

SBA loan programs can help businesses raise capital

This week, I am beginning the first installment in a multipart series of columns on business capital or what I like to call, "finding money for your business."

As previously discussed in last week's column there are many ways to finance your business. The two main ways are either through raising equity or debt. This week I'm going to focus on debt, and more specifically, the SBA loan programs.

Before we get into the nuts and bolts, let's examine an overview of the programs and purpose. The SBA's main programs for business loans are the 7(a) program, the 504 program, the international trade programs and the Microloan program. The decision of which program best fits your business capital needs is dependent on your uses, purposes and requirements for the money.

The fiscal year 2006 was a big year for SBA loan programs. The 7(a) loan program provided 90,483 business owners with business loan guarantees in the aggregate amount of \$13,758,200,000. The 504 CDC loan program provided 8,162 business owners with business loan guarantees in the aggregate amount of \$5,700,000,000. The Microloan program, which guarantees loans up to \$35,000 to a business owner, guaranteed the aggregate amount of \$18,700,000. These are big numbers and the government expects 2007 to be even a bigger year to assist small businesses.

Loans are guaranteed

The main factor to know about the SBA government loan programs, are that they are government guarantees for a borrower in support of a loan to a commercial lender. The loan program functions like having your rich Uncle Sam backing your loan request by guaranteeing payment to the lender. SBA works directly with a variety of lenders to guarantee your loan.

The SBA categorizes lenders by the level and knowledge of their participation in and with the SBA lending programs. The highest level is a preferred lender, then certified, and then participating. The higher the level lender you go to, the easier it will be to access the government guarantee program.

The next question is which program is best for you. There are many government loan programs available; however, I am focusing on the most used and available loan programs for all types of business owners.

The 7(a) loan program is the flagship business loan program intended to assist entrepreneurs to obtain financing when they might not be eligible for business loans through normal lending channels. It is also the SBA's most flexible business loan program, as financing can be used for working capital, purchasing machinery, equipment, furniture and fixtures, acquiring land and buildings, making leasehold improvements, and debt refinancing.

Maturity rates

Loan maturities go up to 10 years for working capital and generally up to 25 years for fixed assets and a borrower can usually finance up to 90 percent of the borrower's needs. The 7(a) Loan Program has a maximum loan amount of \$2 million dollars.

The 504 CDC loan program is used for fixed-rate financing to small businesses in order to acquire real estate, machinery or equipment for expansion or modernization. Many times, a 504 is used along with a 7(a) loan and also includes more than one lender. Typically, a 504 loan is structured where a loan is secured from a commercial SBA lender as the first priority lienholder and a second loan is secured from a Certified Development Company as the second priority lienholder.

The maximum SBA 504 loan is \$2 million for a non-manufacturer and up to \$4 million for manufacturers. Financing under the 504 program can be obtained for up to 90 percent of the borrower's needs and can be amortized 10 to 20 years.

The final loan program I wish to mention is the SBA Microloan program. This program is intended to provide short-term loans of up to \$35,000 to small businesses and not-for-profit child-care centers for working capital or for purchases of inventory, supplies, furniture, fixtures, machinery and/or equipment. The SBA makes or guarantees a loan to an intermediary, who in turn, makes the microloan to the applicant. Quite often, micro loan lenders also provide management and technical assistance.

Depending on your specific purpose for borrowing money there may be other programs available to you. There are many international trade loan programs if you are an exporter. There are also loan programs such as the SBA low doc program, which is an expedited loan processing program for loans up to \$150,000.



Ian
Berkowitz

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My suggestion and recommendation is to go to the SBA's web site www.sba.gov in order to explore all loan programs available to you.

Ian M. Berkowitz is a former attorney/advvisor with the United States Small Business Administration in Washington D.C. During his tenure with the Federal Government he specifically worked in the areas of disaster relief for homeowners and businesses and government contracting. He is currently a practicing business and real estate attorney in Boca Raton. In addition to his law degree, Ian also holds a Masters Degree in Government from The John Hopkins University.