



Is an SBA Loan Right for You?

The Quick Guide

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What Is an SBA Loan?

SBA loans are a popular option for starting or growing a small business. These loans are guaranteed in part by the [U.S. Small Business Administration](#) (SBA), a federal government agency.

The SBA doesn't make loans. If you apply for an SBA loan, your loan won't be from the SBA, and you won't make your payments to the agency. Instead, loans are made by financial institutions who must follow SBA guidelines.

This eguide is designed to give you a quick overview of SBA loan programs to help you decide if an SBA loan may be right for your business. Please keep in mind that program requirements, fees, interest rates and other key components may change. For the most up-to-date information and help with your business, talk with an approved lender or visit the SBA website at [SBA.gov](#).



You can learn about other small business financing options with the free SCORE eguide, *Where's the Money? 10 Types of Small Business Financing and How to Qualify*, available free at [SCORE.org/nav](#)

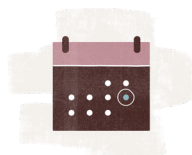
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Why Are SBA Loans Popular?

SBA loan terms are often among the most attractive loans available to small business owners. They typically offer:



Low rates



Longer terms



Reasonable fees



Small down payments

Additionally, the SBA offers resources such as counseling and training through partner organizations such as SCORE, where mentors can help guide you to success.

SBA Loan Programs



7(a) Loans and 7(a) Small Loans

Worth Noting

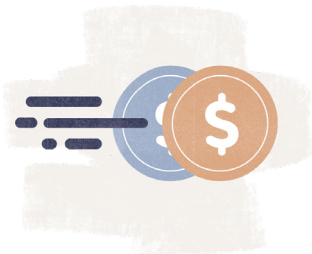
The flagship SBA loan guarantee program.

Can Use Loan For

Expansion/renovation; new construction, purchase land or buildings; purchase equipment, fixtures, lease-hold improvements; working capital; refinance debt for compelling reasons; seasonal line of credit, inventory or starting a business

Length of Loan

- Up to 10 years;
- Up to 25 years or useful life for equipment,
- Up to 25 years for real estate.



SBA Express

Worth Noting

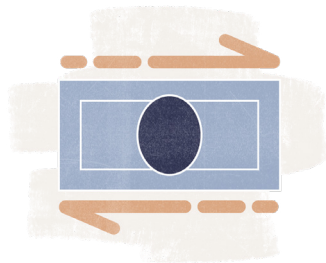
Smaller loans with faster turnaround. Currently the most popular SBA loan program in terms of total amounts funded. Both term loans and lines of credit available.

Can Use Loan For

Same purposes as 7(a)

Length of Loan

For term loans, same as 7(a); lines of credit (LOCs) up to 10 years including a term out period where no additional funds can be drawn.



CAPLines

Worth Noting

Designed to help businesses meet short-term and cyclical working capital needs.

Includes four programs:

- 1 Working Capital
- 2 Contract
- 3 Seasonal, and
- 4 Builders

Can Use Loan For

(Numbers correspond to programs above)

- 1 For short-term working capital and operating needs.
- 2 Finance the cost of specific contracts, sub-contracts, or purchase orders
- 3 Finance seasonal increases of accounts receivable and inventory
- 4 Finance direct expenses related to construction and/or “substantial” renovation costs of a specific eligible project (residential or commercial buildings for resale)

Length of Loan

For term loans, same as 7(a); lines of credit (LOCs) up to 10 years (5 years for Builder's CAPLines) including a term out period where no additional funds can be drawn.



International Trade

Worth Noting

Financing to help small businesses enter and expand into international markets and when adversely affected by import competition, make investments needed to better compete.

Can Use Loan For

Term loan for permanent working capital, equipment, facilities, land and buildings, and debt refinance related to international trade

Length of Loan

Same as 7(a)



Export Working Capital

Worth Noting

Short-term, working-capital loans for exporters.

Can Use Loan For

Purchase inventory for export or to manufacture items for export; working capital directly related to export activities; foreign accounts receivables and invoice financing; to support standby letters of credit; may include refinancing.

Length of Loan

Generally one year, but may go up to 3 years



Export Express

Worth Noting

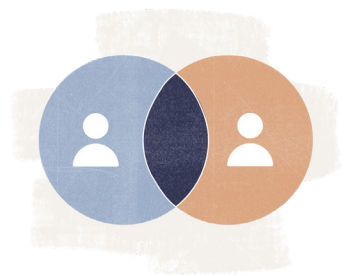
Helps small businesses develop or expand their export markets with streamlined financing.

Can Use Loan For

Virtually any use that will help the business enter or grow the export market; may include debt refinancing.

Length of Loan

Term loans have same maturities as SBA Express; lines of credit up to 7 years.



504 Loans

Worth Noting

Loans made through partnerships with Certified Development Companies (CDCs) and private lenders. Typically structured where SBA provides 40% of total project costs, lender covers up to 50%; borrower contributes 10-20%.

Can Use Loan For

Long-term, fixed-asset loans to purchase existing buildings; purchase land and land improvements; construction of new facilities or modernizing, renovating or converting existing facilities; purchase of long-term

machinery; or refinancing of debt in connection with an expansion of the business through new or renovated facilities or equipment.



Community Advantage

Worth Noting

Pilot program that offers loans through mission-oriented lenders— primarily nonprofit financial intermediaries focused on economic development. Focus on business owners in underserved markets.

Can Use Loan For

Any normal business purpose except lines of credit. May be used to refinance debt if specific requirements are met.

Length of Loan

10 years for working capital;
10 years or the useful life of equipment;
25 years for real estate



Microloans

Worth Noting

Small loans made by non-profit community-based organizations. May include technical assistance.

Can Use Loan For

Working capital, supplies, machinery and equipment, fixtures, etc. May be used to refinance debt to improve cash flow.

Length of Loan

Shortest term possible, no longer than 6 years



Worth Noting

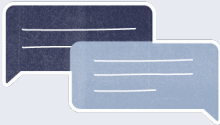
Loans for businesses that have sustained economic damage in a declared disaster area.

Can Use Loan For

Repair or replace damaged property. Working capital to relieve economic damage caused by disaster.

Length of Loan

Up to 30 years

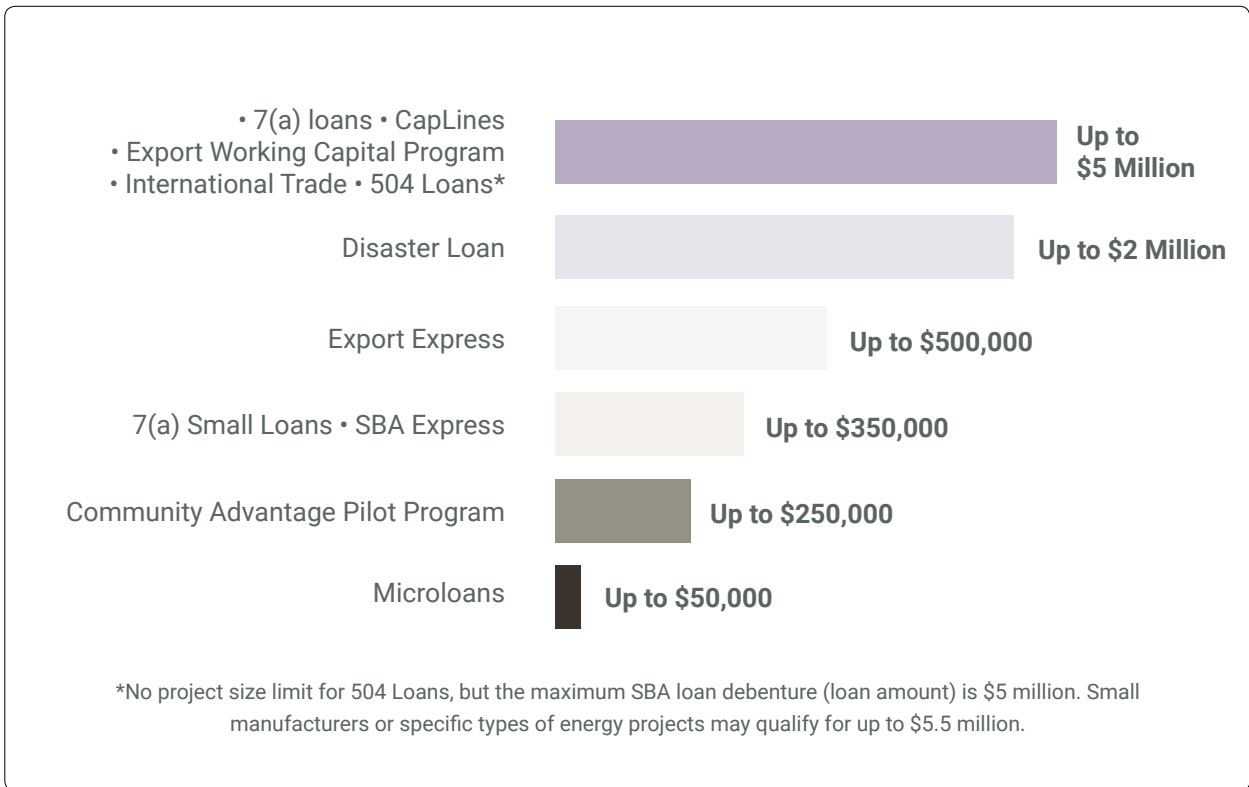


For complete SBA loan program guidelines, which are subject to change, talk with an SBA approved lender

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How Much Can I Borrow?

Here are current maximum loan amounts by program:



Qualifying for an SBA Loan

To qualify for an SBA loan often takes a fair amount of effort. Keep in mind, the SBA sets minimum requirements, but lenders may have additional requirements.

Is Your Business Eligible?

The SBA has type, size and geographic requirements. To be eligible for funding, your business must:

- Be for-profit, and located in the United States
- Qualify as a small business based on the number of employees, revenue, and your company's net worth, which vary by industry. Use the SBA's free Size Standards Tool at [SBA.gov/size-standards](https://www.sba.gov/size-standards) to see if your business qualifies
- Demonstrate the need for credit and the ability to pay back the loan
- Show an inability to get similar funding from other sources

Certain types of businesses are ineligible for loans. Companies primarily involved in lending, gambling, politics or lobbying, or pyramid schemes, for example, are among the types of businesses that are generally ineligible for SBA loans. The SBA website offers a complete list of ineligible businesses.

Just because your business is not on the list of ineligible businesses, that doesn't mean an SBA-approved lender must consider your loan application. Lenders may choose to make SBA loans to eligible businesses in specific industries, but not others. The SBA sets minimum requirements, but lenders may impose additional requirements, as long as they don't discriminate on a prohibited basis.

Here's an example: Most SBA loan programs don't have a minimum requirement around how long you've been in business. But it's not unusual for individual lenders to require a minimum of two years in business to qualify for an SBA loan.



The SBA sets minimum requirements, but lenders may impose additional requirements, as long as they don't discriminate on a prohibited basis.

The SBA does not have minimum revenue requirements but the applicant must be able to demonstrate the ability to repay the loan. Some SBA loans may be available to startups.



The fact that you don't qualify for an SBA loan from one lender doesn't necessarily mean you can't qualify with a different lender. Review the reasons you were denied, and talk to the lender to help you understand whether those are due to SBA guidelines, or additional requirements imposed by the lender.

Owner Requirements

As an owner or officer of your business, the SBA has specific requirements that you must meet. They will ask about your background and your citizenship. You don't have to be a citizen to qualify. If you're an undocumented business owner, however, you're ineligible for an SBA loan. Businesses owned by foreign nationals or entities may be eligible if they meet certain requirements.

You'll also be asked if you have a criminal record. A prior record does not automatically disqualify you, but it may affect your ability to qualify, so disclose this to your loan officer if it applies.

If you've ever defaulted on another federally guaranteed loan— such as a student loan— resulting in a loss for the federal government, you will not likely qualify for an SBA loan.

Credit Scores

As with any business loan, lenders may check the owner's personal credit scores. Each owner with 20% or more equity in the business may be subject to a credit check. The SBA does not set a minimum personal credit score requirement but individual lenders may.

Applicants will often find it more difficult to qualify if their personal credit scores are lower than the mid-600s. Loans through the SBA Microloan program, however, may be available to borrowers with lower credit scores.

FICO SBSS™ Score

If you apply for a 7(a) loan (except SBA Express) for \$350,000 or less, or a Community Advantage Loan, the lender must prescreen your application by obtaining a FICO SBSS™ Score, a credit score developed specifically for small business lending. This credit score can evaluate personal credit data of the owners (anyone with greater than 20% ownership), business credit data of the business, and certain financial information.

FICO SBSS™ scores range from 0-300, with a higher score indicating lower risk to the lender. The SBA currently requires a minimum credit score of 140 to pass the prescreen, but many lenders require minimum scores of 160-165. If the FICO SBSS™ score is not high enough, the application will require additional review or documentation.

Tip: You'll find 138+ places to check your credit scores for free at [Nav.com/free-scores](https://www.nav.com/free-scores). Currently, Nav is the only place to check a FICO SBSS score (for a fee).

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Costs

Interest Rates

Interest rates on SBA loans are negotiated between the borrower and the lender, but the SBA sets a maximum rate that may be charged. Interest rates may be fixed or variable, and are pegged to the prime rate, the LIBOR rate, or an optional peg rate. When those rates change, the maximum rates lenders may charge can change as well. Rates are calculated using the base rate on the first business day of the month. If your SBA loan carries a variable rate, your rate can change as often as monthly, if base rates change.

Current Fixed Interest Rates

Here are the **maximum fixed** interest rates for 7(a) loans (including fixed-rate SBA Express and SBA Export Express) as of Jan. 1, 2020:

Loan Amount	Maximum fixed interest rate 7(a)
\$25,000 or less	12.75%
Greater than \$25,000-\$50,000	11.75%
Greater than \$50,000-\$250,000	10.75%
Greater than \$250,000	9.75%

Here are **maximum variable** interest rates for 7(a) loans as of Jan. 1, 2020 based on the prime rate of 4.75%. Keep in mind that lenders may use other base rates, though overall there is not likely to be a significant difference in the maximum rate.

Loan amount	\$25,000 or less	> \$25,000 - \$50,000	>\$50,000
Loans with terms less than 7 years	9.0% (Prime + 4.25%)	8.25% (Prime + 3.25%)	7.25% Prime + 2.25%
Loans with terms of 7+ years	9.75% (Prime + 4.75%)	8.75% (Prime + 3.75%)	7.75% (Prime + 2.75%)

Additional Interest Rates

For other loan programs, here are maximum interest rates of Jan. 1, 2020, based on the prime rate of 4.75%.

SBA Express & Export Express (\$50,000 or less)	11.25% (Prime + 6.5%)
SBA Express & Export Express (more than \$50,000)	9.25% (Prime + 4.5%)
Community Advantage	10.75% (Prime + 6%)
Export Working Capital	SBA does not establish rates for this program
International Trade	7.0%-7.5% (Prime + 2.25%-2.75%) Rates for loans for less than \$50,000 may be higher
CAPLines	Same as 7(a), vary by loan amount. (see chart above)
504 Loans	Effective rates: 3.526%-3.625%*
Microloans	Generally between 6.5%-13%**
Disaster loans	Rates will not exceed 4-8%

*The formula for 504 loan rates is complex. View current rates at Nav.com/sbarates

** For microloans, intermediaries may charge 7.75% over their cost of funds for loans over \$10,000 and 8.5% over cost of funds for loans under \$10,000. Cost of Funds is a specific formula based on the 5-year T-bill rate.

Fees

While SBA loans often carry fees, they are usually reasonable when compared to non-SBA loans. From time-to-time, Congress will waive reduce or waive fees for specific program or borrowers, such as veteran-owned businesses.



Guaranty Fee

Cost

A one-time fee that ranges from 0% for certain loans to veteran-owned business owners to 3.75% of the guaranteed portion of the loan over \$1 million for some larger loans.

Description

Guaranty fees are charged to the lender based on the amount of the loan the SBA guarantees. The lender generally charges the borrower the guaranty fee within 90 days, and it may be rolled into the loan.



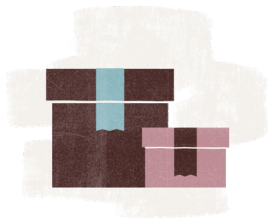
PrePayment Fees

Cost

Lenders may not charge prepayment fees. For certain longer-term loans, the SBA charges a subsidy recoupment fee of 3% of the prepayment amount the first year, 2% the second year, and 1% the third year. 504 loans may incur a “repurchase premium” if paid off early.

Description

For loans of 15 years or longer, a subsidy recoupment fee must be paid to the SBA if the borrower prepays 25% or more of the outstanding balance of the loan in the first three years.



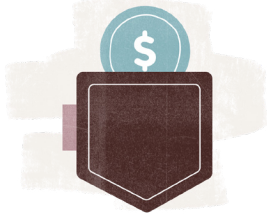
Packaging and Servicing Fees

Cost

Vary, but must be reasonable and customary

Description

A written notice is required explaining that applicant is not required to obtain or pay for unwanted services.



Out-of-pocket Expenses

Cost

Vary

Description

Necessary out-of-pocket expenses may be charged to the borrower, including filing or recording fees, photocopying, delivery charges, collateral appraisals, environmental impact reports and other direct charges related to loan closing.



Late fee

Cost

Up to 5% of the payment

Description

May be charged when a borrower is more than 10 days late making a regularly scheduled payment.



Origination, application, processing, brokerage and/or referral fees

Cost

None

Description

These fees are prohibited.

Note: 504 Loans have a separate schedule of fees not listed here. Visit [Nav.com/cdc](https://nav.com/cdc) for that list.

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Collateral

SBA loans generally require collateral when it is available. At the same time, the SBA directs lenders not to decline a loan solely because there is not enough collateral. So don't let a lack of collateral stop you from considering an SBA loan.

Generally, collateral is required as follows:

Loans under \$25,000

Collateral is generally not required

Loans greater than \$25,000 and up to \$350,000

The lender must take a first lien on any assets that are financed with proceeds from the loan, along with a lien on the borrower's fixed assets (including real estate) to the point that the loan is fully secured. Similar requirements apply to Community Advantage Loans greater than \$25,000 and up to \$250,000.

Loans above \$350,000

Lenders must collateralize these loans to the maximum extent possible, up to the loan amount. If your business does not have enough assets to fully secure the loan, the lender must take available equity in the owner's personal real estate (residential and investment) as collateral, provided there is at least 25% equity available.



What is a Lien?

A lien on property gives the lender the right to take that property in certain circumstances, such as default. Business lenders typically use a "UCC filing" to notify others of the lien. UCC filings often appear on business credit reports and may affect your ability to get additional financing. You can check your business credit for free at [Nav.com](https://www.nav.com).

If You Rent Your Business Location

If your business operates from a location you rent, your landlord must agree to sign a Waiver or Subordination agreement, which helps protect the lender in the event of default. In addition, your lease must have a term that extends through the maturity date of your SBA loan, or has the option to renew for that time period. (In other words, if you receive a loan with a 10-year repayment period, your landlord must provide an option to renew your lease for 10 years.)

Not all landlords are willing to sign these agreements, so make sure you discuss this requirement upfront with your lender.

Warning: If You Can't Pay Back the Loan

While these loans are attractive, it's important to understand that most SBA loans require a personal guarantee from all individuals with at least 20% ownership. If your business defaults on an SBA loan, your personal savings and other assets may be at risk.

The fact that the government guaranteed the loan does not mean you are not responsible for repaying the balance.

Because this is a federally guaranteed loan, the government will have significant collection options if needed. If you default on one of these loans, for example, your federal income tax refund may be intercepted and the government may collect from certain federal benefits that are normally protected from creditors, such as Social Security payments.

3 Ways to Find An SBA Loan

1. Use Nav to find financing options (including SBA loans) matched to your qualifications. A free Nav account is available at Nav.com/score.
2. The SBA offers Lender Match, a free service to help you find lenders. Visit Sba.gov/funding-programs/loans/lender-match
3. A SCORE mentor can often suggest local lenders who offer SBA loans.

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This guide is current as of Jan 1, 2020