



SBA LENDING

WHAT EVERY SMALL BUSINESS OWNER NEEDS TO KNOW

 TEXAS CAPITAL BANK®





INTRODUCTION

Your business has almost everything it needs. You've got a sound business plan, an exciting product or service to offer, your own hand on the controls and a ready customer base. The only thing you're missing is access to capital. Maybe it's the price of startup. Or perhaps it's the cost of expansion or acquisition.

If this sounds familiar, a loan backed by the Small Business Administration might be just the spark you need to ignite your business's potential.

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All loans subject to Texas Capital Bank credit approval and SBA eligibility.



BENEFITS OF SBA LOANS

SBA loan programs have different loan guidelines and terms than conventional financing. In general, they feature lower down payment requirements and longer repayment terms, a welcome aspect for small businesses concerned about depleting their cash or carrying a heavy debt load. SBA loans also offer higher advance rates than conventional financing, often eliminating the need for secondary financing, and have a lower cash flow requirement, which can make qualifying for an SBA loan much easier. Fully-amortizing loan terms are available up to 25 years, depending on the loan's purpose. Another benefit for many borrowers is that qualifying for an SBA loan can be based on the business's cash flow, making it an ideal alternative for businesses without sources of collateral, such as inventory or real estate. SBA loans can also be well-suited for existing businesses looking to expand, provided they demonstrate a history of earnings to serve as a reliable basis to determine future cash flow.

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Working with the SBA, financing may be available for businesses when conventional credit is not. Through more flexible underwriting guidelines, lower down payment requirements and longer repayment terms, SBA loans offer small businesses an opportunity to succeed by providing crucial access to capital.

KEY BENEFITS

In general, when compared with conventional lending, SBA loans have more flexible underwriting, including:

- Lower down payment requirements
- Longer repayment terms — up to 25 years
- Lower capital injection requirements
- Lower cash flow requirements to cover payments
- Ability to conserve cash for operating expenses



IS IT THE RIGHT CHOICE FOR YOU?

Before you set your sights on an SBA loan, it's important to look at your business and your needs to make sure it's the right decision for you.

SBA loans offer many benefits to borrowers who may not qualify for traditional bank financing; however, not all businesses are eligible for SBA financing. In addition to meeting the criteria of your lending institution, your business must also meet SBA requirements, some of which include:

- Your business must operate for profit
- It must meet SBA business size standards
- It must have reasonable invested equity
- It must have a demonstrable ability to repay the loan

It's also important to remember that not all business types are eligible for an SBA loan. Financial institutions, life insurance providers, passive businesses (for example, investment properties) and speculative businesses (such as oil exploration) are among those who cannot secure SBA financing.

Finally, you should know that SBA loans require a personal guarantee by all owners with 20% equity or greater, which provides the lender additional assurance of repayment given the more flexible underwriting standards.

HOW SBA LOANS WORK

The SBA approves billions of dollars in loans every year. Most SBA loans are issued through a bank, a credit union or other lending institution and the SBA guarantees part of the loan. This guarantee allows banks to utilize more flexible underwriting guidelines in evaluating an SBA loan request, since a portion of the bank's credit risk is offset by the government's guarantee. The guarantee amount varies depending on the size of the loan:

- **Loans of \$150,000 or less are guaranteed up to 85%**
- **Loans greater than \$150,000 are guaranteed up to 75%**

Interest rates on SBA loans are set by the lender, in keeping with SBA guidelines. The rate is based on the prime rate, plus an additional markup rate called the spread. Interest rates vary slightly depending on the size and terms of the loan.



WHICH SBA LOAN DO YOU NEED?

The SBA offers different loan programs designed to serve small business needs. Your lender can discuss each kind with you in greater detail, but it's important to identify which program is the best fit for your business. Texas Capital Bank offers the following loan programs:

SBA 7(A) LOAN PROGRAM

By far the most popular type of SBA loan. Available in amounts up to \$5 million, this loan can be used for real estate, equipment, business acquisitions, partner buyouts, debt refinancing and working capital needs. **Texas Capital Bank is a Preferred SBA 7(a) Lender.**

SBA 504 LOAN PROGRAM

This program combines a bank loan with a loan from a nonprofit Community Development Corporation (CDC) in a long-term loan with a low interest rate. Available for projects up to \$15 million, they are intended for the purchase of owner-occupied real estate or machinery and long-lived equipment.

SBA CAPLINES

The SBA also guarantees lines of credit to help businesses meet their short-term and cyclical working capital needs. CAPLines are available only for established businesses.

HOW TO SELECT A LENDER

SBA Loans require a high level of expertise to ensure a smooth application process, so you'll want to select a lender who is a Preferred SBA Lender. This means the bank is authorized and approved to underwrite the credit application instead of submitting it to the SBA for approval, which will save time in completing the loan process.

Selecting the right loan officer can be as critical as selecting the right institution. Look for a loan officer who specializes in SBA lending. They've walked this path many times before, are the most familiar with the loan programs and will be able to guide you to the correct loan type, anticipate any issues and know exactly what supporting documents are required given your unique circumstances. Working with the right lender and loan officer is a key first step that can save you a significant amount of time and effort as you move forward in the borrowing process.

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5 QUESTIONS TO ASK YOUR LENDER

- 1 Are you a Preferred SBA Lender?
- 2 Does your lender have a dedicated SBA department?
- 3 What type of loan do you recommend and why?
- 4 Given my loan request, what type of supporting documentation do I need to provide?
- 5 How long do you expect the loan process to take?



BE PREPARED

As you've seen, an SBA loan is an excellent source of capital for your business to grow or expand, but expect to do some legwork before you apply. As you start the application process for an SBA loan, here are some tips to keep in mind:

- **Be Patient.** Gathering and organizing all the information will take some time.
- **Be Specific.** Be prepared to spell out the focus of your business and your business needs, and have all ownership information at hand.
- **Be Organized.** Know where your records are and what they contain.
- **Be Thorough.** Have all your documentation at hand. Know your business. Know how the loan will benefit your business.
- **Be Current.** All of your financial documentation should be current to within 60 days. You may need to update it during the loan process.

Your lender will also pull personal and business credit reports, and you may be asked to provide additional documentation or records during the application process. For example, if the loan is for the purpose of acquiring another business, you'll need to provide paperwork on that business as well, including income tax returns, profit and loss statements and other materials to demonstrate value.

Your loan officer will help you through the application process, which can be streamlined with a little work up front. Before beginning the application process, take the time to go through your records and make sure everything is in order. Like all commercial loans, SBA loans require thorough documentation. Make sure your paperwork is consistent and all information is up to date.

WHAT YOU'LL NEED

Below is a list of items required at each step of the process.

PRELIMINARY DISCUSSION

- Overview of business and loan purpose
- Interim financial statements for the business
- Three years' business and personal tax returns
- Personal financial statements

AT APPLICATION

- Completed loan application
- Business plan with projections and assumptions
- Accounts payable and accounts receivable aging reports
- Affiliate company information
- Copy of purchase agreement (*for business purchase*)

DURING LOAN PROCESS

- Be ready to provide additional information during the loan process. Sometimes the documentation may not paint a full picture, and the loan officer may ask for your help in filling in any gaps.

CONCLUSION

Acquiring much-needed capital through the SBA requires effort; however, as a business owner, you know that there are no shortcuts to success. The more flexible guidelines and conditions make SBA loans an extremely attractive option for most small businesses. When you're ready to move forward, Texas Capital Bank is here to help, with SBA loan experts who stand ready to guide you through the application process and assist you with all your banking needs.

ABOUT THE PREFERRED SBA LENDING TEAM AT TEXAS CAPITAL BANK

We know the power of entrepreneurship; after all, we were founded by a group of entrepreneurs who still run the business today. That's why we're committed to helping start and grow small businesses into something great. As a Preferred Small Business Administration (SBA) Lender, the dedicated SBA team at Texas Capital Bank can be as nimble as you are in our response times. Our seasoned bankers with decades of experience in small business lending understand your unique needs and are committed to working with you one-on-one to help you reach your goals.

To see if an SBA loan is right for you, contact us at sbalending@texascapitalbank.com or visit our [website](#) for a list of local experts.

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