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# Small Business Financing Options

## *SBA Loan Programs*

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Small businesses are often the equivalent of the small fish in a big sea; they are often overlooked. In this way, your efforts to attain financing may seem to be thwarted at every turn by lenders more interested in lending funds to larger businesses with rapid growth rates. Don't be disheartened, this is one obstacle that can be overcome with perseverance and knowledge of the options that are best suited to small businesses. The Small Business Association, or SBA, is a valuable resource to turn to for financial issues pertaining to your small business.

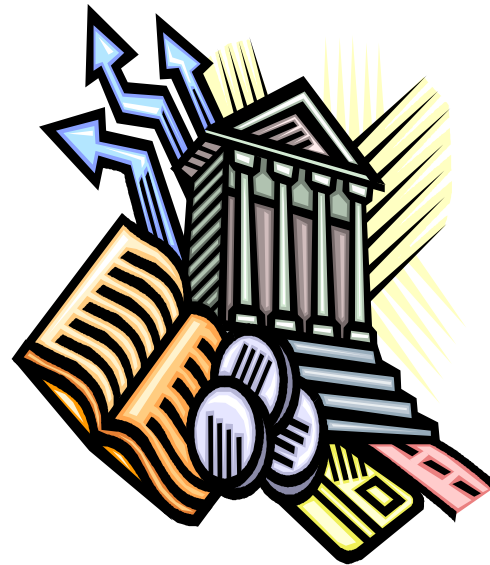
Your answer could possibly be found in an SBA loan. The Microloan program, Section 7(a) loan guarantee program, and the Section 504 program are options you will find once you venture into your local bank, as these programs are not processed directly through the SBA, but rather banks that participate in the SBA loan program.

### MicroLoan

Many small business owners have found the MicroLoan program to be incredibly beneficial to their business. A MicroLoan is ideal for entrepreneurs with poor credit history or who lack enough suitable collateral. This program will take varied and often odd forms of collateral, such as items of inventory, no matter what they might be. For example, if your company specializes in customized pencils, those pencils could be classified as a form of collateral.

Typically, those applying for the MicroLoan are businesses that employ

five or fewer employees and come from low-income or minority backgrounds. The amount of loan funds distributed differs greatly from the other two programs, maxing out at \$35,000. The slight downside to this program comes in the form of higher rates due to the elevated risk factor associated with the entrepreneur. On the other hand, it is a risk that could pay off further down the road, and the rates will still be less than those associated with credit cards.



### SBA 7(a)

SBA 7(a) loans make up the most popular small-business loan program funded by the government. This program has the resources and ability to make loans up to \$2 million. The purpose of such a loan is multi-faceted and can fit the needs of a variety of ventures from start-ups to existing businesses seeking to expand. The eligibility requirements of the applicant include their capacity to repay the funds from net cash flow,

collateral, as well as equity offered by the owner(s).

### SBA 504

The SBA 504 term loan is another well-known option offered by the SBA. The 504 loan provides long-term, fixed rate financing for investment in fixed assets. This particular program is driven by a purpose to somehow stimulate the economy. This would mean that the funds distributed must somehow benefit the economic system by creating new job opportunities or allowing existing employees to maintain their positions. The amount of loaned funds that can be procured from this program varies greatly.

Depending on the type of plan, size of the project, and its effect on the economy, the loan could range anywhere from \$200,000 to \$10 million. If you were looking at a long-term project, taking a deeper look into this program would be an intelligent decision. Take the time to read through the SBA's website and utilize the lending resources they've made available to you. This includes taking note of the nearest CDC, or Certified Development Company, who will work with you and an outside lenders network to compile the funds for your project.

These programs offer security to the private investor who lends the funds by guaranteeing a reimbursement of up to 85 percent of the outstanding loan

principal. This gives the lender a greater piece of mind that in the event that a borrower fails to meet their payments, the lender will not lose all funds. This encourages lenders to fund such loans as the risk is greatly reduced by such guarantees. In addition, the bank has a secondary market for the sale of the guaranteed portion of the loan, which is an attractive benefit.

This type of financing opens up a great deal of opportunity to small businesses that don't fit the average criteria for gaining a loan elsewhere. If a lender feels that the small business owner is lacking the proper collateral or cash flow projections to support a loan request, a loan program from the SBA becomes a viable option to consider. The guarantee offered by the SBA to the banks is translated into expanded lending capacity.

The next question to answer concerns your eligibility for an SBA loan guarantee. You must meet certain specified criteria before you even start to apply for the loan programs.

The criteria involves the following:

- Independently owned + operated
- Size of your business
- Type of business
- Be profit oriented
- Show proof of denial from a conventional lender

There are also a few additional requirements to attaining your SBA loan such as owner's equity, security for the loan, and possibly personal guarantees. Required equity would be, at a minimum, 25 percent equity investment of the total project cost. This provides

the SBA with a better sense that you are financially and personally invested in this venture and will not fold at the first sign of difficulty. The 25 percent owner's equity investment can be waived in certain cases, but to do this you must hone your negotiating skills and provide the SBA with another form of insurance. This insurance can come in the form of good credit, previous experience, or strong character. Highlight the positives you offer in order to place less emphasis on your weaker areas. In business you need to have a degree in selling yourself in order to sell your business.

SBA financing is also an avenue that offers longer term financing, another obstacle for many small businesses. Often times small business owners will find it difficult to secure a long term loan due to the risk involved with small business lending. SBA loans have the

bonus of being backed by the government, which can then offer an SBA loan for up to 10 years. This is a significant and valuable increase from the common timeframe of 3 to 5 years offered by more traditional lending institutions. Another plus comes in the form of capped interest rates which gives you a better idea of what you are getting into financially.

The resounding theme is most times there is always a way to get money in order to make money. You have to be willing to put the time and effort into researching your various options. As a small business owner, you should already have the SBA website added to your "favorites" file on your computer. It is a wonderful resource and will familiarize you with your options as well as adding to your body of business knowledge.

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**About the Author:**

Aaron Dyer is President of Dyer Consulting Group, a small business consulting firm that advises business owners on ways to grow their revenues and increase profitability through better strategic planning and financial management. For more information, and also to sign up for Aaron's future articles, visit [www.DyerConsultingGroup.com](http://www.DyerConsultingGroup.com)

