Meet the SBA Loan
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Whether you need to secure working capital or make a major big-ticket purchase, a small business loan that's guaranteed by the federal government can help you get your green. Here's how.

By: MATT ALDERTON

Brian Drum has been in business for 40 years. For most of them, his New York-based executive search firm, Drum & Associates, has prospered. Six years ago, however, on Sept. 11, 2001, Drum's company hit an insurmountable roadblock.

"Our offices are about 300 yards from where the World Trade Center was, so when Sept. 11 happened, we were devastated.," says Drum, who in 2004 was named the Small Business Administration's New York City Small Business Person of the Year. "We were having the best business we'd ever had on Sept. 10, and on Sept. 12, everything was gone."

Drum had some impossible choices to make. Suddenly, immediately, he had no office, no income and no growth prospects. Should he lay off his team? Change his business model? Shut down entirely? No, he decided, none of the above. "We decided to keep [our employees] on and restructure," he says, "but to do that, we realized we needed financing to get us through some very tough times."

The solution to Drum's problems turned out to be a small business loan from his bank. It saved his business' life.

A small business loan can do wonders for your company, too—in good times or in bad. And when it comes to borrowed money, perhaps the best small business option is an SBA loan.

A Loan for Every Occasion

There are four types of SBA loans, according to Bob McGee, president of Phoenix-based lender Southwestern Business Financing Corporation (SBFC):

The smallest of the bunch is the Micro-loan, offered to businesses that need less than $35,000; the average loan is for $10,500 and the repayment period is up to six years.

Next is the SBA's signature loan, the 7(a), which can be financed over a period of 10 years for working capital or 25 years for fixed assets; borrowers can borrow up to $1.5 million.

The third type of SBA loan, the 504, is both the most restrictive and the biggest; the largest 504s offer long-term financing for up to $4 million.

The final type of SBA loan, meanwhile, is the Disaster Assistance Loan, given to individuals who need assistance in the event of a disaster.

The SBA guarantees all four types of loans, but doesn't actually fund any of them. Micro-loans, for instance, are given by SBA-approved micro-lenders, 7(a)s by commercial banks and 504s by one of the country's 270 Certified Community Development Companies (SBDCs). "SBA loans are like an insurance policy from the government," says McGee, whose SBDC is the largest 504 lender in Arizona. In other words, an SBA guarantee enables banks to lend money to businesses and individuals that they would otherwise perceive as having too much risk.

Get Your Piece of the Pie

Whatever your needs—working capital with which to fund everyday operations, heavy machinery or commercial vehicles, equipment such as furniture or computers, even real estate—you can get an SBA loan to fund them. That's because while 504 loans can be used exclusively for real estate or stationary equipment, micro-loans and 7(a) loans can be used for almost anything your business needs—including cash.

"Every business needs its cash," McGee says. "Cash keeps you going."

Cash, however, isn't always easy to get. And while an SBA guarantee certainly helps small business owners, loan requirements remain strict. It's important, therefore, to know not only for what you can use an SBA loan, but also how to get one.

The first place to look, according to McGee, is your local or regional SBA office. Call them, he suggests, and ask for the most active or most popular SBA lenders in your area. Contact those lenders—including your own bank, if it's among them—and ask for their SBA department. Once connected to it, you can make contact with a loan officer and begin the application process.

Then what? Well, there are several things that business owners can do to strengthen their loan applications and get a better, more business-friendly loan. Consider these tips before you hit the bank:

- **Build relationships.** It pays to know your banker, according to Drum. "You can't just walk in and say, 'I want an SBA loan,'" he says. "Having a good relationship with your banker makes a big difference." That's because if you're a friendly face, lenders will be more likely to accept your application and approve it. If they know you, after all, they'll be more comfortable with you, and more willing to negotiate beneficial loan terms, too.

- **Do your homework.** Before beginning the loan process, know what kind of loan you need and how much money you need to borrow. Study up on financing requirements and be prepared to supplement your application with a detailed business plan, balance sheet, income statement and cash flow statement. The devil, as they say, is in the details.
- **Shop around.** McGee encourages borrowers to apply for loans with at least three banks; they'll compete with competitive terms and rates, just like they would if you were buying a mortgage. "Let them know you're talking to other banks," he says. "Just like anything else, if you know there's competition, you're going to do a better, faster job."
- **Be responsive.** The approval process for most SBA loans should take between two and three weeks. It takes longer, however, when business owners dillydally. "The biggest variable in timing is always the borrower," McGee says. "If the borrower is willing to give you everything you want, the way you want it, as soon as possible, [his or her loan] goes through fast."
- **Manage your money.** The most successful borrowers will come to the table with a strong personal credit history, at least a couple years of financial statements—brand new businesses will have a hard time being approved and should avoid the risk of borrowing anyway right out of the gate—a willingness to invest their own personal assets into their business and an explicit plan for repaying the money they borrow.

Links referenced within this article

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