

# SBA Frequently Asked Questions:

## 1. How do I apply for a SBA Loan Guarantee?

SBA has three different loan programs. Each of the programs is designed to cover a variety of business needs, thus providing the most options to small businesses. (More on SBA's Loan Programs: <http://www.sba.gov/financing/sbaloan/snapshot.html>) As the programs are delivered by SBA's partners and are not direct loans from SBA, businesses should consult their District offices or contact the lending partners in their area before filling out any applications. Contact a local lender and discuss your loan proposal with one of their loan officers. Be prepared to discuss your proposal in detail with the lender. You should have the following available for the lender's review: your business plan; your personal financial statements; your business financial statements (if already a business); collateral available to secure the loan; assumptions used in your projected earnings statements; management resumes of those involved in operating the business; and pro-forma balance sheets showing what the business would look like if the loan were granted. Be prepared to discuss your proposal in detail with the lender.

## 2. What do I need to qualify for a SBA Loan?

In order to get a 7(a) loan, the applicant must first be eligible. Repayment ability from the cash flow of the business is a primary consideration in the SBA loan decision process but good character, management capability, collateral, and owner's equity contribution are also important considerations. All owners of 20 percent or more are required to personally guarantee SBA loans. For more information, see: <http://www.sba.gov/financing/sbaloan/7a.html>

## 3. What type of collateral do I need for a loan?

Repayment ability from the cash flow of the business is a primary consideration in the SBA loan decision process but good character, management capability, collateral and owner's equity contribution are also important considerations. All owners of twenty percent (20%) or more of the business are required to personally guarantee the SBA loan. The SBA does not deny approval for a SBA guaranty loan solely due to lack of collateral; however, it can be used as a reason, in addition to other credit factors.

## 4. How does the SBA guarantee loan program work?

Under the guaranty concept, commercial lenders make and administer the loans. **The business applies to a lender for their financing.** The lender decides if they will make the loan internally or if the application has some weaknesses which, in their opinion, will require an SBA guaranty if the loan is to be made. The guaranty which SBA provides is only available to the lender. It assures the lender that in the event the borrower does not repay their obligation and a payment default occurs, the Government will reimburse the lender for its loss, up to the percentage of SBA's guaranty. Under this program, the borrower remains obligated for the full amount due.

## 5. Where do I obtain an application for a SBA loan?

Applications have been provided by SBA to all lenders that actively participate with us. Applications can be obtained from the lender you will be working with, or at your local SBA Office. Many forms are also available online at [www.sba.gov/library/forms](http://www.sba.gov/library/forms). However, since there are several variations of SBA's loan programs, a business should always check with the lender or SBA District Office before filling out an application. See also: <http://www.sba.gov/financing/basics/applyloan.html>

## 6. What is the interest rate on SBA loans?

SBA does not set the interest rate on the loans, only the maximum rate the bank may charge. The actual rate is negotiated between the lender and the borrower. For more information on SBA's interest rates, please see: <http://www.sba.gov/financing/>

### **7. How long do I have to repay a SBA loan?**

The repayment term is generally between seven and twenty-five years depending on the life of the assets being financed and the cash needs of the business. Working capital loans (inventory and accounts receivable) should be repaid in five to ten years. The SBA also has short-term loan guarantee programs. Ask your lender or call your local SBA office.

### **8. What if the lender declines me for a SBA Guaranteed loan?**

SBA no longer has direct funds to lend and cannot provide financial assistance without a participating lender. Ask the lender what can be done to improve your business plan and application. Correct the business plan and resubmit it to the lender. If that lender is unwilling to approve the loan or submit the application to SBA, try another lender. The Small Business Development Centers (SBDC) and the Service Corp of Retired Executives (SCORE) can provide assistance. SCORE and SBDC are partly funded by SBA and one-on-one counseling is available.

### **9. What types of Businesses are Eligible for SBA Loan Programs?**

The vast majority of businesses are eligible for financial assistance from the SBA. However, applicant businesses must operate for profit; be engaged in, or propose to do business in, the United States or its possessions; have reasonable owner equity to invest; and, use alternative financial resources first including personal assets. It should be noted that some businesses are ineligible for financial assistance. For more

### **10. What are the advantages of SBA financing for my business?**

Simply put, a longer term means lower payments. Lower payments allow you to retain and utilize more working capital, which is essential for a growing business. Additionally, there are minimal prepayment penalties on SBA loans. All SBA loans are fully amortized. Therefore, your business will not be impacted with renewal fees, interim appraisal costs or untimely balloon payments.

### **11. Is my business eligible for SBA financing?**

Over 95% of the nation's companies are classified as "small businesses" by SBA standards. Limitations are set by total revenues and number of employees according to industry. Almost every type of business qualifies for SBA financing: manufacturing, wholesale, service, retail. Loans cannot be made to speculative businesses, media businesses or businesses engaged in gambling activities.

- SBA 7(a) - Basic Eligibility Requirements
- SBA 504 Loan - Basic Eligibility Requirements

### **12. How much can I borrow?**

Indus American Bank offers SBA 7(a) financing up to \$2 million and SBA 504 loans up to \$5 million.

### **13. What can the funds be used for?**

Loans can be used for virtually any legitimate business purpose. Examples include: Purchase real estate, make improvements to your business property, purchase equipment, expand a business, consolidate debts, purchase another business, construct a new facility and finance a franchise.

### **14. Aren't SBA guaranteed small business loans only for businesses that are not creditworthy by traditional banking standards?**

On the contrary, SBA financing will not be extended to any business that does not demonstrate the ability to repay debts. The longer terms allowed with SBA financing can enable your company easier debt qualification based on lower payments.

### **15. What amount of equity will I be expected to have in my financing request?**

For an existing business, borrower equity can be as little as 10%, depending on creditworthiness. Start-up businesses are required to contribute at least 30% of the total project costs. Equity injection is typically cash.

### **16. What else do I need to know?**

- Sufficient cash flow to meet proposed debt service

- Personal guarantees are required
- Hazard insurance is required

Current appraisals are required on real estate collateral

17. **Will the government be looking over my shoulder for the duration of my loan?**

As with any commercial loan, your lender, rather than the government, monitors and services your loan. The government's involvement relates to the guarantee only in the event of default.

18. **What are some common myths about SBA financing?**

- It does not take 6 to 9 months to get funded. On average, it takes 60 days to process an SBA loan from submission to final funding.

You do not have to be "turned down" by a bank prior to applying for an SBA loan.

19. **Can SBA loans be used to refinance existing business debt?**

Yes, but certain criteria apply.

20. **Can SBA financing be used for construction?**

Yes, as long as the business will occupy at least 60% of the new building. The construction loan will convert to a fully amortized loan at the end of the construction. If an existing building is financed or refinanced, your business must occupy at least 51% of the facility.

21. **What costs are associated with an SBA loan?**

By statute, the maximum rate charged is 2.75% over the National Prime Rate for loans with maturities of seven years or more, and 2.25% over national prime rate for loans with maturities of less than seven years. The SBA itself charges a guarantee fee based on the loan amount, which is the only cost associated with the benefits of long term SBA borrowing. This fee can be financed as part of the loan proceeds. In addition, as with any other loan, the borrower will be responsible for direct processing costs such as title insurance, appraisals and other closing costs.

22. **How long will I have to wait for a decision on my application?**

Qualified applicants are given a pre-qualification letter (letter of interest) outlining major points of the loan, if requested. Upon receipt of all required information from the borrower, a formal request is submitted to our underwriters, with a decision usually within 5 business days.