

Business Financing Network

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SBA LOAN GUARANTEES: *FACT AND FICTION*

By Alan Kenyon

You probably have heard complaints about how long it takes to secure a Small Business Administration (SBA) loan. Perhaps you have heard there is so much paperwork involved that it is worse than filing your income tax return!

Both complaints are partially true. However, both problems can be eliminated or minimized with a better understanding of what to expect when applying for a SBA-backed loan.

The first important thing to understand is that the SBA does not actually make loans. What the agency does, however, is basically to guarantee all or a portion of approved loans made by private institutions. SBA guarantees enable banks to make loans they otherwise would not approve.

SBA loans do require more paperwork than conventional financing. It is a government agency, and that essentially introduces another party into the financing equation.

When borrowers work with Business Financing Network (BFN), we assist with all the paperwork. We ensure that loan packages are complete from the early stages, and that helps overcome frustrations about seemingly "mountains" of paperwork and red tape.

It also is important to understand the different SBA lender classifications: Preferred, Certified, and General institutions. Preferred lenders are able to underwrite SBA-supported loans within their own institutions, generally leading to much more rapid turn-around time on loan approvals. BFN only deals with such Preferred SBA lenders.

SBA-backed loans are not inherently good or bad. They can be especially attractive in the following circumstances:

- You are seeking a loan that will be backed by real estate. SBA real estate loans have 25-year loan terms compared to the typical conventional loan

- terms of 15 years.
- You want a longer loan repayment term. SBA loan programs provide 7 or 10 year loan repayment terms, compared to a standard 5 years for most banks.
 - You are purchasing or building business property and don't have sufficient cash for the deal. The SBA 504 loan program can provide financing for up to 90% of the project.
 - Your project is a startup business. Oftentimes, new entrepreneurs can only find backing for their new venture with SBA involvement.

As you can see, SBA-backed loans can be great financing option, so don't automatically reject them because of stories you may have heard. Your project may be "made to order" for one of the SBA programs.