

# THE CONUNDRUM OF ATTORNEY LONG TERM FINANCING SBA LENDING AS A POSSIBLE ALTERNATIVE

Though many attorneys own very successful law practices, they find it very hard to secure stable, low cost, long term financing to grow their practices. They are faced with a classic conundrum- Banks who can lend at low cost, do not accept the most valuable asset an attorney or their law practice owns - the pending portfolio of cases (considered a contingent asset). As a result of this, most banks will not lend to attorneys, or if they do, there are many restrictions with regards to term, repayment and financial reporting requirements. On the other side of the spectrum, an industry has sprung up to service this lack of Bank interest - The legal lending Industry. This industry consists of classic "Hard Money" lenders - who will lend on specific contingent cases. They charge between 14-30% a year in interest and impose a whole host of onerous conditions - high interest, forced pay downs as cases settle, monthly reporting, severe restrictions on use of proceeds, easy to call the loan at any time, and many other conditions.

A possible alternative for long term, low cost, flexible use of proceeds loans, which has long been out of sight of most practices is an SBA loan.

## WHAT IS AN SBA LOAN

The Small Business Administration (SBA) was created by the Federal Government on July 30, 1953 to stimulate small business growth. A major way they accomplish this is through the SBA Guarantee program. This program was created in 1958 and today creates loans of over \$32 billion a year in loans of \$250 K- \$5 Million (as much as \$13 million for real estate office purchases). This program offers a state or federal chartered bank a 75% guarantee on the loan if the Bank registers with the SBA and follows its many rules and procedures. This program encourages Banks to loan to small businesses and allows many banks to loan under SBA and accomplish many loans they would not otherwise finance.

The SBA has defined a Small Business, eligible for this program, as an entity that makes after tax profits of less than \$5 million a year (averaged over the last two years of Tax returns). This includes 90% of all American business entities.

The two most popular SBA Loan programs are:

- SBA 7(a) – these working capital loans are from \$250,000 - \$5,000,000. These loans have very little restrictions on how you use the funds. They can be used for advertising, pay off expensive debt, pay for case related expenses, experts, hire new personnel, etc. **These are 10 year non-cancelable term loans with annual interest rates between 5% -6%.** These loans can be paid off at any time with no prepayment penalty. As long as payments are made on time - these loans cannot be cancelled for any reasons - even a string of bad financial results. Reporting requirements are minimal - usually yearly profit/loss and Tax returns.

- SBA 504 – this program is for purchasing real estate for your practice. As long as a business is going to utilize at least 50% of the building they qualify for a loan to purchase the building under SBA 504. **These are 25 year term loans and can borrow up to \$13,000,000 (with only a 10 down payment).** These loans usually have a limited prepayment penalty for the first three years. As long as these payments are made on time these loans cannot be cancelled.

The chart below illustrates the difference between the three different types of loans - classic bank lending (when available), Legal Lenders and SBA loans.

TYPES OF LENDERS	SBA	LEGAL FUNDING SOURCES	COMMERCIAL BANKS
Annual Interest	5% - 6%	16% - 60%	4% - 8%
Reporting Requirements	Once a Year Financials – Not Case Related	Case by Case Onerous Monthly Reporting	Monthly – Sometimes More Often
Term of Loan	10 Year Term Can Not be Cancelled – 25 Years for Real Estate	Yearly – Renewal Each Year and Forces Paydowns	Yearly – Renewal Each Year
Annual Clean Up	NO	YES	
Ability to Call Loan	NO	YES	YES

The advantages of SBA lending seem obvious - so why do very few law practices utilize this Financing source? The first answer is that most people think that they impossible to get, riddled with regulatory requirements, very slow to finish and a very high rejection rate.

These criticisms are not without merit. Prior to 2011 a typical SBA loan took almost a year to obtain, had a limit of \$2.1 million, had a high rejection rate and were mired in regulations. In 2011, however, SBA loans were revamped - limits increased and rules simplified a bit - still difficult but much easier, with the right help.

### **THE RIGHT HELP - SBA LOAN GROUP**

SBA LOAN GROUP is a national company that assists attorneys and law firms in obtaining long term, non-cancelable low cost SBA loans. The company was created after the passage of the 2011 rule changes and today has a network of over 30 banks, on a regional and national basis ready to do loans to Attorneys. They are one of largest consultants providing SBA loans in the country.

1. Qualify for a Loan - SBA loans are dependent on two major factors - ability to repay and moral character. Ability to repay is determined by cash flow available to repay the loan- based on the last three years of tax returns and interim financials for the current year. The underwriters at SBA Loan Group view all relevant data to determine the amount of the loan that the client is eligible to obtain. We also review credit data, and other data necessary to determine eligibility.
2. Apply for a Loan - Once eligibility is determined, SBA Loan Group will prepare the application and provide several of our bank network all necessary data to process the loan. All our applications closely adhere to the 400 pages of Standard Operating Procedures published by the SBA.
3. Closing the Loan - SBA Loan Group will stay on top of the loan and assist the client until the loan is closed. Most loans close within 8 weeks from the time all needed data is received.
4. SBA Loan group receives a small processing fee on being retained and a consulting fee that follows SBA mandates, and is only paid on a successful funding.

### **EXAMPLES OF SBA DEALS COMPLETED FOR LAW FIRMS**

- This law firm had borrowed \$1,000,000 from a legal lender paying 18% interest per year (\$180,000 yearly interest fees). SBA Loan Group, LLC refinanced the \$1,000,000 into a 10 year non-cancelable term loan with a yearly interest rate of 6%. SBA Loan Group, LLC saved this law firm \$120,000 per year in interest payments.
- This law firm had two partners with great cash flow but very little collateral. SBA Loan Group, LLC was able to get them \$1,250,000 in a 10 year non-cancelable term loan.

### **SUMMARY**

SBA backed loans can be a low cost, long-term non-cancelable solution for law firms. It can eliminate the high cost, severe limitations and uncertainty in obtaining capital to grow a law practice. The real estate program can be an easy way to create long-term asset value through owning the law firm practice site.

**A ten minute phone consultation can determine eligibility and define next steps.**

One of the founding partners of SBA Loan Group is Jarret Prussin. Mr. Prussin founded the largest non-recourse finance brokerage program for law firms and plaintiffs in the United States. It's through his prior legal funding company that Mr. Prussin realized law firms don't have very many cost effect finance options. SBA Loan Group is now one of the largest providers of SBA Loans to law firms in the country. To schedule a phone consultation call 1.850.934.1282.