



# MODERN CPA

Transcript for Podcast Episode: 007

## *SBA Loans, An Option for Small Business Financial Assistance*

Hosted by: Michelle Ward and Shawn Cahill

Guests: Bobby White

- Michelle:** We are modern CPA. Our purpose is to provide valuable information to small business owners on our podcast Profit Points. We discuss business how to's, give tax tips, and dig in to real life experiences in the crazy world of running your own business. If you find this podcast helpful, then like, subscribe and follow us on social media. Welcome everybody to profit points. We are a podcast that talks to professionals, industry experts and other small business owners and learning about the crazy world of business. And today we are talking with Bobby White and he is from a bank that does SBA loans, and we are going to talk a little bit about all the things you need to consider when you have an SBA loan. Bobby, welcome.
- Bobby:** Thank you. Thanks for having me.
- Michelle:** So what bank are you with, Bobby? Tell us a little bit about what you do.
- Bobby:** Yeah, so I am with First Colonial Community Bank. We're headquartered in Cherry Hill, New Jersey. We have been operating for the last twenty one years. So we do. We have everything from SBA, products, conventional products, kind of, you name it, all kinds of different deposit account options. I'm actually in the Limerick branch, so we expanded into Limerick, Pennsylvania.
- Michelle:** Yes, exactly. So some people may be hearing this, maybe in different states.
- Bobby:** So yeah, yep. So I'm in Pennsylvania, Limerick, Pennsylvania. We're right off 22. We opened here in. I opened the branch in March of 2021, so we're coming up on our first year. So I can't believe how quick it's gone.
- Michelle:** Yeah. So you've had a lot of changes in the SBA world and a lot of people getting SBA loans. So I was hoping that maybe you could tell us a little bit about what an SBA loan is. First of all, because I don't know that some people may not even know that it's available and what it actually is.
- Bobby:** Yeah. So the SBA has definitely become more well-known now that, you know, now that PPP is over. They they were kind of handling the PPP program, which they allowed the banks to fund. So now everybody has heard more about the SBA. So are the two loans that we primarily focus on are the 7A and the Express, so the 7A program, both of which are essentially they're guaranteed certain percentages of the loan are guaranteed by the federal government. So it allows banks to do loans that they wouldn't be able to do conventionally. Whether it's due to collateral shortfall, maybe cash flow isn't perfect and still has to be, you know, still has to be a good loan. But it has, but we get a little bit

more freedom in those kind of scenarios.

**Michelle:** So the SBA, it's set up for small businesses, right? I mean, these are loans that the government is trying to help give a leg up on that small business.

**Bobby:** Exactly. So kind of the requirement, I guess, or the definition of a small business, you know, it has to be under certain number of employees kind of the assets it has to be under, you know, can't be a large company, can't be, you know, like Coca-Cola, can't go and apply for an SBA loan now would be in business, you know, in the United States. Got it. And it has to be an operating company. So you can't do. SBA will not finance any investment opportunities or anything has to be a loan to the small, you know, operating company,.

**Michelle:** Business owner operations. Got it. Understand. Yeah. So how is it different then? I guess different than the regular conventional. What we say is conventional loans are what people normally think of, like going to a bank and getting a loan.

**Bobby:** Yeah. So there's a couple of different purposes for conventional ones. You know, if you're going to do something investment, it's, you know, somebody is buying a piece of real estate and then they're, you know, probably renting out or leasing out different, you know, spaces within that real estate so that the differences in the the operating company is not occupying the real estate. It's renting it out. So they're generating like or they're receiving rental income.

**Michelle:** The other investment, right, that would be more investment instead of housing the actual operations.

**Bobby:** Exactly. So then if you do have somebody that's occupying the space, the loan, they look at loan to value. So the loan to value is going to be. Way less on a conventional product than it would be in a SBA product, because we can do generally, you know, 90 percent financing, it depends on the exact funds. But yeah, the kind of primary rule of thumb with SBA is 90 percent financing unless it's for, you know, debt refi, working capital. You know, we do short term, long term working capital. And then sometimes we can get into real estate with no money down. So that's hopefully that's helpful.

**Shawn:** So you mentioned the two types of SBA loans. Can you talk about those?

**Bobby:** Yeah, yeah, definitely. So this is the seven 7A program is designed for, you know, real estate purchases, business acquisitions, debt refi, equipment purchases, inventory purchases that's based on the use of funds kind of determines your term. So going like a real estate purchase, you can actually go out. Twenty five years, twenty five year term, twenty five year am.

**Michelle:** And you mean amortization. Yep, yep, exactly.

**Bobby:** So there's no balloon, whereas that's another difference that a commercial conventional loan they usually do, I think, five year term. So you always have a balloon at the end, but that's one of the benefits of SBA is, you know, it's fully amortizing. So the express program is more, yeah, we do. We use the express program for like a line of credits for,

you know, short term working capital needs. So we've seen recently we've seen some requests for working capital just kind of as people get going again after COVID depends on the industry. But we've seen some of those requests come in and they're much shorter terms than express line. You know, you can borrow, borrow and pay back and then pay interest only for up to five years and then your second five years as principal and interest, you know, whatever you borrow. So a total of 10 year term. Mm-Hmm. The 7A, you know, like I was mentioning, was if we do like a debt refi or equipment or, you know, inventory purchase, you can go up to 10 year term, 10 year amortization. So you'll never have a balloon, which is nice.

**Michelle:** That's good. So you know exactly what your payment is going to be. You're prepared, and it's a set time that it would be paid off, right?

**Bobby:** Yeah. So and then the general SBA loans, they are variable rate. Got it. You can you can request a fixed rate there. They're just not, as you know, as prevalent.

**Michelle:** So just for people who aren't sure what variable rate is basically a variable rate means that it can fluctuate with the, I guess, the federal interest rates, so it will fluctuate based on that.

**Bobby:** Yep, exactly. So they're all based. They're priced using prime. So Wall Street Journal prime plus a certain percentage and in that battle, you know, can fluctuate. Prime hasn't changed in a while. I think they're probably expecting it to soon, but nobody really knows, you know, yet. But yeah, and the rates will probably depend. It absolutely depends on the deal, you know, but you're anywhere, anywhere between, you know, I would say, up to Prime Plus two point seven five. So there's usually room, you know, below that is where you normally fall, but it depends on the deal, obviously, you know, credit cash flow, the whole thing.

**Michelle:** So give me an example of somebody that a business who has gotten into an SBA loan. What they've done with that? Well, what is a great example that you have one?

**Bobby:** So I'm sorry, I just did a debt refi which have been coming up a lot. I think what happened was people were going out and getting hard money loans just with with COVID being around, I think just the uncertainty of just wanting to have that cash on hand. So what we've been doing is taking that debt as long as you can verify that it was used originally for the purpose, which would mostly be business related, where you can show that we look to refinance it, no money down. So it's you know, you take the last one I did was about four hundred thirty thousand. So it was three different vendors that we paid off. This company used the hard money lenders for to purchase inventory. I see there that, you know, those the hard money loans are quick too. So it's nice because this particular company received them because they had to make quick orders for inventory just with the supply chain issues and stuff. So we were able to refinance all those into one loan, save the borrower in like 10 grand a month, just in cash flow. Yeah.

**Michelle:** Cash is king. So king or queen, whatever you want to say.

**Bobby:** Right, exactly. And a lot of their payment terms are weird, so they would do not weird. But you know, they would do like it would be charge weekly or biweekly, and they could

just come in and start taking money. And it's like you never generate or you never kind of accumulate enough money to become stable that way, whereas you know, you bring you pay it all off with the SBA loan, like you said, you know about what your payment is every month and then that frees up some cash for other things for you. That's probably, you know, most frequent at this time other than commercial real estate purchasing requests have come in, you know, quite frequently, we're seeing that. Yeah. And like I said, you know, you can go out twenty five years.

**Michelle:** Yeah, I had a client who it's a two ladies who own a massage practice, and they purchased the building that they are in and operating their business out of. They were renters and decided that they wanted to purchase the building and get a little more routes in end and also have some net worth, you know, and build some net worth. So they purchased the building that they were in and they used an SBA loan. So I think it worked out really well.

**Bobby:** That's a really good scenario, especially when they're already there operating. They know, you know, kind of the expenses that they're going to encounter that that's like a really good reason for an SBA loan. And then, you know, you kind of you're developing building your equity in the property versus paying rent and a lot of people because of how crazy the real estate market is. A lot of people we're finding are selling, you know, landlords are selling to their tenants who usually always get first. First rate or refusal also works out really, really well. And then the other SBA, you know, another purpose we've seen is doing like renovations. So you buy the piece of property and but you maybe have to convert it a little bit or replace roof, you know, do something like that and you can build all that into your loan and it's all financed over that. Twenty five years. Mm-Hmm.

**Michelle:** Which really helps. Yeah. Rather than buying the building and then having to come up with the money to renovate or get a separate short term loan or something like that to help finance that? Exactly. Well, that's good. That's really good. Yes.

**Bobby:** Oh, I'm sorry.

**Shawn:** Yeah, I was just going to say that kind of what's what's the process that that a business owner has to go through in order to apply and hopefully get the SBA loan?

**Bobby:** So it is, you know, it's a little bit more documentation than it would be a regular conventional loan. Just because you deal, you got, you know, you got the bank requirements and then you have the government's requirements, which kind of, you know, usually overlap. But there's some specific SBA documents that you have to get. The biggest one that comes to mind is the 1919. So that's kind of the request for information. There's the section one is for the business for list out, you name the tax I.D. numbers, the number of employees is big and then you kind of certifying that you haven't had any bankruptcies or felonies or, you know, pending litigation and that kind of stuff. And then section two, is it the same thing, except it's on the individual owners through anybody. And, you know, 20 percent or more ownership or any employee say everybody has to file one of those now. So that's kind of the, I would say, the biggest SBA document that has to be filled out well in all your all your normal stuff like prior year's tax returns, business and personal than any affiliates, SBA defines an affiliate as a

common ownership of the, if you know, the owner of the company that you're looking to lend to and also has ownership in another company, you have to get all the tax returns just because it's a whole big, you know, you got to create the whole picture. You know, now this time, this part of 2022, we are requesting full year 2021 profit and loss of balance sheets, which can be internally prepared. A lot of times we refer people back to work with your CPA to get that kind of stuff right. You know, they're really good at putting those together and then personal tax returns, obviously three years. And then we rely on projections. So we asked, you know, some of our most, all the bars to put together projections of three years going forward. Got it. And then, you know, business plans depends on the the actual use of proceeds. I mean, sometimes it's sometimes a specific I mean, if you're looking to refinance debt, you have to have, you know, copies of your existing transcripts, you know, with the with the payment transcripts, with the lender, copies of the notes that were signed because a big thing with SBA is eligibility. So you have to make sure that your request is eligible for SBA financing. So I understand. So it's it's a lot of documents, but there's always between between the, you know, the lender, the CPA and or, you know, borrower's attorney. There's always somebody, you know, able to help.

**Michelle:** Yeah, yeah, I do know that it does require some effort on the part of the the operating company or the owners of the company, it can be a little tedious to go through that process, almost the same as buying a house or buying, you know, refinancing a house. There's a lot of documents that they requests for underwriting and and this is no different, I would imagine, right?

**Bobby:** Mm hmm. Exactly, exactly. Yeah. And you know, it's it's we've even saw SBA. You can lend to startups start up companies, which is really cool. So pretty much as long as they do, we'll look for experience in saying you have to have some industry experience. Yeah, exactly. Exactly. And then, you know, we'll use projections to to kind of based our cash flows. And if everything makes sense, it's it's a great opportunity for people to get into, you know, go out or go off on their own. You know, if you have if you have somebody you want to start their own practice or or, you know, office of some kind. Hmm. So that's really cool.

**Michelle:** Yeah. So you mentioned about the business providing financial information and profit and loss and things like that. Does the individual also need to provide like a personal financial statement, like what are the assets of the individual like? Does that come into play with them?

**Bobby:** It does. There's a liquidity test that we have to do. You know, it depends on on, you know, in most time, I haven't I haven't had somebody. I haven't worked for somebody who had too much money for an experience, too much money. I mean, the threshold is kind of high, you know which, but there are certainly people out there that wouldn't qualify for that reason, you know? But wow, lucky them. I mean, I know. So, but yes, absolutely. I should have mentioned the personal financial statement is definitely a that's a right off the bat automatic need that for the, you know, even to issue a term sheet, really, you have to have know. And from there, we're looking at personal liquidity, obviously personal income and then personal assets. Hmm. So a lot of times, not a lot of times, but depending on the deal, sometimes if the loan is not fully secured with, you

know, commercial real estate or business assets, it's a lot of times the SBA they're going to request or they're going to require that you pledge personal real estate or investment real, something to make up the difference. If it's available, it's not available, then that's that's one thing. And you know, it's it's OK, but if it's available, they're going to, you know, they're going to have to have it.

**Michelle:** They can potentially ask for it, that guarantee.

**Bobby:** Exactly. So they're kind of just throw some people off. But I, you know, we like to tell people upfront about it. So it's not a surprise.

**Shawn:** Once they do that and they put up a personal guarantee, is there a time period where they can go back and kind of wipe that out once, you know, maybe the loan has gotten to a lower level? Or is there an opportunity to kind of move that away?

**Bobby:** Yes. Or a personal guarantee? No. But if the guarantee is secured by like a piece of real estate, you know, if the if the loan amount drops below a certain dollar amount, you know, and the loan becomes fully secured based on something else, or there's something that they would like to, you know, swap collateral for, then you can look to make the request SBA for, you know, for that to be released, but for personal guarantees for any, you know, 20 percent or more owner, they're on there until the end. Yeah.

**Michelle:** So you can't just go if you want an SBA, you can't just go to SBA and get this this loan, you have to go through certain banks, right? Like, how does that work?

**Bobby:** Yeah. So if you go on, we participate in the SBA lender match. So if you were to go on, uh, the SBA website, you can kind of type in what you're looking for and then based on the area or state or or the anticipated use of funds, they can kind of line you up with a bank that, you know, has that. Opportunity open. So, like if you had, you know, if you're looking to purchase a piece of real estate, you go and you fill that out and then the SBA sends that any bank that has kind of..

**Michelle:** The capacity to handle that or..

**Bobby:** Kind of signed up for that. And then you have the opportunity. So it's kind of there's a lot of banks. I think that that are involved in that. So you're kind of, you know, you're always competing. But at that point, it makes it nice for the customer because you know you've got banks competing for you.

**Michelle:** Sure. Well, I think it's just it's key to make sure that we highlight that not every bank is going to be a participant in the SBA. So like your local credit union. May not be part of all of that, and you may need to branch out and find a different bank to work with for this.

**Bobby:** Absolutely. Yeah, that's a good point. Definitely. Yeah. And even some of the larger banks, I think, you know, it's definitely not every bank has it. Some, you know, some do, some don't. But yeah.

**Shawn:** Yeah. How do you guys differentiate yourself from other banks that do offer SBA? What are some of your positives with working with you guys?

**Bobby:** So it's nice with us. Everything is very, you know, we're all kind of in one location. So it's super easy to just walk next door to your, you know, the SBA directors and ask questions. If we have an appetite for something or if you know, you know, whatever you need, you have it, and it's very simple to get. Mm-Hmm. So we do kind of our process, which might be, you know, similar might be different than others on other banks is to collect, you know, do a very high level review of the request, run quick cash flows, you know, look at personal financial statements and and stuff and then, you know, instantly run that through our team. And then, you know, if everything, if it's everything's all, you know, great, we can issue a term sheet, you know, usually same day or day after, depending on the size and request and everything. So we're very quick, you know, it's all it's all in, you know, we do everything in-house, which is nice. And then as soon as the terms are issued and then agreed upon, we're able to put it right into formal underwriting. So we have an underwriter in-house. We've got the like the loan processing department, in-house, closing department in-house. So it's all, you know, all the departments are very close to each other and it's usually very seamless.

**Michelle:** So it makes it a lot faster than before for the person trying to get the loan. The whole process seems like it might be smoother.

**Bobby:** Yes, for sure. For sure. So that's one, you know, that's a benefit because a lot of times when you start talking to somebody about the SBA loan, they're like, Oh my gosh, this is going to take forever. And, you know, sometimes it does.

**Michelle:** Yeah, depending on the deal right?

**Bobby:** Yeah, sometimes you know, because there's if you're buying depends on the deal. But if you're buying like real estate, then you have appraisals and environmental that you have to get. And you know, you're working with the title company and, you know, business acquisitions, you're dealing with sellers, you're dealing with valuations. So sometimes, you know, it takes a while and, you know, things like that.

**Shawn:** But that would take a while regardless of the bank they went to. So, yeah, but you need to process the process within your organization seems to be like a much more seamless. You guys are all working together, you know, pretty closely, and you can kind of get these deals done in the fastest possible way you can, depending on the deal. Right, right.

**Bobby:** Right. Exactly.

**Michelle:** That's great. Yeah. So anything, any tips that you would maybe give to the small business owner looking to do this? I mean, you had said about going to the SBA website and putting in what it is that you were looking for. That's a great tip that they can go and look at what banks have the ability to provide them that service. What other things would you suggest any that a small business owner looking for an SBA loan should do, maybe to get prepared?

**Bobby:** I would say, you know, I would say allow, allow some time like, you know, don't don't go to the lender and then expect to close, you know, 30 days after. Just because there's a lot, there's a lot that has to be done, you know, leading up to that closed leading up to the approval and then leading up to the closing. But just kind of give yourself time, you

know? I would say, you know, the more organized more is usually the you know, the easier it is to to transmit documents and information, not that you know you have to be, you have to be perfect, but that usually help speed up the process and just kind of, I guess, just kind of know what you're looking for. And if you're not, then you always, you know, you have you have lenders in different organizations you can reach out to for help. You know, putting together business plans and projections and then that kind of stuff. So it really is a very cool program that's available. So.

**Michelle:** It is so helpful, I think it really helps that again, what it was designed for, that small business owner looking to either start or expand or be in a better position overall and where they may not have been able to get conventional loans that or have been denied other conventional loans.

**Bobby:** Mm-Hmm. Yeah, absolutely. Yeah, we get a lot of internal referrals, you know, we're working with the conventional lender. So if they have something that they're working on that they come across, maybe, maybe not enough equity in the property. Your cash flows too tight. Like I mentioned, where credit's not perfect, you know, then they, you know, we kind of refer deals back and forth because I mean, I actually I did get a deal the other day. That was it was like 50 percent loan to value and it was in business for, you know, for a long time. So I ended up giving it to a commercial relationship manager. So it worked out. You know, but. And they're definitely a good program.

**Michelle:** That's awesome. Shawn, you look like you're going to say something, was there something you want to discuss.

**Shawn:** I had a question or thought, but then it escaped.

**Michelle:** No problem. Well, I am so glad that Bobby was here to be able to help us with some of this and explain what's out there for people to take part in if they need to. And there's a lot of things that are out there to give people a leg up.

**Bobby:** And so, yeah, definitely. Thanks so much for having me.

**Michelle:** Absolutely. Well, we look forward to hearing some of the responses from people about what they've learned on these podcasts. So we appreciate your time. Thank you so much.

**Bobby:** Thank you, guys.

**Michelle:** If you find this podcast helpful, then like, subscribe and follow us on social media.