

Owner Occupied / SBA

The 2 most common methods of facilitating the purchase of an owner occupied properties are: 1. Conventional financing and 2. the Small Business Administration (SBA).

Conventional financing is usually provided from a bank, offers lower leverage, more flexible terms and normally requires a depository relationship.

A SBA loan includes a conventional bank loan plus a second loan that allows the borrower to achieve up to 90% leverage, and includes higher fees and rigid prepayment penalties.

The matrix below provides you with some idea of the differences between the loan products:

Loan Type	Conventional	SBA – 7A Program	SBA – 504 Program
Loan Size	No limit	\$50,000 to \$5 million	\$125,000 to over \$10 million
Uses	Commercial Real Estate	Expand, acquire or start a business. Purchase or construct real estate. Refinance existing business debt. Buy equipment. Provide working capital. Construct leasehold improvements. Purchase inventory.	Purchase existing building. Land acquisition and ground up construction (includes soft costs & development fees). Expansion of existing building. Finance building improvements. Purchase equipment.
Leverage	Generally 60-70% of value – 1 loan	Up to 90% – 1 loan	Up to 90% – 2 loans Bank 1st = 50% CDC / SBA 2nd = 40% Borrower = 10% equity
Prepayment	Depends upon the length of the fixed period, generally 5,4,3,2,1% in the first 5 years. Contact your lender for more information.	5, 3,1% in the first three years.	1st – standard Conventional step-down, depends on length of loan – 50% of the loan balance 2nd – 20 year debenture offers high prepayment for first 10 years – 40% of the loan balance.
Rates	Variable and fixed. Contact your lender for up-to-date rate sheet.	Mostly variable at Prime+. Contact your lender for up-to-date rate sheet.	Variable and fixed. Contact your lender for up-to-date rate sheet.
Refinance	Available. Cash out possible.	Available. Cash out not likely.	Available only for loans due in the next two years, this may change as funds are available. Traditionally the 504 program has only been for acquisition loans. No cash out.
Fees	1% plus processing, appraisal, title and escrow.	Guaranty fees. Contact your lender for up-to-date guaranty fee rates.	Fees are financed in the 504 loan. Fees are negotiated for the 50% bank loan accompanying the 504 loan. Servicing fee (lowest allowed by SBA) for CDC 504 plus a legal review fee.

For more information contact your lender.



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