

SBA LOAN CONSIDERATION

As a small business owner, did you know there are various options available when it comes to SMALL BUSINESS LOANS? The Small Business Administration (SBA) is a federal agency that can assist small business owners to secure financing, especially when those business owners might have trouble meeting the strict requirements for a more traditional small business loan.

SBA Loans 101

The first thing to know about SBA loans? They aren't even actually "loans." Instead, the SBA sets the guidelines for the loan with partners (banks, other financial institutions, microlenders, and community organizations) and then partially guarantees that loan. The guarantee eliminates some of the risks for the banking partners, making the situation more likely to as "risky" lending bet on a business. Because of this, if a business owner has access to a traditional bank loan, they are not eligible for an SBA Loan.

There are two common types of SBA loans:

1. *The 7(a) Loan Program* – This is the most used loan in the SBA's loan programs. Business owners can use it to start or expand their businesses.

Fees

- Loans under \$150,000, the fee is set at zero percent.
- Loans of \$150,000 or more with a maturity of less than one year, the fee is set at 0.25 percent of the guaranteed portion of the loan.
- Loans between \$150,000-\$700,000, the fee is 3 percent of the guaranteed portion.
- Anything above 700,000, the fee is 3.5 percent. There is an additional .25 percent fee added to any loan above 1 million.

Interest

- The SBA interest rate for any loan is negotiated between the lender and the applicant. It is subject to SBA maximums and is comprised of two parts – a **base rate** and an allowable spread.

2. **Certified Development Company (CDC) 504 Loan** – Already established, growing businesses can apply for this loan to cover major fixed assets like land and buildings.

Fees

- Fees are approximately 3% and may be financed within the loan.

Interest

- Interest rates are at a rate above the current market rate for 5-year and 10-year US Treasury issues.

Pros and Cons of an SBA Loan

Pros

- Very Reasonable interest Rates
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- Long Repayment Terms
- Lowest Down Payments
- Can Help a Wide Range of Businesses
- Multiple Loan Programs

Cons

- Extensive Paperwork
- Prolonged Approval Time
- Strict Conditions for Approval
- May Require Collateral
- May Not be Able to Take on Another Loan

If you think an SBA loan might be the **right option** for your business, contact **BAM Consulting** to discuss the SBA loan requirements and the processes.