

AN OVERVIEW OF LOANS FOR CHILD CARE CENTERS

U#39 in the continuing series of George B. Heaslip Reports

Very few child care center buyers are aware of the United States Government SBA programs. SBA loans are commercial loans made by government approved lenders. The Federal Government backs 75% of the loan, making this a low-risk option for the lender.

The terms and conditions, particularly for child care center applicants needing a building with real estate, are highly attractive, with full amortization and without expensive annual reviews. For child care real estate projects, the terms can be as low as 10% down with up to 25 years to repay. Most conventional lenders do not offer this.

Applicants must be legal residents of the United States, and the business applying for the loan must be a facility 51% or more owner-occupied. It must be a for-profit business. The Applicants need a solid credit record, with no arrest reports and be able to provide collateral backup if the business fails and the loan payments cannot be met. Collateral backup may be the building or buildings to be purchased, if the appraisal comes in high.

To qualify, applicants generally need to be willing to make a 10% to 30% investment. Sometimes a seller will be willing to hold paper on part of the down payment cost, if the applicant cannot come up with the required amount. This can be up to 50% of the down payment required, and the seller loan is standby. Meaning he or she will be repaid, with interest, only when the buyer pays off the SBA loan.

A solid, formal business plan is required. The business plan is a blueprint or road map for a business. A thoroughly researched and well thought out plan can clarify the applicant's goals, and focus energy on a step by step plan. An important note is that if you seek a follow-on loan for further business expansion, the on-file business plan, if it has been adhered to, serves as a major credential and makes securing the follow-on loan much easier.

The Lending limit, under the SBA 7a program is \$2,000,000.

Here are the documents needed:

- 1: Resumes of all persons that will be 20% or more owners and staff members that will be retained.
- 2: Current owner copies of business tax filings for the past three years. This is not applicable if the building is vacant.
- 3: Profit and loss statements for each month of this year, through last month. Again, not applicable if the building is vacant.
- 4: Balance sheet. Not applicable if the building is vacant.
- 5: Photos of all interior rooms, all four sides of the building, and up and down the street.
- 6: Copy of facilities last tax bill plus exact location and Mapquest.com map.
- 7: Names of all teachers, if presently an operating child care center. Otherwise resumes of proposed teachers.
- 8: Names and rates per student, if presently a child care center. Otherwise please state the number of students legally allowed.
- 9: Rate schedule.

- 10: Copy of the current licenses if presently an operating child care center. Otherwise the applicant must file for a fictitious name and occupational license with the county.
- 11: Proof that the buyer is licensed or has applied for a license.
- 12: Floor plan showing all emergency exits.
- 13: Food price lists.
- 14: Formal business plan. This includes: Financial spread sheets by month for year one, by quarter for years 2 and 3. These show all income, all expenses and the amount of money available each month to service the loan.
- 15: Copy of the last environmental survey report, if recently done.
- 16: Names, addresses, phone and fax and e-mail numbers of the Sellers Attorney and Accountant.
- 17: Name Attorney representing the Applicant.
- 18: Very important..... the property will have to be appraised, unless there is a recent MAI appraisal, the applicant will have to pay for this, only the bank or lender will order it, you cannot. No appraisal will be ordered until the bank issues a proposal letter showing the terms and conditions, and cost statements provided to the buyer.
- 19: Detailed description of how loan money will be used (use of proceeds).
- 20: Listing of collateral that can be used if the business fails (mandatory).
- 21: Copies of current brochures, any advertising material that the Child Care Center uses. If the facility is not currently used as a child care center, explain how you will advertise and promote the business.

For further information contact:

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