

## Small Business

# How to ... Get an SBA loan

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If your application is not quite strong enough to secure a business loan through traditional channels, you might be able to get one that is guaranteed by the U.S. Small Business Administration.

The SBA exists to stimulate and foster economic development by helping new businesses get started and by helping established ones grow. One of the SBA's programs is to guarantee a certain percentage of a loan for eligible businesses.

The SBA does not itself lend money to small businesses. Rather, businesses must apply for an SBA-backed loan through a bank or other lender that participates in the SBA program. The SBA simply guarantees up to 85 percent of the loan (for loans of up to \$150,000, or up to 75 percent for loans greater than that amount) in case the borrower defaults. The lender, who assumes the remaining percentage of the risk, makes the decision about whether it will grant the loan to the borrower.

SBA-backed loans typically have longer terms than other types of loans, which translates to lower monthly pay-

ments for growing businesses. However, they also have fees, and since you're dealing with the government, the application process typically takes longer and requires more paperwork than it does with a traditional loan.

The SBA's most popular loan type is the 7(a), a broad product that can be used by most business types for a wide range of purposes, such as real estate purchases, working capital, equipment and furniture purchases and debt refinancing (under certain conditions). It is commonly used to start a new business or to expand or acquire an existing one.

The maximum 7(a) loan amount is \$2 million, with the SBA guaranteeing \$1.5 million. The maximum loan maturity is 25 years for real estate or equipment, or generally seven years (but sometimes 10 years) for working capital. When the loan will be used for several purposes, the maximum maturity can be a weighted average of those maturities.

Most business types are eligible for an SBA loan. There are size limits, however, which vary from industry to industry. Your business cannot be owned or oper-

ated by a larger company, nor can it be the biggest company in its field of business. Other requirements are that your business must operate for profit; it must be engaged in, or plan to, do business in the United States or its possessions; have reasonable owner equity to invest; and use alternative financial resources, including personal income, first.

In addition to meeting SBA requirements you must meet the lender's requirements, since the lender will be making the final decision. As with any loan, you must demonstrate an ability to repay the loan from the cash flow in your business. In addition, good character, management capability and collateral will be considered. All owners of 20 percent or more must personally guarantee an SBA-backed loan.

If your bank participates in the SBA program, ask your contact there about business loans. If you have a good relationship with your bank, it may be more willing to work with you on a loan than a lender who doesn't know you.

Before you approach a lender, you might want to take advantage of the SBA's Loan Prequalification Program.

In this program, an SBA-designated intermediary reviews loan applications for \$250,000 or less, works with the business owner to strengthen the application when necessary and may sanction the application before it is taken to a lender for consideration.

For more information about SBA programs and loans, visit [www.sba.gov](http://www.sba.gov) or call (800) U-ASK-SBA.

### The Checklist

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