

\$5 Million Doesn't Buy what it Used To!

Everything has gone up except the SBA loan maximum, let's change that.

Building success through the sharing of information

By Steve Mariani

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Have you been to the grocery store lately? Bought fuel for your car or financed a home or vehicle recently? Everything from clothes to online subscriptions seems to have increased double digits in just the last few years. Everything that is, except for the SBA maximum loan amount available for business acquisitions. As of March 2023, small businesses employed 61.7 million Americans which is 44% of the private sector and is responsible for 62% of new jobs added since 1995. There is no disputing that small businesses drive our economy.

Now that many of the 2023 SBA rule changes have settled down and lenders have updated their policies and credit standards, there's one rule that not many lenders have taken the time to fully understand, interpret, or promote. An important rule that can add huge commissions and additional closings to many lower mid-market intermediary offices. This rule allows multiple, larger goodwill transactions to secure financing far above the current \$5MM maximum.

Jeff Snell, Principal Broker at Enlign Advisors and longtime friend of mine and I were discussing possible ways of utilizing this updated rule change to allow our higher-net-worth buyer clients to purchase additional business opportunities. During our many conversations, and after understanding the applicant must purchase the second business in a completely unrelated industry to qualify (defined as having an NAICS code that the first three codes are dissimilar), Jeff then asked me why the SBA allowed this scenario but did not allow an expansion or increase for an applicant in their current related industry. That's when Jeff suggested that it would be simpler and more appropriate to increase the overall SBA loan maximum limit, it just makes sense. If the SBA would allow 2 or more loans in unrelated industries, then why would they not allow knowledgeable and experienced proven operators to expand within their current industries?

Five million dollars does not buy what it did in 2010, which was when the SBA last increased the maximum 7a loan amount from \$2 million to the still current \$5 million cap. Based solely off typical cost of living increases assuming 3% per year, \$5MM buys approximately 42% less than it did in 2010.

“It’s time for the SBA 7a program to meet the demands of small business owners and allow additional hirings and expansions. I’m proposing the SBA increase the 7a loan maximum limit to \$10MM for any individual borrower regardless of NAICS code.” -Jeff Snell

Below is the new affiliation rule change that now excludes any borrower’s affiliate business if the borrower holds less than a 51% ownership level. Previously, any affiliate business an applicant owned 20% or more of must have been historically reviewed and included when determining SBA loan eligibility maximums.

a. Affiliation Based on Ownership

Note: NAICS codes can be found at 13 CFR § [121.201](#), and a searchable database of industries and NAICS codes is located at [naics.com](#).

- i. When the Applicant owns more than 50 percent of another business, the Applicant and the other business are affiliated.**

The current interpretation of the above rule change (and confirmed in writing by SBA) is that any financing associated with the affiliate business the applicant owns less than 51% of, is no longer to be considered when calculating SBA eligibility. By default, this now allows an applicant to secure an additional \$5MM loan for use on an “unaffiliated business” purchase. The applicant must own less than 51% of his affiliate and the NAICS code of the new target must confirm a different industry. This rule does not technically limit a buyer to only one additional \$5MM loan, but if they continue to own under 51% of multiple businesses, each one can have \$5MM SBA exposure.

As an NSBA leadership council member, and included in the southeast district 2 conversations, my plans are to continue discussions with council leadership to bring this to the SBA administration in DC for consideration. I am now contacting intermediary offices around the country to gauge the interest level and support for this

change. My initial calls and contacts show overwhelming support. I've also engaged multiple lenders that will support this increase and stand alongside our industry as we move forward.

Here's what you can do today to help, let's spread the word and build support to be sure we're heard in DC. Over the next few weeks, you will also be seeing many posts from myself and others rallying support for the \$10 million guarantee cap increase and all we ask is that you please share and repost to gain as much support as possible, together we can make this happen.

We hope today's letter was informative and please share with anyone that you believe can benefit from it. We are dedicated to the success of the intermediary.

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