



# Life Insurance for SBA Loans

This guide will explore the importance, benefits, and options available for life insurance tailored specifically for SBA business loans.

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# Life Insurance for SBA Loans

## Why do lenders require life insurance for SBA loans?

Your lender may require you to have life insurance before closing on your loan because it protects everyone involved if you (or a business partner) pass away. While this is a circumstance that no one wants to imagine, it's a reality in small business lending. Many small businesses are owned and operated by one owner or partnership. If the sole owner or a business partner passes away, it may mean that the business will no longer be in operation.

Life insurance for SBA loans and other loans not only protects your lender's interest, it protects your family from taking on your outstanding business loan. Instead, the life insurance policy will pay off the loan.



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# Life Insurance for SBA Loans

When you're applying for alternative financing like an **SBA** loan, you may need a life insurance policy before your loan can close. Many small business owners are surprised when this requirement comes up, and it can potentially delay your loan application if you're not ready for it, but it's an important part of the SBA lending process. Explore why you'll need life insurance for SBA loans, what you'll need to do to meet the requirement, and more.

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# Life Insurance for SBA Loans

## Two types of SBA loans:

- An **SBA 7(a)** loan is a popular Small Business Administration (SBA) loan program that provides small businesses with access to affordable capital, with **loan amounts ranging from \$200,000 to \$5 million and repayment terms up to 25 years**, depending on the asset being financed.
- An **SBA 504 loan**, offered through Certified Development Companies (CDCs), **provides long-term, fixed-rate financing** for small businesses to purchase or develop major fixed assets like real estate, buildings, and equipment, with a **typical financing structure of 50% from a bank, 40% from the SBA, and 10% from the borrower**.



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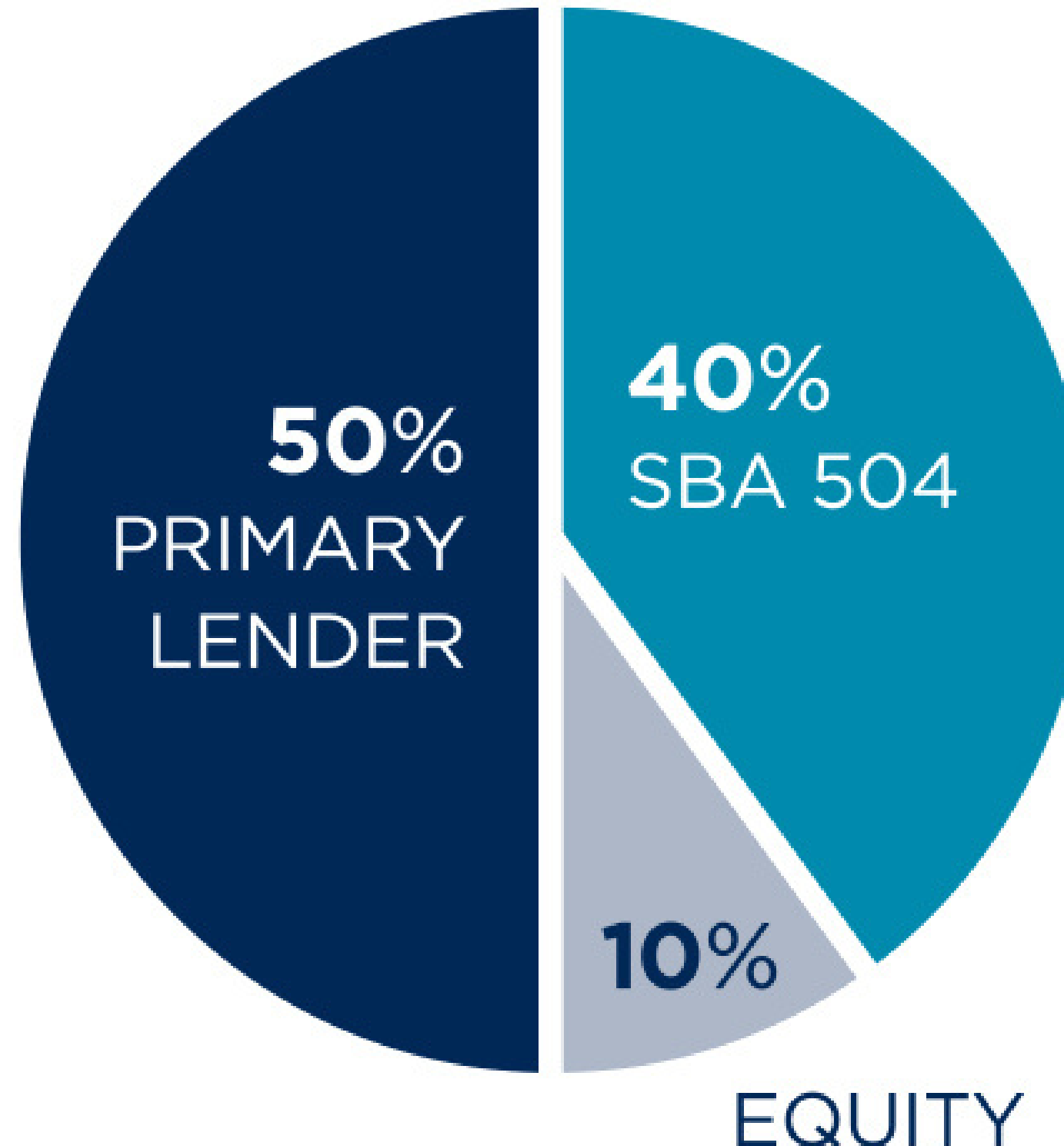
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# Main Differences

| SBA 7(a)  | SBA 504   |
|---|---|
| Can be used for working capital, refinancing business debt, expanding business, new construction, and equipment purchasing. | Can be used for purchasing new buildings or land, purchasing equipment, remodeling existing building, or improving grounds. |
| Available for all U.S. for profit small businesses  | Available for small businesses with net income below \$5 million and assets below \$15 million                              |
| Variable loan terms   | 10yr, 20yr, and 25yr terms  |
| \$5 million limit, up to 85% backed by SBA  | No limit by SBA, 40% financed by CDC, 50% by financial institution, must create 1 job per \$65K borrowed                    |





## Life Insurance for SBA Loans

### When do you need life insurance for an SBA loan?

Every small business loan is different, so there's no blanket answer for when life insurance will be required for your loan. Here are some general guidelines regarding life insurance for SBA loans to help you get a better sense of this requirement:

- An **SBA 7(a)** loan **typically requires life insurance for the full loan amount.** However, in certain cases, the life insurance requirement may be reduced or waived if you've pledged significant collateral or have a succession plan in place to continue operations.
- For an **SBA 504** loan, **life insurance is typically only required if your collateral doesn't fully cover the loan.** In some SBA 504 loan deals, the property or equipment you're purchasing with the loan is enough.



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# Life Insurance for SBA Loans

Should you use an existing life insurance policy or take out a new one?

If you already have a life insurance policy (and your insurer allows it), you can **assign part of your policy as collateral** coverage. You could also take out a new policy that includes your lender as an assignee on the policy.

With a term life insurance policy, your lender may require that the **term of the policy matches the term of the loan** to ensure full coverage throughout the life of the loan.

If your business has multiple owners who are active in its operations, then the **assignment can be split evenly**. For example, if two active owners apply for a \$1 million small business loan, then each owner would only need to assign \$500,000 of their individual life insurance policies. If you're the only one that's active in the business's operations, then you'll need to assign the entire \$1 million to your lender.

If your business can continue to run even if you (or your business partner) pass away, then the life insurance requirement may be waived. **This can only be done at the SBA's or your lender's discretion.**



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# Life Insurance for SBA Loans

## How to keep your loan process on track when life insurance is required:

When you're applying for a small business loan, ask your lender if life insurance is required as soon as you get started with the process. If it is, ask for the specifics, such as the amount that will need to be assigned. You should also:

- **Determine whether you'll use an assignment from an existing policy or take out a new one.** Get either process started right away with an insurer of your choice.
- Reach out to your insurance provider to make sure assigning an existing policy (if you have one) is possible based on information from your lender's closing attorney.



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# Life Insurance for SBA Loans

## How to keep your loan process on track when life insurance is required (cont.):

Setting up a new life insurance policy can take some time, so you should **start it early in the application process**. Keep in mind that your insurer may require a doctor's appointment, which can take time to complete (and if multiple owners need appointments, this can take even longer), so give yourself as much time as possible.

Whether it's a new or existing policy, work with your insurance provider to complete a collateral-assignment agreement before the loan closing.



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# Life Insurance for SBA Loans

## Extra protection for your lender and your family.

The life insurance requirement for SBA loans and other financing options gives you, your lender, and your family an extra layer of financial protection and peace of mind.



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# Life insurance policies for business owners.

## Conclusion

Life insurance is not just a safety net; it's a strategic tool for ensuring the longevity and stability of your business. Don't wait for a crisis to strike. Act now to secure the right life insurance policy, protect your business, and provide for your loved ones. Contact a financial advisor to explore your options and take the following proactive step toward safeguarding your future.



# Why BusinessBridge Insurance?

BusinessBridge Insurance and Investments operates under World Financial Group and TransAmerica, which gives us access to 100 A+ rated insurance firms. This strength in selection allows us to find the best insurance products tailored to fit you and your unique business.

BusinessBridge Insurance and Investments is also a partner with DealTeam USA, a top industry leader in business acquisitions. You will have access to the top insurance products and professionals to help you every step of the way.



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