

Krebs on Credit

*Quick insights for all
your mortgage lending needs*

Issue No. 7 - What are 3 alternative ways to qualify for a commercial construction loan?

If you are looking for a commercial construction loan for your business, it can be challenging to convince your bank to hit the "approval" button. From the bank's perspective, commercial construction lending is particularly risky due to various factors. For example, construction projects are notorious for going over budget and falling behind schedule.

However, here is the good news: While the big banks may be pulling back on construction lending, other lending institutions -- smaller regional and local banks, and alternative lenders -- are not.

Therefore, do not be discouraged if you were turned down by your bank for a commercial construction loan.

The takeaway here is, despite the inherent risks associated with commercial construction projects, it is still possible to find a lender with the right risk appetite that is willing to approve your business for a construction loan.

We highlight 3 loan options that could lead you on the path to successfully getting approved for a construction loan.

#1: Small Business Administration (SBA) loans: The hallmarks of SBA loans are relatively low interest rates and long repayment terms. When it comes to construction loans, 2 programs are notable:

First, **SBA 504 loans** provide funds for building new facilities as well as renovations. The maximum loan amount is about \$14 million, the down payment ranges from around 10% to 15%, and the term ranges from 10 to 25 years.

Second, **SBA 7(a) loans** can be used for construction as well as more general purposes like working capital. The maximum loan amount is \$5 million, and the interest rate is tied to the prime rate.

#2: Conventional construction loans: For companies that do not qualify for government-backed SBA loans, conventional loans may still be a possibility from a smaller regional bank.

#3: Hard money construction loans: This is typically a good option for businesses that cannot qualify for SBA loans or conventional loans due to a variety of reasons, including low value of collateral, limited documentation, or low credit. For hard money loans, private lenders focus on the value of the property being used as collateral, not on the creditworthiness of the borrower.

Happy National Small Business Week! (May 5 - 11, 2019)

The SBA has kicked off its annual National Small Business Week to honor U.S. entrepreneurs. To qualify as a "small business" for purposes of an SBA loan, the borrower (1) cannot exceed \$15 million in tangible net worth, and cannot have an average net income over \$5 million for 2 full fiscal years; (2) must be able to repay the loan based on projected operating cash flow; and (3) must be at least a 51% owner of the property in question.

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this is not a commitment to lend.

