



SBA LOAN

BAM Entrepreneurial Center

ABSTRACT

SBA loans are typically low-cost, long-term loans eligible for small businesses. The SBA does not distribute these loans but guarantees a portion of each loan. Interested small business owners can apply for an SBA loan and be preferred SBA lenders.

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The SBA Loan

The Small Business Administration (SBA) helps obtain the necessary loan provided by the government's promise to commercial lenders. The process begins with an interactive partnership between the bank and the governmental agent, signified by a commitment to lend with a security guarantee. While the bank provides the loan, the promise involves repayment of 85% by the SBA securing the loan if the borrower neglects to fulfill the loan's obligation. The SBA guarantees the loan, and the bank is the lender, requiring all paperwork, application, and payments to process through the bank. At the end of the journey, the bank, the originator, will dispense the loan to the borrower.

Throughout the process, the relationship is between the bank and the SBA to enable funding. The connection through the process of obtaining financing is between the bank and the borrower. The SBA interaction is limited to reviewing the bank's loan application to ensure all credit requirements are achieved according to the loan policy that supports authorization. The evaluation certifies that SBA agrees to the loan, which enables the guarantee.

This summary of the SBA loan process; is intended to present an overview of the necessary steps required to obtain an SBA loan from a personal perspective.

The first requirement will consist of a business plan.

The development of a business plan consists of two types depending on the situation's needs. The purpose of a strategic business plan is to enable a comprehensive roadmap. Explain the relevant details to enable operations and the ability to grow the venture. The development establishes the business's critical components while illustrating why the SBA should fund the business. The necessary steps consist of;

A solid business plan guides the entrepreneur throughout each start-up stage, developing the business model and applying management methods. During each phase of advancement, the objective is to articulate an ideology that emphasizes the structure, operation, and means of growth while indicating the rationale for processing critical development components. The process helps with planning, funding, and soliciting general supplementary business partners or investors. The outcome should be a tool to establish an overview of the applied methods to operate or capture interest to invest.

The Strategic Business Model Plan Format (See BAM Consulting)

Developing a Strategic Business Plan empowers a diverse strategy to achieve multiple goals relevant to a robust business model. The process recognizes the importance of in-depth research, market interpretation, and feasibility analysis to determine viability. Much of the objectives are relevant to achieving marketing positioning, determining revenue streams, projecting the present value of cash inflows, and forecasting cash outflows to ensure a profitable start-up. The process

empowers the strategic trajectory applicable to the future, designating market positioning and determining vital and successful elements of the value proposition to obtain growth. The outcome of applying a Strategic Business Plan underlines the mitigation of risk to develop a clear path to market positioning.

[The Standard Business Plan Format \(Request a Mentor @ B²Hub\)](#)

The standard business plan provides a formatted structure that expresses a comprehensive, detail-oriented plan to investigate possible capital infusion from conventional sources. The plan is often developed conclusively to the industry, the local economic environment, and complexity. Use each section to explain the business specifically and relevant to the market space when using a standard business plan methodology.

[The Lean Startup Business Plan \(Review the Business Model Canvas Course\)](#)

The Lean Startup Business Plan is unusual when used to satisfy a business plan requirement. However, the process enables a special connection to the market regarding the ability to solve a problem, recognizing the pains and gains while providing a resolution to a sizeable market. The possibilities empower the business model's development to meet market requirements, introduce an innovative product/service, or establish the applied methods to formulate an efficient and effective model to grow revenue streams. The real benefit enables acknowledging the value proposition, building an expensive infrastructure, creating a significant customer relationship, and recognizing essential costs. The **Strategic Business Plan** incorporates the **Business Model Canvas** as a critical introduction while outlining the business plan's specific topics, direction, objectives, and goals.

[When Meeting with the Lender](#)

The objective of meeting with the lender is to discuss your needs and the SBA capabilities that apply to both short/long term goals. The discussion may include maximum interest rates, whether fixed or floating, collectively with any balloon payments and other concerns. There is no balloon payment on an SBA 7(a) loan and no prepayment penalty unless it is a 15-year loan, where you can be charged within the first three years if prepaid...questions to consider.

In most cases, the business plan will assist in conversation about the business itself when forming the banker's dialogue. However, other questions may include;

- What is the purpose of the loan, requiring a detailed answer?
- Be prepared to answer the management. Who will manage the business, and what level of experience gives the person the ability?

- What makes you believe your idea provides a competitive advantage? (what is the market missing?)
- How will the loan be used to facilitate the request? (Be specific and to the point - details are required).
- Do you have other sources of capital commitments, and describe the relevant terms associated?
- Is there “any” requirement to withdraw monies to ensure personal living expenses while maintaining business performance?
- Examining all possibilities may include a contingency plan in the event of unforeseen circumstances. What might be necessary is to incorporate a risk management plan if funding is inadequate.
- Once you decide to meet with the banker representing the SBA loan, it is good to assemble essential information that should be shared when considering a loan.

Personal Background

Along with the business plan, you may want to present your previous address, associated names used, details about your background, any criminal record on file, and professional and educational background, like a resume. Make sure to point out management skills, any business experience relevant to the development, and any outstanding loans.

Business Plan:

When applying for an SBA loan, a business plan is almost required together with a loan application. It is standard practice to include financial projections and profit/loss statements representing how revenues are transformed into the net income or net profit collectively with cash flow and balance sheet to report assets, liabilities, and equity.

Personal Credit Report:

It is common for a banker to obtain a borrower’s credit report during the application process. Before submitting a loan application, research your credit beforehand, and request a copy from the three major reporting bureaus (Experian, Equifax, and TransUnion). There is always a chance of blemishes or inaccuracies on the credit report. If there is, it may have detrimental effects and your opportunity for a loan. Examining the credit report allows for the opportunity to correct issues and apparent mishaps while enabling a funding foundation.

Business Credit Report:

If you are an existing business, be ready to provide a credit report collective with personal credit. The same holds about the company as it does with personal review and ensuring you have dissolved all issues before inquiring about a loan which is regularly required at the beginning of the process.

Income Tax Returns:

It is common practice to require 3-years of tax returns at most banks and certainly with an SBA. Bankers evaluate the returns for verifying income and determine the loan amount and the ability to repay.

Financial Statements:

It is customary for banking institutions to request financial statements if the partner has more than 20% business ownership. The process typically requires financial projections separate from your business plan. It is essential to prepare for all types of requirements and correlate to various opportunities when presenting the expected documents in visiting the banker.

Bank Statements:

In most cases, the banker will require one-year personal and business banking statements to evaluate to ensure loan readiness.

Collateral:

In most loan requests, it is imperative to have available collateral signifying the capabilities of providing skin in the game. The objective is to balance the risk between the lender and the borrower without a solid credit history, demonstrating large loans and the ability to repay. The advantage includes low-interest rates and is considered an enabler to secure a loan. Much of the collateral requirements generally vary regarding the assets to be pledged to secure repayment, and the most recognizable value is property. Strategic business plans with financial projections may circumvent the need for collateral. I highly suggest planning a collateral document or a security document explaining interest in collateral, such as checking accounts, savings, mortgages, credit/debit cards, personal loans, or even a car or possibly a title associated with a property. The reason for these documents is to provide insurance to the bank if the borrower fails their

obligation. The documents should describe the value of both personal or business property used to secure the loan.

Legal Documents:

Depending on the loan requirements, it is not usually for the banker to require the following;

- Business Licenses
- Articles of Incorporation
- Third-party contracts
- Binding Franchise agreements are used to enforce at the State level.
- Commercial leases relevant to a building

Process

The process of a Small Business Administration 504 loan Transaction Process

