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Small Business Interest Rates
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You hear a lot about interest rates in the media, but it can be confusing which ones to pay attention to.

There is the Prime Rate, Treasury rates, the Federal Funds rate. 30-Day LIBOR, mortgage rates, and so on. What does it mean for you and your small to medium sized business?

Let's start with the Prime Rate, the popular index used for short-term loans and lines of credit. It's relevant to you, even if you can't borrow at Prime. **Today, Prime is 3.50%.** The stagnant and low rate environment since the Great Recession held Prime at 3.25% without a change for a record 8 years before last year's .25% increase.

Banks will tell you that Prime is only offered to their strongest clients, but in truth **the strongest businesses borrow at short-term rates less than Prime**. Another tier of businesses in good financial condition but without the might of those borrowing at less than Prime can borrow at the Prime rate.

Beyond that, there are several tiers for businesses, depending on their size and their individual risk profile, that are offered rates from Prime + .50% all the way to Prime + 3.50%. A wide range to be sure, but currently most businesses are borrowing short-term at rates between 3.50%-4.50% (Prime even to Prime + 1.00%).

You should watch the Prime Rate even if your business doesn't have any debt. It will inform you about the demand for money, inflation expectations, and economic conditions. If Prime were to rise to 5.0% in the next 18 months, from 3.5% today, it could mean there are inflationary pressures the Fed is trying to gain control of, or that economic growth became much more robust and the demand for money had increased significantly from where it is today. Reasons why will be important to know for your business.

Another short-term rate to be aware of is 30-Day LIBOR. Larger private businesses will often borrow using this as the index. 30-Day Libor is currently just .52%. The stronger private businesses offered this index can get their margin to 1.75%-2.00% over 30-Day Libor, resulting in short term rates of 2.0%-2.5% today.

There are a couple of key long-term rates to watch as well: the 5-Year Treasury and the 10-Year Treasury. They have a direct bearing on the rate our businesses can borrow long term**. Currently, the 5-Year Treasury rate is 1.14% (10/3/16), having started the year at 1.75%.** This is significant, as businesses locking in rates for 5 years today should be seeing at least a .50% improvement from the 5-year rates quoted at the beginning of the year. A 5-year rate of 5.0% in January of 2016 should be quoted at 4.5% or better today.

A similar situation exists with **the 10-Year Treasury; it began the year at 2.30%, and it is down to 1.60% today (10/3/16).** This rate serves as a common index for banks when lending for periods beyond 5 years, typically on commercial real estate deals.

For the clients we serve, there is mostly a flat yield curve on their business loans, meaning there is a narrow difference between their short-term rate and their long-term rate. Most businesses are borrowing short term at rates between 3.5% - 5.00%, depending on their strength and what can be negotiated.

We are seeing clients get 3 year fixed rate offers at times below 4.00%, but mostly in the 4.00%-4.25% range.

5-year rates range from 4.25%-5.50%, while 10 year rates, when available, are in the 5.50%-6.50% range with smaller banks, much less than that with the large banks if you pass all the credit hurdles. Banks are usually looking for a margin of 3.00% or more over the corresponding Treasury rate on long-term rates.

The SBA is partnering with banks to help a lot of businesses secure the financing they need. If you pursue a loan under their **"7A" program**, you can expect a **heavy upfront fee of 3% of the loan amount**, which can be financed long term, and **a floating rate between Prime + 2.25% and Prime + 2.75% (5.75%-6.25%).** Typically borrowers in this program do not have enough collateral to support the debt they need so they pay a higher rate as a higher risk.

The other popular **SBA loan program, the 504**, allows businesses to lock in a 20-year rate and maturity on the real estate portion of their debt, along with long-term equipment assets. **The 20-year rate today is just 4.00% under this program,** but that applies to the 40% of the project funded by the SBA. Your bank partner in the deal funds the other 50% of the project (you provide the last 10%), and they will likely offer a comparable rate, but fix it for 5-year intervals at a time.

We recommend to clients that they move quickly to fix the interest rate on their long-term debt for as long as possible. Rate increases might not be around the corner, but often when they arrive it is without much notice, and they can rise quickly. Better to avoid this uncertainty and pay perhaps a small premium to achieve predictability for financing costs at historically low rates.