Small Business Loans
Information Sheet

1. What are Small Business Loans:

Small businesses are supported by the US government agency, the Small Business Administration. These loans are made to make it easier for small businesses to acquire financing for a range of purposes, including as beginning a new company, growing an existing one, buying supplies or equipment, or paying off debt.

Small enterprises cannot obtain loans directly from the SBA. Instead, it lowers the risk for the lender and makes it simpler for small firms to get funding by offering a guarantee to banks and other lending institutions for a percentage of the loan amount. SBA loans are a fantastic option since they often offer better terms and cheaper interest rates than regular loans.

Working with an SBA-approved lender to explore your alternatives and decide whether this kind of financing is appropriate for your company is advised if you're interested in applying for an SBA Small Business Loan.

2. Rates:

The SBA sets guidelines for interest rates on loans made through its lending programs. The SBA does not set the interest rates for these loans, but rather provides a maximum limit that participating lenders may charge. The interest rates for SBA loans depend on several factors, including the lender, the size and maturity of the loan, and the creditworthiness of the borrower. They typically set the maximum interest rate for 7(a) loans at the prime rate* plus 2.25% to 4.75%, while the maximum interest rate for CDC/504 loans is typically set at the bond market rate** plus 2.5%.

**The prime rate changes every other day - check the rate here.*
***The Bond Market Rate changes every other day - check the actual rate here.*

3. **Types of loan:**

a. **The 7(a) loan program** is the SBA's most popular loan program and offers a flexible source of financing for small businesses. These loans can range from $50,000 to $5 million, with repayment terms of up to 25 years for real estate and up to 10 years for working capital. The interest rates on 7(a) loans are determined by the lender, but they must fall within the SBA's guidelines. The SBA also sets limits on fees charged by lenders and provides a maximum guarantee of up to 85% on loans of $150,000 or less and 75% on loans over $150,000.

Eligibility for 7(a) loans is based on a variety of factors, including the size of the business, its financial standing, and its use of funds. The SBA requires that small businesses be able to demonstrate a need for the loan and a plan for repayment. Additionally, the business must meet the SBA's size standards and be organized for profit.

The 7(a) loan program provides an important source of financing for small businesses, helping them to start, grow, and succeed. It can be a useful alternative for small business owners who may have difficulty securing traditional financing from banks or other lending institutions.

b. **The SBA 504 loan program** is designed to provide long-term, fixed-rate financing for small businesses to purchase or renovate commercial real estate and heavy equipment. The program offers up to $5.5 million in financing and requires a down payment of as little as 10% from the borrower. The financing is provided through a partnership between the SBA, a lender, and a Certified Development Company (CDC).

The CDC provides up to 40% of the total project cost, while the lender provides up to 50% of the total project cost, and the borrower provides the remaining 10% to 50% as a down payment. The SBA provides a guarantee on a portion of the loan to reduce the risk to the lender and lower the interest rate for the borrower.

Interest rates for SBA 504 loans are determined by the market and are typically fixed for the life of the loan. The terms of these loans can be up to 20 years for real estate and 10 years for equipment. The SBA 504 loan program is designed to be flexible and can be used for a variety of purposes, including the purchase of land, buildings, and equipment; the renovation or expansion of existing facilities; and the refinancing of existing debt under certain conditions.

In summary, the SBA 504 loan program provides long-term, fixed-rate financing for small businesses to purchase or renovate commercial real estate and heavy equipment, with lower down payment requirements and lower interest rates compared to conventional financing options.

c. **The SBA Microloan program** is designed to provide small, short-term loans to eligible small business owners who may not have access to traditional financing options. The program offers loans ranging from $500 to $50,000, with interest rates capped at a maximum of 8% for loans under $50,000 and 8.5% for loans over $50,000. The repayment term for these loans can range from 6 to 48 months.

The SBA Microloan program provides loans through intermediaries, such as nonprofit organizations and community-based lenders, who are responsible for underwriting the loans and providing technical assistance and business counseling to small business owners. The intermediaries receive funds from the SBA to make the loans, and the SBA provides a guarantee on a portion of the loans to reduce the risk to the intermediaries.

In addition to providing access to capital, the SBA Microloan program also provides business counseling and technical assistance to help small business owners succeed. This may include help with creating a business plan, understanding financial statements, marketing and sales strategies, and other business development needs.

The SBA Microloan program is an important resource for small businesses, as it provides access to capital and support services that can help businesses grow and succeed. The program is also beneficial for intermediaries, as it provides funding for them to make small business loans and provides the opportunity to serve the needs of their communities.

4. Steps to follow to apply for an SBA loan:

a. Determine eligibility: Ensure that your business meets the SBA's size standards and is for-profit.

- *You must be a for-profit small business, with 500 or fewer employees for most industries, or a special limit based on industry size standards.*
- *Your business must be based in the United States, or its territories.*
- *You must have a good credit history, or be able to demonstrate the ability to repay the loan.*
- *You must have tried to secure financing from other sources, such as a traditional bank, before seeking an SBA loan.*

- *Your business must operate for a legitimate purpose, and not be engaged in illegal activities.*

- *You must show that the loan is necessary for the ongoing success of your business.*

b. Choose a lender: Look for a participating SBA lender, either a bank or a non-bank lender, that offers the type of loan you need.

   - *https://www.sba.gov/partners/lenders/microloan-program/list-lenders*

c. Gather financial and other required documentation: This may include tax returns, business and personal financial statements, resumes of key personnel, and a business plan.

   - *Personal and Business Tax Returns: The most recent three years of personal and business tax returns for all owners with 20% or more ownership in the business.*

   - *Business Financial Statements: This includes a balance sheet, income statement, and cash flow statement for the past three years.*

   - *Business Plan: A comprehensive and well-written business plan outlining the company's history, current operations, and future plans.*

   - *Personal Financial Statement: A detailed statement of personal finances, including assets, liabilities, and net worth, for all owners with 20% or more ownership in the business.*

   - *Collateral: Collateral may be required to secure the loan. This could include assets such as real estate, equipment, or inventory.*

   - *Resumes: Resumes of all owners and key employees should be submitted, highlighting their relevant experience and education.*

   - *Business License and Legal Documents: Proof of business registration, articles of incorporation, and any other legal documents related to the business.*

   - *Other Supporting Documentation: This may include, but is not limited to, rent or lease agreements, proof of insurance, and vendor contracts.*

d. Complete the loan application: You can apply online, in-person, or by mail. The application process may include a review of your credit history and a discussion of your business plan and financial projections.

e. Wait for a decision: The lender will evaluate your loan application and determine whether to approve or deny the loan.

f. Provide additional documentation: If your loan is approved, the lender may require additional information and documentation to finalize the loan.

g. Close the loan: Once all necessary documentation is received, the loan can be closed and the funds disbursed.

Note: The exact process and requirements for an SBA loan may vary depending on the lender and the type of loan you are applying for.