

The Family Business

Erin Feher | October 19, 2017

Buyers: Erin Feher and Danny Montoya

Bought: Mixed-use building in the Outer Richmond

Asking: \$1.19M

Final: \$1.15M

Realtor: Carol Koffel, Vanguard



On our first date, over hot chocolate at Ritual Roasters in the Mission, my now-husband Danny and I bonded over (among other things) our mutual goal of one day owning a home in San Francisco. He was a first-grade teacher who moonlighted as a DJ. I was a waitress and journalism student at San Francisco State. Considering our career choices, the odds of our becoming homeowners weren't necessarily in our favor. But we were diligent savers, and my parents offered to kick in to help cover closing costs, so two years into our courtship we were able to put 10 percent down on a 500-square-foot condo in the Tenderloin priced at \$427,500. This was 2007 and the market was just about to take a nose dive, but we weren't looking for a hot investment. We were looking for a home. By the time we were finally ready to move on, 10 years and two kids later, the value had gone back up and the amount we owed had inched down. We figured we could sell it and pocket about \$250,000 cash to put down on a new place.

Of course, we were still a journalist and a teacher, and our income didn't qualify us for a home loan above \$800,000. We couldn't get much more house than we already had for that amount in San Francisco, where we were dead set on staying; plus, the monthly payment on that kind of loan would have left us strapped. But we didn't really see ourselves in a traditional single-family home anyway. Our dream was a mixed-use building, with a residence above a commercial space. We had started our own business in the Mission two years back, a woodworking studio for kids called the Butterfly Joint. Danny ran it shrewdly (i.e., he did every single thing himself, from building it out to designing the website to teaching all the classes), and so despite the \$5,100 commercial rent, it was making money. If we added that rental income to our mortgage payment, our monthly property expenses totaled \$7,500. For that kind of outlay, hypothetically we could have bought something in the \$1.4 million range. But then it was back to the problem of finding someone to lend us that much money.

A friend of ours, who owned two bars in the city, told us she had taken out a Small Business Administration loan to open her second location. A few Google searches led us to a specific type of SBA loan called a 504, which allows businesses like ours to buy property and requires only a 10 percent down payment. Another Google search led us to California Bank & Trust, which makes these types of loans. Danny filled out the "contact us" form, and Matt Hine, vice president at the bank, called him back almost immediately. Over the next couple weeks, and through a flurry of emails and phone calls with Hine and our realtor, Carol Koffel of Vanguard, we were preapproved for a loan of up to \$1.5 million.

But savvy sellers know that SBA loans are much more complicated and take longer to fund (that is, it takes longer for the money to actually materialize) than traditional home loans. In a world of all-cash

offers, what we were dangling at sellers wasn't particularly appealing. Plus, we needed to sell our condo before we could even come up with the down payment. We can only assume that this is why we lost out on the first three properties we bid on over the next six months. The high we were riding when we were approved for the loan began to wane. But we were able to erase one big black mark from our offer, thanks to my parents.

I'd never been privy to their financial situation beyond what I could piece together: A social worker and a handyman who bought their home in a Cleveland suburb for under \$40,000 in the late 1970s, they were notoriously thrifty, much to my teenage chagrin. But they retired comfortably at 65 and had set up college savings accounts for my brother and me that would cover four years at state universities. And when I needed a 90-day loan of \$210,000 to buy a mixed-use building in San Francisco, they gave it to me. The loan would allow us to live in our condo until we had a new place to live.

We found that place about six months into our search. Just four blocks from the Pacific Ocean and one block from Golden Gate Park, it had a huge commercial space that the owners, ballroom dance enthusiasts, had hung with half a dozen chandeliers and used as a private dance hall. There was a 550-squarefoot apartment above. We offered \$1.1 million and included a heartfelt letter and a picture of our family. The owners countered with \$1.15 million, indicating that they had another offer but really loved our story and wanted us to have the place. We accepted, finding out later that they had chosen us over a higher, all-cash offer. Because they are amazing.

Our escrow was 63 days long, there were inspections (a requirement of an SBA loan), and the paperwork was intense. But on August 3 of this year, we got our keys. A week later, my 69-year-old dad flew out from Cleveland with a collection of drywall knives in his suitcase and spent the next two months renovating the upstairs unit with us. On October 9, we held our first (sold-out) camp at the new location of the Butterfly Joint. Our baby can nap in his crib upstairs and our daughter and her friends can play in the backyard while Danny works in the shop. And I can see a sliver of the Pacific from my side of the bed. If only those two lovesick kids at Ritual could see us now.

What Is an SBA Loan and How Do You Nab One?

What it is: The Small Business Administration is a federal agency that was created to support entrepreneurs and small businesses. With an SBA loan, the bank lends the money but the government guarantees it - or ensures that the bank will be repaid.

How to get it: To obtain an SBA loan, you must own a small business (or have a plan to start one) and be able to provide profit and loss (P&L) statements to prove the business is sound. There are various types of SBA loans for all sorts of business needs, from starting a business to refinancing to purchasing real estate or equipment. Speak to a lender at a bank, such as California Bank & Trust, that services these types of loans.

Good to know: For a 504 SBA like the one Feher and her husband received, the business must occupy 51 percent of the space to qualify. Interest rates on the loan will be higher than on a traditional home loan. At the current interest rate, that's in the 5 percent range; \$5 million is the maximum lending amount.

<http://bit.ly/2iFcFYD>