

Demystifying the Small Business Administration

Making SBA loans work for your business



A recent Vistage Research survey of CEOs and small business owners finds that 51% of respondents plan to increase investments in 2017. However, 65% have never used the SBA to secure a loan and were not considering doing so.



While 74% of survey respondents will apply for a conventional bank loan, many may be missing an opportunity due to a misunderstanding of the SBA and how it may apply to them.



Small and medium-sized businesses (SMBs) would benefit from understanding how SBA-backed loans can even help businesses that may not be seen by ownership as “small.”

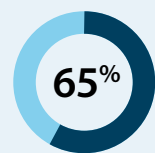
Misconceptions about Small Business Administration (SBA) loans may lead to an increasing number of CEOs and business owners missing out on a valuable opportunity to access capital on agreeable terms.

Vistage Research surveyed CEOs and small business owners about the SBA:

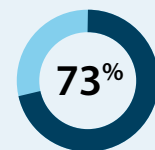
- 65% of respondents said they neither had an SBA loan nor considered taking one out.
- 73% of respondents said the SBA has been irrelevant or not applicable.

So why are business owners likely to overlook the SBA as a source of accessing capital to grow their business?

Ami Kassar, CEO of MultiFunding, a business advisory company that works with hundreds of lenders offering different loan programs, says he hears a lot of myths and misinformation about SBA loans. In fact, he asserts that SBA loans turn out to be the best option for about 40% of his clients.



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Source: Vistage Quarterly Confidence Index

Breaking myths and misconceptions

Many CEOs, for example, simply don't think of themselves as a small business. However, businesses of varying sizes are eligible for SBA loans up to \$5 million. In fact, the [SBA's Table of Small Business Size Standards](#) has many small businesses with annual receipts exceeding \$20 million and more than 1,000 employees on staff.

Some businesses might have \$50 million worth of revenue and be fine, Kassar says, adding that other businesses may run into an employee threshold. "My point is that it's not only for the small guy."

Another CEO misconception is that the SBA itself is a lender. The SBA does not make direct loans, but instead sets guidelines for loans that are made through its partners. The SBA guarantees the loans will be paid, in turn eliminating the risks to lending partners.

"Every business is a great candidate, but typically businesses that don't have full collateral," Kassar says. "That's one of the intentions of the SBA: to encourage banks to give loans. So much of their loan is guaranteed by the government that they're liable to make loans where they might not have full collateral."

The myth of the SBA as a lender has led many citizens and business owners to believe the government loses money on SBA loans, says Bob Coleman, a small business loan training expert and owner of Coleman Publishing. There used to be frequent rumblings of politicians wanting to eliminate the SBA loan program, Coleman says, but the industry now does a better job of educating legislators and borrowers alike about SBA loans.

Benefits of SBA loans

After business leaders get past SBA loan myths and misconceptions, they may ask: What are its benefits? The main benefits are lower interest rates and longer terms.

"People may say, 'I'll just go on to online lending,' and they calculate it and they're going to be paying 30% to 40% APR," Coleman says. "But SBA loans are tied to prime; they're about prime plus 2.75. It's a lot cheaper in interest expenses and instead of a three-year term, you could get a 10-year term. So the payments are lower, which helps your cash flow."

This longer amortization is the main benefit of SBA loans, Kassar says. For example, if someone was to purchase a business and finance the transaction with conventional loans, the lender would likely give five-to-seven years to pay back the loan, Kassar says. With an SBA loan, the amortization period will be 10 years. "And if there's real estate involved, they'll give you up to 25 years," Kassar says. "It provides a lot of flexibility. That is a benefit when compared with conventional financing."

While some CEOs and business owners may remain unconvinced about their qualification for an SBA loan, Kassar says there are 2,200 SBA lenders in the United States and each has its own approval methods. All SBA lenders follow the same rules but each may interpret the rules differently—some may agree a business is too big for an SBA loan, others may say your business is the exact right size.



"The main benefits are lower interest rates and longer terms."

– Bob Coleman
Small business financing expert

Steps and considerations to applying for an SBA loan

- 1 Be ready to deal with a lot of paperwork.** SBA loans are known to have more paperwork than a conventional loan. Here is where persistence will pay off. Applicants who focus on details and deadlines, and follow through completely when completing the stack of paperwork are more likely to be rewarded with a speedy decision.
- 2 Identify your needs and target your lending institution.** If a CEO decides to pursue an SBA loan from a community bank, Coleman says they should go where the community bankers go. "You want to become visible in the neighborhood," Coleman says. "If the local bankers go to Rotary or Kiwanis, you should go there. If you are a traditional main street business, let your community know you are out there by buying ads in the local sports program."
- 3 Consider the CDC/504 loan.** While the SBA's 7(a) loan is the most popular program, the SBA's Certified Development Company/504 loan program—only to be used for equipment or real estate—is growing in popularity. With a 504 loan, the borrower puts 10% down. A conventional lender puts up 50% and the CDC puts up the remaining 40%. The CDC rate is fixed for the life of the loan and has an SBA guarantee.
- 4 Know the risks.** The SBA will have first lien on company assets on loans over \$350,000. If a borrower fails to pay, the SBA can take all personal assets and put a lien on the borrower's house. Companies that don't like this can get creative, Kassar says, as borrowers who take loans under \$350,000 from the SBA's 7(a) program will not have a lien on their assets.
- 5 Get lines of credit in place long before you need them.** If a business is looking to buy real estate, for example, Coleman says a plan should be in place—knowing how much money you need, where it will be located, having your financial house in order—several years before the real estate is purchased.
- 6 If all else fails, check with the SBA.** If you can't get a conventional bank note for whatever reason, you should absolutely consider the SBA before you consider any private lenders, Kassar says. "The SBA is going to be so



How can SBA 7(a) loans be used?

According to the SBA, businesses can use the 7(a) loan for:

- **Long-term working capital** (operational expenses, accounts payable, purchase inventory)
- **Short-term working capital** (seasonable financing, exporting, construction financing)
- **Equipment purchases**
- **Real estate purchases**
- **New building constructions**
- **New business or asset acquisition or operation**
- **Expansion of an extant business**
- **Refinance business debt** (under certain conditions)



The SBA says 7(a) loans cannot be used for:

- **Refinancing existing debt where the lender would take a loss and SBA would take over that loss via refinancing**
- **Partial changes in business ownership**
- **Reimbursement of funds owed to any owner**
- **Repayment of delinquent state or federal withholding taxes**
- **A purpose "not considered to be a sound business purpose as determined by SBA"**

[Access the SBA Loan program](#)

much cheaper. That's a no-brainer. Anyone who takes money from a private lender or an alt lender would be nuts not to take the SBA money first."

- 7 Speak with someone who knows the program.** This is a case when a specialist can make all the difference. Talk to someone who is conversant on the SBA program to determine if it makes more sense than conventional options. Get the facts from someone who knows.

Contributors



Ami Kassir, MultiFunding LLC

Ami is CEO and founder of MultiFunding LLC and a Vistage member. He is a nationally renowned expert on access to capital for entrepreneurs, and a frequent speaker to Vistage groups. Ami has advised the White House, the Federal Reserve Bank, and the Treasury Department on the business credit markets.



Bob Coleman, The Coleman Report

Bob is the editor of The Coleman Report and author of "Money Money Everywhere and Not a Drop for Main Street." He is a nationally recognized expert on small business financing, and his commentary has appeared on CNN, Fox News, The Wall Street Journal and The New York Times.



Joe Galvin, Vistage Research

As Chief Research Officer for Vistage, Joe Galvin is responsible for providing Vistage members with the most current, compelling and actionable thought leadership on the strategic issues of small and mid-sized business. Joe is an established thought leader and analyst who has researched and presented to business leaders around the world on customer management, world-class sales performance and CRM-SFA technology.

About Vistage Worldwide

Vistage Worldwide is an organization designed exclusively for high-integrity CEOs and executive leaders who are looking to drive better decisions and better results for their companies. Our members -- 21,000 strong in more than 17 countries -- gather in trusted, confidential peer advisory boards where they tackle their toughest challenges and biggest opportunities. Leveraging the Vistage platform, our members have demonstrated the ability to refine their instincts, improve their judgment, expand their perspectives and optimize decision making. CEOs who joined Vistage grew their companies at three times the rate of the average U.S. company, according to a 2015 analysis of Dun & Bradstreet data.

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About Vistage Research

Vistage Research curates subject matter from the Vistage community and collaborates with top thought leaders to create unique content. Vistage executives access actionable, thought-provoking insights from the Wall Street Journal/ Vistage Small Business CEO Survey and Vistage CEO Confidence Index results, as well as national and local economic trends. Since it began in 2003, the Vistage CEO Confidence index has been a proven predictor of GDP, two quarters in advance. Vistage Research provides the data and expert perspectives to help you make better decisions.

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VISTAGE

Vistage Worldwide, Inc.

11452 El Camino Real, Ste. 400
San Diego, California 92130

Ph 800.274.2367
Intl +1.858.523.6800
Fax 858.523.6802
vistage.com