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5 reasons Why You want an SBA Loan & 5 reasons Why You Don't

Much has been written about the difficulty small businesses have qualifying for bank loans, but the truth is, access to capital for small and medium sized businesses has never been as broad or as deep as it is today. And access to capital is helped in a very big way by the two main lending programs rendered by the Small Business Administration.

Say what you will about the typical federal government program, this one works for the most part. We have seen firsthand the SBA making a big difference for businesses in need of capital beyond what they can qualify for with a conventional loan.

The SBA 7A loan program has been an incredible tool for small businesses, allowing them to secure the financing they need from banks through an SBA guarantee of 75% to 85% of the loan balance. The 7A program also helps many small businesses get start-up funding that banks would not provide without an SBA guarantee.

But very few things in life are for every one, and that is certainly the case with SBA loans.

We present here the 5 reasons you want an SBA loan, and 5 reasons why you may not.

5 Reasons you want an SBA Loan

- 1. You can finance owner-occupied commercial real estate with as little as 10%** of cost in cash, versus the 20-30% or more required by conventional loan financing.
- 2. You can qualify** for term loans and credit lines in amounts **beyond what your collateral would support** with a conventional loan.
- 3. You can get working capital lines of credit for 7 years,** versus the usual 1-year limit with conventional bank loan.
- 4. You can get attractive fixed rate financing locked in for as long as 25 years** on real estate (around 4.75% today), 10 years on equipment, and up to 7 years on working capital credit lines. Conventional loans will rarely fix interest rates beyond 5 years.

5. You can get a loan as a start-up. Banks require at least 2 years of history for conventional business loans, but through the SBA 7A program start-ups can acquire credit if they meet certain requirements.

5 Reasons why you don't want an SBA Loan

1. Fees-For the 7A program, you can expect to pay between 3%-3.75% of the loan balance in one-time fees to the SBA directly, on top of any fees negotiated with the bank. For a \$500,000 line of credit or term loan extended for more than one year, the SBA fee would be 3.5%, or \$17,500.

For loans less than \$150,000, this fee can be waived or is just .25%, depending on the maturity of the loan.

2. Documentation-Another layer of documents on top of those with the bank. More documents are needed to get approval, and more documents accompany any closing.

3. Slower to close-Especially with real estate under the 504 program, it can take months (and months) to get to the closing table.

4. They may require that all personal assets are pledged

The program is designed to help businesses get the financing they cannot qualify for conventionally, and also after they have pursued funding from personal assets.

5. Some loss of flexibility-Should you need to change the terms to your credit agreement or business conditions change, it is more difficult to get approval to modifications.

If you have questions whether or not an SBA loan is right for your business, please do not hesitate to call us at 314-226-3663 or email David@CapitalSolutionsSTL.com.



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