



Five Reasons to Take a Closer Look at SBA Loans

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Though the business credit environment has begun to improve in recent months, as we discussed in a recent article, it is still difficult for some Los Angeles and Southern California businesses to obtain the financing they need to support working capital needs and growth. This is especially true for start-ups and credit-challenged companies — for example, those that are dealing with financial difficulties and cash flow challenges (even if temporary) that make them unattractive to a bank from a risk perspective.

Traditionally, companies like these have sometimes been able to secure financing through the U.S. Small Business Administration. The SBA guarantees repayment of a portion of the loan proceeds, which helps reduce the bank's underwriting risk. This enables banks to make loans to businesses they might not normally consider under their usual credit underwriting criteria.

With an SBA loan, cash-strapped companies may be able to restructure their debt at more attractive terms, lengthen maturities and lower their monthly payments, which can help ease their cash flow crunch. But financially challenged companies aren't the only ones that could possibly benefit from SBA financing.

Legislation Enhances SBA Loans

The Small Business Jobs and Credit Act significantly enhanced the most popular SBA loan programs, including the SBA 504 program. Specifically, the legislation:

1. Simplified and streamlined the SBA loan application process by reducing the amount of documentation and paperwork borrowers must submit.
2. Increased the SBA 504 loan limit from \$1.5 million to \$5 million.
3. Increased the SBA 504 loan limit for small manufacturers from \$4 million to \$5.5 million.
4. Increased the SBA 7(a) loan limit from \$2 million to \$5 million (on the SBA's portion of the loan, which is usually 40 percent).
5. Expanded the definition of a small business for the purpose of applying for an SBA loan. Companies with a tangible net worth of under \$15 million and average net income over the past two years of under \$5 million can now apply for an SBA loan.

Keep in mind that not all types of businesses are eligible to receive an SBA loan. Non-profits, passive organizations (such as developers and landlords), life insurance companies, and private clubs that limit membership generally are not eligible for SBA loans.

Preparing Your SBA Loan Application

Also keep in mind that an SBA guarantee doesn't mean your business will automatically qualify for financing. SBA loans are generally underwritten by banks just like conventional loans are — the SBA is just assuming some of the risk of loan default. Therefore, it's important to prepare your SBA loan application thoroughly, just like you would a conventional loan application. Your application generally should include the following:

- A description of your business and your products/services.
- An analysis of your industry, marketplace and competitive environment.
- Detailed financial pro formas, including the assumptions upon which they are based.
- Three years of financial statements (balance sheet, income statement, and cash flow statement), prepared in accordance with GAAP.
- Three years of business and personal tax returns and personal financial statements.
- Collateral that will be pledged to support the loan.

Also use caution in selecting the right bank to work with when applying for an SBA loan. Not all banks specialize in SBA lending, so do research to find out which banks in your area underwrite the most SBA loans. Look especially for banks that are designated as an "SBA Preferred Lender." These banks follow a streamlined method of processing SBA loans, which usually enables them to process SBA loan applications faster than banks that aren't SBA Preferred Lenders.

Concluding Thoughts

Los Angeles and Southern California business leaders and financial executives in need of financing to support working capital needs and growth should take a close look at whether or not an SBA loan might be the right financing vehicle for them. Legislative enhancements to the most popular SBA loan programs have expanded their appeal beyond just start-ups and cash-strapped businesses to all types of companies. An outsourced CFO services provider can help you determine the right SBA loan program for your needs, as well as offer assistance in preparing your SBA loan application package.

About CFO Edge

CFO Edge, LLC is a leading Southern California provider of outsourced CFO services. Based in Los Angeles, we are a group of experienced chief financial officers who engage with CEOs and CFOs on demand to address strategic planning, business management, and day-to-day financial operations challenges. Our seasoned professionals deliver services as interim CFOs, part-time CFOs, project-based CFOs, recruitment-to-permanent CFOs and interim-to-permanent CFOs. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.

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