

## SBA Loans 101: Funding Small Business Expansion

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Posted on: Wednesday, October 12th, 2011

Columnist Spotlight // Finance



All the talk about the American Job Act has many thinking about how crucial the creation of jobs is to an economic turnaround. The reality is a majority of new jobs will not be a result of hiring by large corporations or government; new jobs are going to come from the growth of small business.

According to the U.S. Census Bureau, 95 percent of all businesses in Arizona are small businesses with less than 100 employees. These businesses employ 32 percent of the state's workforce.

In most cases, small businesses must expand in order to create more jobs. For small business owners, expansion requires funding. While bank loans can be difficult for a small business to secure, a loan may be a more appealing option than finding investors or financial partners that may want a percentage of the company and input on how decisions are made.

A Small Business Association (SBA) loan or SBA loan is an option to consider. SBA loans are issued through banks to specifically help small businesses with their growth, including hiring new employees, adding more equipment and making other necessary changes. The questions then are how much cash SBA loans provide, and what does it take to qualify?

While the government-backed guarantee portion of SBA loans increased from \$2 million to \$5 million in 2010, protecting banks even more in the event that the borrower defaults, it is still difficult for small businesses to receive an SBA loan.

In order to qualify for an SBA loan from your bank, your business must be a for-profit business, have a sufficient amount of owner equity invested in the business and have already used other financial resources first, including personal assets.

**You may also need to determine what type of SBA loan you may need. There are three specific categories:**

**The 7(a) Loan Program** includes financial help for businesses with special requirements. For example, funds are available for loans to businesses that handle exports to foreign countries, businesses that operate in rural areas, and for other very specific purposes.

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**The Microloan Program** provides small, short-term loans to small business concerns and certain types of not-for-profit child-care centers. The maximum loan amount is \$50,000, but the average microloan is about \$13,000.

**The CDC/504 loan program** is a long-term financing tool, designed to encourage economic development within a community. The 504 program accomplishes this by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization.

When applying for an SBA loan, it is important to remember that bankers, now more than ever, will be looking closely at the documents submitted. **When you are preparing your loan application for your banker, you typically have to include:**

- An overview of the business
- A description on the purpose of the loan request, and how it will be used
- A plan to repay the loan
- Collateral in the event that you cannot repay the loan
- Personal financial statements for the last three years
- Business financial statements for the last three years

Understanding what lenders are looking for is important regardless of what solution you may seek to finance the expansion of your small business. Working closely with the lender to make sure you are supplying the correct materials will save both parties time and energy in the process and hopefully help to secure the funding needed.

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