



U.S. Small Business
Administration

SBA Loan Clinic



What is SBA?

- Federal Agency created in 1953 to promote small business in our domestic economy.

- **Mission Statement**

Aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns.

How We Assist Small Business

- Business Development & Counseling
- Financial Assistance
- Procurement Assistance
- Office of Advocacy
- Disaster Assistance

[COVID-19 Economic Injury Disaster Loan \(sba.gov\)](https://sba.gov)



Sources of Business Capital

- Raising capital is a foundation of business activity
- Sources include:
 - Owner resources including savings, Retirement, Insurance
 - Friends and relatives
 - Banks, Credit Unions, and non-bank lenders

Sources of Business Capital

- Alternatives:
 - Advertising
 - Credit cards
 - Life insurance
 - Money brokers ex. (online brokers/Lenders: including SBA Lender Match)
 - Crowd Funding, merchant credit, non-regulated lending, Angels, Equity

Alternative Sources

- These sources are generally more costly:

Asset Based Lending: lending to business using assets not normally used in other loans. Typically, these loans are tied to inventory, accounts receivable, machinery and equipment

- Factoring: a financial transaction whereby a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount.
- “Hard Money” - a specific type of asset-based loan financing through which a borrower receives funds secured by the value of a parcel of real estate

Borrowing Money

- What you should know up front...
 - There is no such thing as 100% SBA start up financing
 - There are no SBA grants to help you start a for-profit small business
 - Your credit history is very important
 - A lender will require a personal guaranty from you and potentially your spouse – they may even require a secured personal guaranty

Credit Factors

- Lender will apply credit factors to determine if you can repay a loan
- Very important that you know what they are and how they are measured
 - Factors include **equity investment, repayment ability, working capital, collateral, resource or management ability, and credit history**

Credit Scoring

- Algorithm decides if you are credit worthy based on your credit history
- Used by lenders in the consumer and mortgage finance industries
- Used as one credit factor in business lending

The image features the numbers 680 in a large, bold, 3D font. The numbers are primarily yellow with a gradient to orange and have a dark orange shadow. They are positioned in the upper half of the slide.

**NOTE: NATIONAL LENDERS THAT USE COMPUTER CREDIT SCORED
LENDING GENERALLY HAVE HIGHER SCORE REQUIREMENTS**

Credit Score Chart & Range

760-850 **Excellent**

700-759 **Very Good**

660-699 **Good**

620-659 **Fair**

580-619 **Poor**

500-579 **Very Poor**

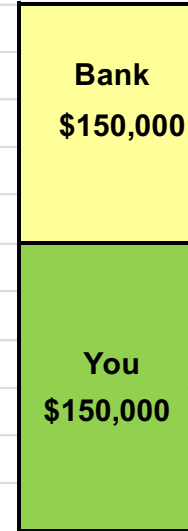
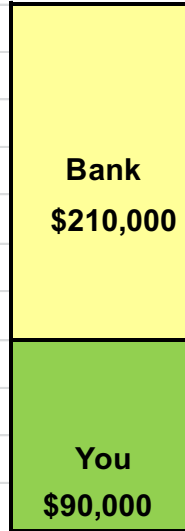
Credit Score Breakdown



Equity Investment

TYPICAL \$300,000 SMALL BUSINESS LOAN

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%



Expect to put more into your business in higher risk industries

Equity Requirements range from 10% to 50% with most around 20%



Low Risk
Lower fees
Lower rates
Less Limitations
Less paperwork



High Risk
Higher fees
Higher rates
More Limitations
More paperwork

Loan Repayment

- The **most important** credit factor
- All SBA lenders are cash flow lenders and do not lend on collateral alone

Loan Repayment

-The operating cash flow of the business defined as earnings before interest, taxes, depreciation and amortization (EBITDA)

- For Loans of \$350,000 or Less the lender's credit memo must include:**

the small business applicants global cash flow coverage is equal to or exceeds 1:1 on either a historical or projected cash flow basis.

- For Loans Over \$350,000**

The small business applicant's debt service coverage ratio (OCF/DS) must be 1.15 to 1 or greater on a historical and/or projected basis .

Working Capital

- Working Capital is defined as Current Assets less Current Liabilities
- Critical test done by lenders
- Compares existing W/C to industry standard
- Includes Cash Flow Cycle Test

Collateral

Lenders use traditional business assets to protect their loans including personal guarantees.

- All collateral will be appraised for liquidation value and you must maintain insurance to protect the collateral.
- With today's economy, most lenders will require you to pledge additional collateral such as your personal residence.

Collateral %

Personal Residence	75 to 80%
Commercial Property	65 to 85%
Leasehold Improvements	0 to 20%
Furniture & Fixtures	25 to 50%
Machinery & Equipment	10 to 50%
Specialized Equipment	10 to 75%
Inventory, Accounts Receivable	0 to 10%
Vacant or bare land	60 to 65%
Notes Receivable, Prototype Equipment	0%

Management Ability

- Shown in your resumes-or through past cash management
- Industry experience may not be enough
- Have to show the ability to manage **this small business**
- Outside training can mitigate those with no experience

Tips from a Banker

- Be prepared
- Know exactly how much you need and what it is for
- Know your options
- Prepare a good loan proposal or business plan – this is critical.
- Proofread what you prepare
- Learn from your mistakes

SBA LOANS

Why SBA Guaranteed Loans?

- SBA guaranty allows lenders to consider small businesses when typically prohibited
- SBA guaranty allows lenders to offer you better credit terms such as fully amortized loans (**no balloon payments**)
- SBA loans have the interest rate capped by law and most typical commercial loan fees are prohibited

Basics

- An “SBA Loan” is a typical commercial or business loan with an SBA loan guaranty, provided by a participant lender
- General characteristics:
 - Longer terms
 - Competitive interest rates
 - **For every one dollar we guaranty, about 30 cents goes to “NEW” small businesses.**

- Specific SBA Loan Programs
 - **Standard 7(a) loan** (include Express products, Caplines. (Lines of Credit under Express and Caplines)
 - **Special purpose loans** (include Export, IT, Energy Conservation, & ESOP)
 - **Microloans**
 - **CDC 504 loans**

7(a) Loan Program

- Loans to \$5,000,000
- SBA guarantees 75% of loan amount or \$3,750,000
- Money can be used for most business purposes.
- Ideal for small businesses wanting to start or grow their business.
- Term flexibility

General Eligibility

- Must meet basic SBA criteria:
 1. Size standards for a “small” business
 2. Type of business
 3. Loan purpose
 4. Be a “For Profit” business
- **Must meet the individual lenders credit requirements to start with**

Types of Businesses

- These are Not Eligible

- Religious Teaching
- Sexual Materials
- Speculation
- Gambling
- Life Insurance
- Incarcerated, on probation or parole, or indicted for felony or moral crime



- Non-Profits
- Lenders
- Passive Owned Real Estate
- Foreign Business
- Pyramid Sales
- Defaulted on a Federal Loan resulting in a loss

Use of Loan Proceeds

Eligible

- Working Capital
- Inventory
- Machinery & Equipment
- Land & Building
- Debt Refinancing
- Change of Ownership

Ineligible

- Real Estate held for investment
- Purchase a portion of the business
- Payment to Principals
- Delinquent Payroll Taxes

Maturities

- Loan maturities depend on the useful life of the assets being financed and the borrower's ability to repay, subject to these maximums:
 - Working Capital up to 7 – 10 years
 - Machinery & Equipment up to 10 – 25 years
 - Real property/biz purchase up to 25 years

Rates

- May be **fixed or variable**
- Variable interest rate is negotiated with the lender but is capped at 3 % over prime rate. (caps can be higher for smaller loan amounts)
- Current rate for loans are Prime Rate plus 2 or 3 percentage points, depending on risk and size of loan. Fixed rates are published monthly.
- Understand the lending contract before you sign

Costs and Fees

SBA Fees

- SBA loans have a Guaranty Fee that can be included in the loan amount.
- Fees range from 2% to 3 3/4% of the guaranteed portion. (**Less than 500K Waived through 9/30/23**)
- Prepayment Penalty is applicable to longer term loans

Bank Fees

- Origination, commitment, bonus, broker, commission, or referral fees are **not** allowed.
- Servicing or Packaging fees are allowable.
- Late payments fees are allowed.

Credit Application

- Required for any loan. (Similar to a mortgage loan but with additional requirements)
- Must provide business and personal financial information.
- The amount of required information depends on the loan type, risk, lender limitations, and the size of the loan.
- Typical time to process varies greatly from a couple of weeks to many months for construction projects.

Loan Package Contents

Your lender will provide the exact checklist

They usually require:

- Tax Returns and Financial Statements
- Legal Documents
- Collateral Documents
- Business and Franchise Agreements
- Notes, Mortgages and Leases
- Budgets and Pro Formas
- Resumes, Histories and other personal information.
- Business Plan
- A few SBA specific forms.

SBA Lenders

- Which lender should I consider?
 - Consider your existing banking relationship if they meet your lending needs **and participate with SBA**.
 - Look for lenders that offer, with few limitations, start-up funds to small businesses if you are a start-up.
 - Do NOT accept any loan if it does not meet your need, or you do not understand the terms!

SBA Lenders

- Before You Approach a Lender
 - Be prepared! Make a list of the right questions to ask.
 - See the RIGHT person.
 - Make sure you have either a **well-prepared** Loan Proposal (existing businesses) or Business Plan (start-ups)

Other SBA Programs & Services

Microloans

- Loans up to \$50,000 – most in the \$3,000 to \$7,000 range.
- Intermediary sets the credit and collateral standards.
- Most loans will require collateral.
- Technical assistance training is usually required.
- Great source for small start-ups, people with less than perfect credit or with little or no collateral for a loan.

504 Loans

- Long term, fixed asset financing for larger projects in the \$500,000 to \$15,000,000 range.
- Offered by non-profit certified development companies.
- Most loans are 25 years with fixed rates.
- Projects are usually financed by a 3rd party lender covering 50% of the project total, 504 loan covering 40% and the Borrower injecting as little as 10%. (some transactions require more)

Getting Additional Information or Help

4 PARTS OF A SUCCESSFUL SBA LOAN

1. Borrower
2. Bank/Lender
3. SBA
4. Small Business Counselor

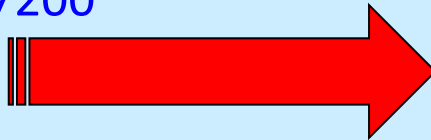


Resource Partners

- SCORE
- Small Business Development Centers
- Women's Business Centers
- VBOC
- SBA Microlenders
- SBA Participating Lenders
- Libraries, Chambers, Universities, Community Colleges, non-profits, Incubators, State and Local Governments including our host **Arizona Commerce Authority**

Free online Training

- Arizona District Office
(602) 745-7200
- SBA On-Line
www.sba.gov
- Local Information:
www.sba.gov/az
- SBA's On-Line Training School
<https://www.sba.gov/learning-center>



https://www.sba.gov/learning-center

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Public Courses for America Program-Project Managers... webTA Log In Craig Jordan(SBA) - Prefere... certify.SBA Fresno CLSC Loan Center ... Office of Field Operations ... Office of Field Operations ... Home SBA Brand Guide

Courses designed to help you research, plan, and turn your ideas into a great business.

How to write a business plan

Learn the importance of business planning, the components of a business plan, and see sample plans and resources.

[View course](#)

Legal requirements

An overview of legal requirements for small businesses and how they can impact you.

[View course](#)

Financing options

An introduction to financing options for your small business.

[View course](#)

Young entrepreneurs

Introduces young entrepreneurs to the basics of creating and financing a successful business.

[View course](#)

Feedback

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Local Contacts

Arizona District Office

PHONE (602) 745-7200

WEB www.sba.gov/az

Resource Partners

[Get local assistance \(sba.gov\)](http://sba.gov)

What Do These Businesses Have in Common?



- Staples
- Federal Express
- Sun Tire
- Nike
- Apple Computers
- Outback Restaurants
- Intel Corporation
- Panera Bread

**They were all SBA customers
when they started!**

Questions

