



# The ABCs of SBA Lending

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In the current economic environment, many small businesses are facing tremendous challenges. As a result, they're putting their dreams on hold and halting projects as they ride out the economic storm.

Recent changes in the **Small Business Administration** (SBA) 7(a) loan program means many businesses might now have more opportunities to obtain financing. The new program enhancements could help business owners continue to manage and grow their companies and get their financial dreams back on track.

SBA is a federal program dedicated to helping small businesses with loans made available through local lending institutions. Recently, the SBA announced it is:

- Temporarily waiving 7(a) loan guaranty fees
- Temporarily increasing the 7(a) loan guaranty to 90 percent from the previous 75 to 85 percent level on certain loans

These changes provide an economic incentive for small businesses to obtain a loan, and they allow SBA lenders to offer an immediate cost savings to businesses. For example, a customer approved for a \$238,000 7(a) loan could save up to \$5,400 in fees.

The new provisions add to the already substantial benefits small businesses often can realize when they choose an SBA 7(a) loan to buy real estate, acquire a new business or franchise, purchase equipment or increase working capital. Those benefits include:

- Longer maturities than most conventional bank loans
- Lower down payment
- Lower monthly payment

As with any loan, the interest rate and monthly payment for an SBA loan will vary, depending on the transaction. Also, the amount of cash you'll need at closing will vary, depending on the type of loan you choose. Expenses such as closing fees and appraisals often can be included in the SBA financing package – a feature that appeals to many business owners.

Many SBA loans are made to acquire owner-occupied commercial real estate. Down-payments for these loans can be as low as 10 percent – much lower than for other types of financing, so less cash is required for closing. These loans provide other benefits over conventional loans, including:

- Terms of up to 25 years for real estate, with no balloon payments
- Shorter time-in-business requirements

Often a business will grow through the purchase of another company, additional inventory and new equipment. All of these can be financed with an SBA loan.

If you choose the right financial services company to help you, getting an SBA loan can be the easiest part of growing your business. First determine if the financial services company is a Preferred Lender. That's a designation from the SBA that empowers the company to handle all aspects of the loan process, from making its own credit decisions to funding the loan. Your file isn't sent to a government office for processing, instead, the SBA trusts the Preferred Lender to make the decision. (*Alabama companies should [contact the ASBDC for a current list of Preferred Lenders.](#)*)

Becoming an SBA Preferred Lender is based in part on a financial services company's ability to illustrate a long history of good judgment and a solid credit review process. The Preferred Lender designation is the SBA's way of saying that a specific lender is more qualified than others to make the right call. Since the Preferred Lender makes the decision on a loan application, your SBA loan is processed quickly and you get a decision within days.

Once you decide an SBA loan might be right for your business, what should you bring to the application interview? With an existing business, it's important to bring your financial history – the past three years of business and personal tax returns, cash flow projections, your current income statement and balance sheet and a personal financial statement. If you have a startup business, you should bring your business plan, along with your personal financial history.

Most financial services companies also require a detailed breakdown of project costs and how the funds will be used. Real estate and construction loans usually require more documentation than equipment and working capital loans.

There are many SBA lending products, so you'll want to work with a financial services adviser who is an SBA specialist and is familiar with the pros, cons and requirements of all SBA lending approaches. The specialist can help you determine the type and size of loan you need to meet your company's unique circumstances while ensuring your company has sufficient cash flow to support the proposed debt. (The [ASBDC has counselors throughout the state](#) that can help you determine which SBA lending program is the best fit for your company.)

Given today's incentives, this might be the right time to investigate the possibility of an SBA loan. You could find that an SBA loan is just the ticket to put your business plans into action and get your dreams back on track.

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New Mexico Business Weekly - by [Sondra Tye](#) Guest Columnist

*Sondra Tye is an SBA Lending - Business Development officer for Wells Fargo in New Mexico.*