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Small business loans, also known as 7(a) loans, are the most frequently applied for and commonly used type of loan available from the Small Business Administration (SBA). Section 7(a) of the Small Business Act allows the agency to supply funding for the nation's small for-profit businesses when they're unable to receive funding from any other source. The SBA offers these loans to businesses, not individuals, so approval depends on the income, assets, and credit-worthiness of the business.

How the SBA Defines a Small Business

Owners interested in funding may wonder what the SBA considers "small." Entities can apply for an SBA loan if they have an average after tax income of $5 million or less for the past two years. Their overall net worth must also be $15 million or less.

Benefits of SBA 7(a) Loans

The Small Business Administration works with a growing number of lenders to help startups and expanding businesses by funding SBA loans. Businesses apply to and receive funding from a local lending institution, so the loan comes from a traditional source. However, the SBA guarantees to repay the lender up to 90 percent of the amount loaned if the business becomes unable to repay what they borrowed. Businesses receive the following benefits:

- **Longer repayment terms.** Many loans the SBA does not guarantee have to be paid back within 10 years. An SBA 7(a) loan can be extended in some cases. Businesses can arrange for payment terms of 10 years for equipment and 25 years for property.
- **Less money down.** Lenders will often allow borrowers to contribute less equity than with traditional commercial loans, with up to 100 percent financing on expansions for existing businesses.
- **Lower monthly payments.** With more flexible loan terms and an extended repayment time frame, small businesses also have more manageable monthly payments.

Once businesses apply to a lender, the lender applies to the SBA for a guaranty. The SBA covers up to $4.5 million for approved lenders; most loans range between $25,000 and $5 million.

PREFERRED LENDER 17 YEARS U.S. SMALL BUSINESS ADMINISTRATION

TOP SMALL BUSINESS LENDER COMMUNITY BANK IN FLORIDA U.S. SMALL BUSINESS ADMINISTRATION

How Businesses Can Use Funds

SBA loans provide businesses with funds they can use for a wide range of tasks. Some examples include:

- **New business construction including land purchase**
- **Purchasing a business or investing in growing a current venture**
- **Refinancing a previous loan to secure more favorable terms**
- **Buying equipment, supplies, or manufacturing materials**
- **Supplying additional working capital Eligibility Requirements for an SBA Loan**

SBA loans might supply some of the most affordable business financing available. Your bank or lender can help evaluate your business needs and gather the necessary application documentation. To qualify, businesses must meet size requirements, demonstrate the ability to repay what they borrow, and have a well-developed business purpose.

Ineligible applicants include those engaged in speculation, rental real estate, or lending and nonprofit enterprises, except where the nonprofits are employee stock owned.

CBC National Bank partners with small business customers to help them through the SBA loan application process. Put our lending experience to work for you to secure the funding you need for business growth.

An entity must prove it is registered as a business and operating legally. It must have a physical location that operates within the United States. Owners must prove they have provided their own funds or time to the business and that the business has applied for financing from other sources and been unable to obtain it. The SBA evaluates creditworthiness according to the following:

- **Ability to repay.** Businesses must prove they have enough earnings through historical performance and qualifying financial projections to repay the amount they're borrowing.
- **Business management.** Owners must prove they have the skills to administer daily operations and encourage future growth. For companies that are just starting, owners must demonstrate management experience from in a previous role.
- **Equity.** For a loan intended to purchase a business, owners should be able to show they've invested or purchased assets valued at $1 for every $3 of financing requested. For existing businesses, the owner should be able to show a $4-to-$1 debt-equity ratio.
- **Credit.** Lenders will review both personal and business credit history. Lenders may be able to be more lenient with poor credit history than with other types of loans.

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Sources:

- **The Advantages Of SBA 7a Loans** by Element Capital Lending Advantages
- **Small Business Association Loans Web Page**
- **The Advantages of the Small Business Administration SBA) 7A and 504 Loan Programs** by Greenway Group
- **Small Business Association Fact Sheet**