.**
- The majority of the shareholders must be US citizens and/or possess a Legal Permanent Resident (LPR) card. All shareholders of 20% or more must guarantee the loan.
- For real estate purchases and refinances, the business must occupy 50% or more of an existing building and 2/3's of a newly constructed building. Funds cannot be used to improve non-owner-occupied space.

PARADISE BANK'S NICHE AND PERFORMANCE

- We are the leading business real estate financing provider throughout Florida with a loan portfolio centered in South Florida.
- We are the highest-producing SBA lender in loan volume of any lender in the combined counties of Palm Beach and Broward since FY 2011; by far, we are the top lender in Palm Beach County.
- We are the second largest community bank SBA Lender in loan volume in the state in 2021; the fourth largest Florida-based lender overall

WHY CHOOSE PARADISE BANK FOR YOUR SBA LOAN

- The bank's SBA loan department was formed in the 4th quarter of 2010 and has produced a combined \$470,000,000 in SBA 7(a), 504, and companion loans. The bank has a solid commitment to lending to businesses within our community where we work and live. This is the bank's core competency, not just another loan product or CRA compliance requirement.
- The entire management team is well versed in SBA loans and can deliver. All decisions are made locally in South Florida, and we can make a decision faster than most. We meet every borrower, get to know them, and visit their property, and the borrowers deal directly with the decision-makers. We develop a relationship with our borrowers and know their business intimately to add value and help the business owner create wealth.

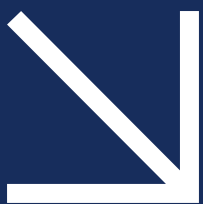
DOCUMENTS NEEDED FOR LOAN PACKAGE

- 3 years Business Tax Returns, full copies including all statements, schedules, & K-1's
- Year-to-date Balance Sheet and Profit and Loss (aka P&L) statement – dated within 120 days
- Schedule of Debt
- Personal Financial Statement of owners owning 20% or more – dated within 90 days
- 3 years Personal Tax Returns, full copies including all statements, schedules, & K-1's





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