



## **A Primer on Small Business Administration (SBA) loans**

Below is detailed, actionable advice regarding Small Business Administration (SBA) loans and how to apply for them:

### **1. Understand the Role of SBA Loans**

- **What SBA Loans Are:** SBA loans are not directly issued by the government but guaranteed by the SBA, reducing the risk for lenders and making it easier for small businesses to access funding.
- **When They're Applicable:** SBA loans are ideal for businesses that:
  - Need funding for startup costs, working capital, equipment, inventory, or expansion.
  - Struggle to secure traditional financing due to a lack of collateral or lower credit scores.
  - Want competitive interest rates and longer repayment terms compared to traditional loans.

### **2. Types of SBA Loans to Consider**

- **7(a) Loan Program:** The most popular, flexible loan for general purposes like working capital, equipment, or real estate. Loan amounts can go up to \$5 million.
- **504 Loan Program:** Best for purchasing major fixed assets like equipment or real estate. Combines private lending with SBA support for a low down payment.
- **Microloans:** Smaller loans (up to \$50,000) for startups or micro-businesses. Often easier to qualify for but limited in amount.
- **SBA Disaster Loans:** For businesses recovering from declared disasters or economic injury (e.g., COVID-19).

### **3. Prepare for the Application Process**

#### **A. Assess Loan Readiness**

- **Business Plan:** Have a comprehensive plan that outlines your business model, revenue projections, and how the loan will be used.
- **Financial Statements:** Prepare profit-and-loss statements, balance sheets, cash flow projections, and three years of tax returns (personal and business, if applicable).
- **Personal Financial Details:** Many SBA loans require a personal financial statement from the owner(s).
- **Credit Score:** Ensure a strong personal and business credit score (typically 680+ for most SBA loans). If not, consider microloans or working to improve your credit first.

## B. Gather Required Documentation

The SBA may ask for:

- Business licenses or registrations.
- Articles of incorporation or partnership agreements.
- Resumes of key team members.
- A detailed explanation of how the loan will be used.

## C. Know Your Funding Needs

Clearly calculate how much you need and why. Over-asking can signal poor planning; under-asking may leave you short.

## 4. Identify the Right Lender

- Work with **SBA-approved lenders** in NYC, such as:
  - Large banks like Chase, Bank of America, or Wells Fargo.
  - Community banks or credit unions.
  - Nonprofits like the New York Business Development Corporation (NYBDC).
- Meet multiple lenders to compare terms and gauge willingness to support your business.

## 5. Understand Key Terms and Considerations

- **Interest Rates:** SBA loans typically offer low, competitive interest rates (e.g., Prime + 2-4%).
- **Repayment Terms:** SBA loans often come with long repayment terms (e.g., up to 25 years for real estate loans).
- **Collateral Requirements:** Some SBA loans may require collateral, but the SBA guarantee reduces the amount of personal risk.
- **Fees:** Be aware of guarantee fees (0.25%-3.5% of the guaranteed portion, depending on loan size).

## 6. Proactively Address Common Challenges

- **Time-Intensive Process:** SBA loans can take weeks or months. Plan accordingly for processing times.
- **Approval Hurdles:** Be prepared to explain any credit or financial weaknesses and how your business can overcome them.
- **Documentation Burden:** Consider working with a CPA or consultant to ensure accuracy & completeness.

## 7. Explore Alternative Options When SBA Loans May Not Be Ideal

- **Business Lines of Credit:** For more flexible, short-term needs.
- **Microloans:** Great for startups with minimal capital needs.
- **Community Development Financial Institutions (CDFIs):** Nonprofits offering small loans to businesses in underserved areas.
- **Crowdfunding or “friends and family” / other outside investors:** If you don’t qualify for debt finance.

## 8. Leverage Local NYC Resources

- **NYC Department of Small Business Services (SBS):** Offers financing guidance and access to lenders.
- **Brooklyn Cooperative Federal Credit Union:** A CDFI that provides tailored small business financing.
- **NYC Business Solutions Centers:** Provide free business courses, financial advice, and lender connections.

## 9. Follow Up and Manage the Loan Effectively

- Use funds only for the purposes outlined in your loan application.
- Maintain meticulous financial records to meet lender reporting requirements.
- Build a relationship with your lender to facilitate potential future borrowing.

By carefully considering these considerations, processes and steps, you can best position yourself for borrowing or funding success, whether it be for an SBA loan or another source. A key is to manage your expectations up front and to have a back-up plan if your initial attempt falls short.

*Note – this document is meant to be accompanied by oral commentary from a Harvard Business School alumni coach.*