



U.S. Small Business  
Administration



# Central Region Small Business Development Center

Hosted by St. Cloud State University

## Preparing to Apply for an SBA Loan

# Today's Presentation



- Overview of Small Business Development Center's (SBDC's)
- Five C's of credit
- Types of SBA loans
- Business plans
- Points of interest and questions

# Our Network



- The MnSBDC Network includes nine regional centers hosted by colleges and universities and many satellite offices located across the state.
- Our consultants are highly educated, experienced business people, most of whom have started and managed a business.
- The SBDC strives to understand the **business challenges** unique to the region as well as assist businesses compete in the worldwide market.

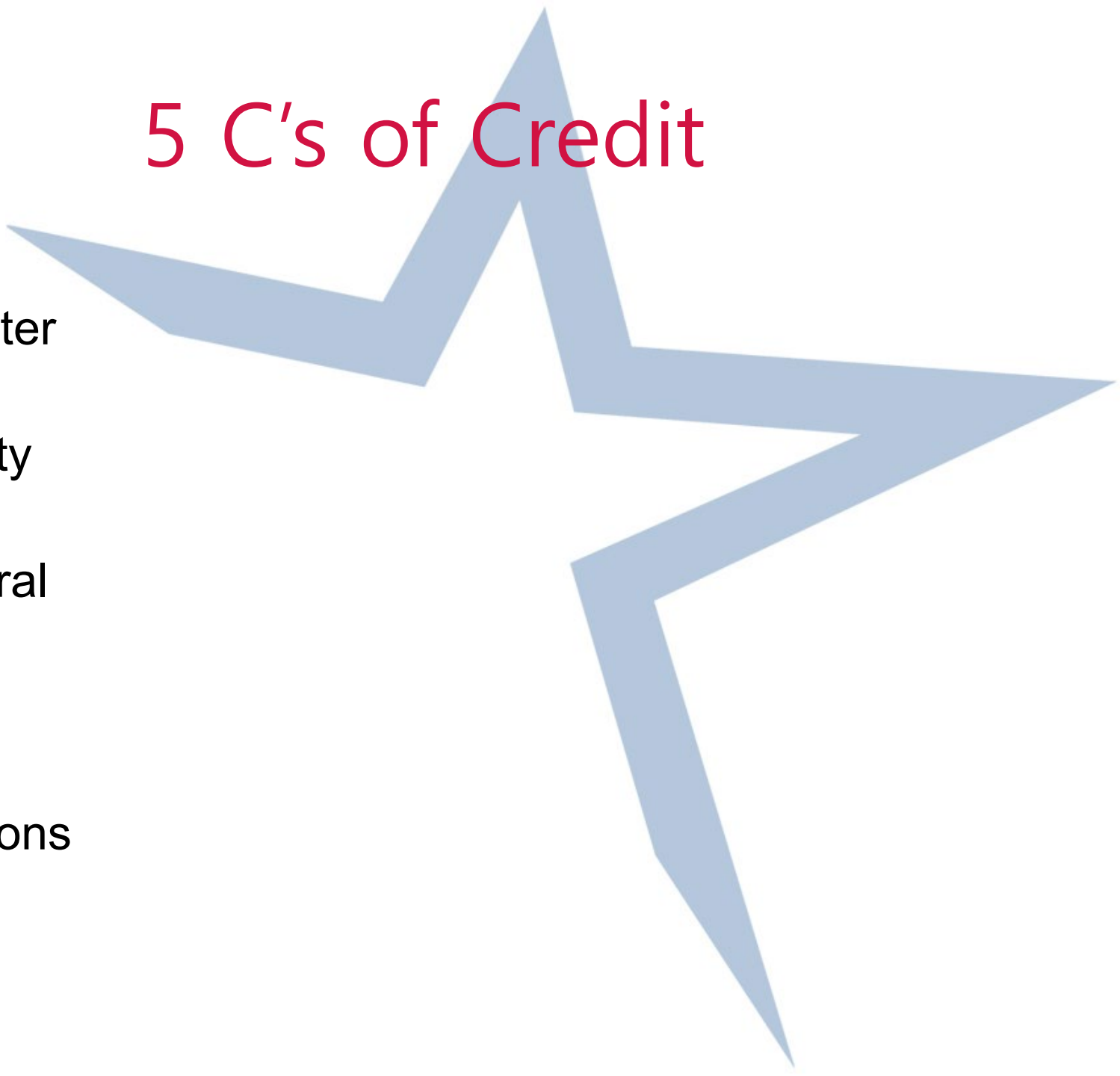
# SBDC Offerings



- Business and marketing plans
- Financing and access to capital
- Cash flow management
- Start-up assistance
- Human resources planning

# 5 C's of Credit

- Character
- Capacity
- Collateral
- Capital
- Conditions



# Character



- Most comprehensive aspect of evaluating creditworthiness
- Unexplained gaps in employment
- A past criminal record
- Past credit history, loan defaults or bankruptcies
- Fair Isaac Corporation (FICO) score or credit score
- Experian, Equifax use the FICO model (680+ is desirable)

# Capacity



- Risk is weighed on your capacity to repay the loan
- What is your Debt-to-Income Ratio (DTI)
- Is the business your only source of income?
- What is your current lifestyle?
- Potential future obligations

# Collateral

- The value of collateral is evaluated by deducting the value of current loans secured through the same asset. The remaining equity indicates the true value of collateral for the borrower.
- The evaluation of the liquidity of collateral is also dependent on the type of asset, its location, and potential marketability.
- **Advance rate** is the percentage amount of the collateral that a lender is willing to extend as a loan.



# Capital



- Capital represents the overall pool of assets under the name of the borrower.
- Business loans are intended to be paid back by the profits coming into the business. Capital can come from different asset classes such as a retirement account.
- You may have to raise capital to fund your business venture. That's code for sell your toys.

# Conditions



- Conditions shape the risk assessment in a business lending decision.
- Bankers what to have you present a funds uses and sources document.
- External factors can raise the level of risk, examples include: political change, inflation, interest rates.

# Small Business Administration (SBA) Loan Programs



- There are three main types of SBA These include Microloans, 7(a) loans and 504 loans.
- An SBA loan is a loan that is given to small businesses that is partially guaranteed by the U. S. Small Business Administration
- SBA loans are desirable by many companies because they offer longer repayment terms and lower interest rates than many other business loans do.

# SBA Microloans



- The Microloan program provides up to \$50,000.00 to businesses seeking to start up or expand.
- Microloans are administered by a not-for-profit intermediary, interest rates historically have ranged from 8 to 13 percent with no additional fees.
- Loan terms may not exceed 6 years collateral and a personal guarantee from the business owner must be provided.

# SBA 7(a) Loans

- 7(a) loans most common type of SBA loans, they can be used to purchase businesses, real estate, refinance, equipment, and working capital.
- Interest rates generally average 3% above the daily prime rate but can vary upon the loan maturity date.
- 7(a) loans are capped at 5 million dollars and generally include a guarantee fee of 3.5 to 3.75%.

# 7(a) Eligibility Requirements

- Business must operate for profit
- Must meet criteria for the definition of a small business set by the SBA
- Conduct business within the United States
- Have a reasonable amount of invested equity
- Exhaust alternative resources prior to seeking the loan
- Able to demonstrate the need for the loan
- Not be delinquent on any other loans to the U.S. government

# SBA 504 Loan Program

- 504 loans are available through Certified Development Companies (CDCs), they are certified and regulated by the SBA. The program provides long-term fixed rate financing up to \$5 million dollars for major fixed assets.

## Am I eligible?

- Must operate a for-profit company in the United States
- Have a tangible net worth of less than \$15 million
- Have qualified management experience
- Demonstrate the ability to repay the loan
- Provide a formal business plan

# SBA 504 Loan Program



How do I use a 504 loan?

- Existing buildings or land
- New facilities
- Long term machinery and equipment

What a 504 loan cannot be used for:

- Working capital or inventory
- Debt consolidation
- Investment in rental real estate

Current interest rate, ten year 4.93% Nov. 2020 2.231%



# The Business Plan Two Types

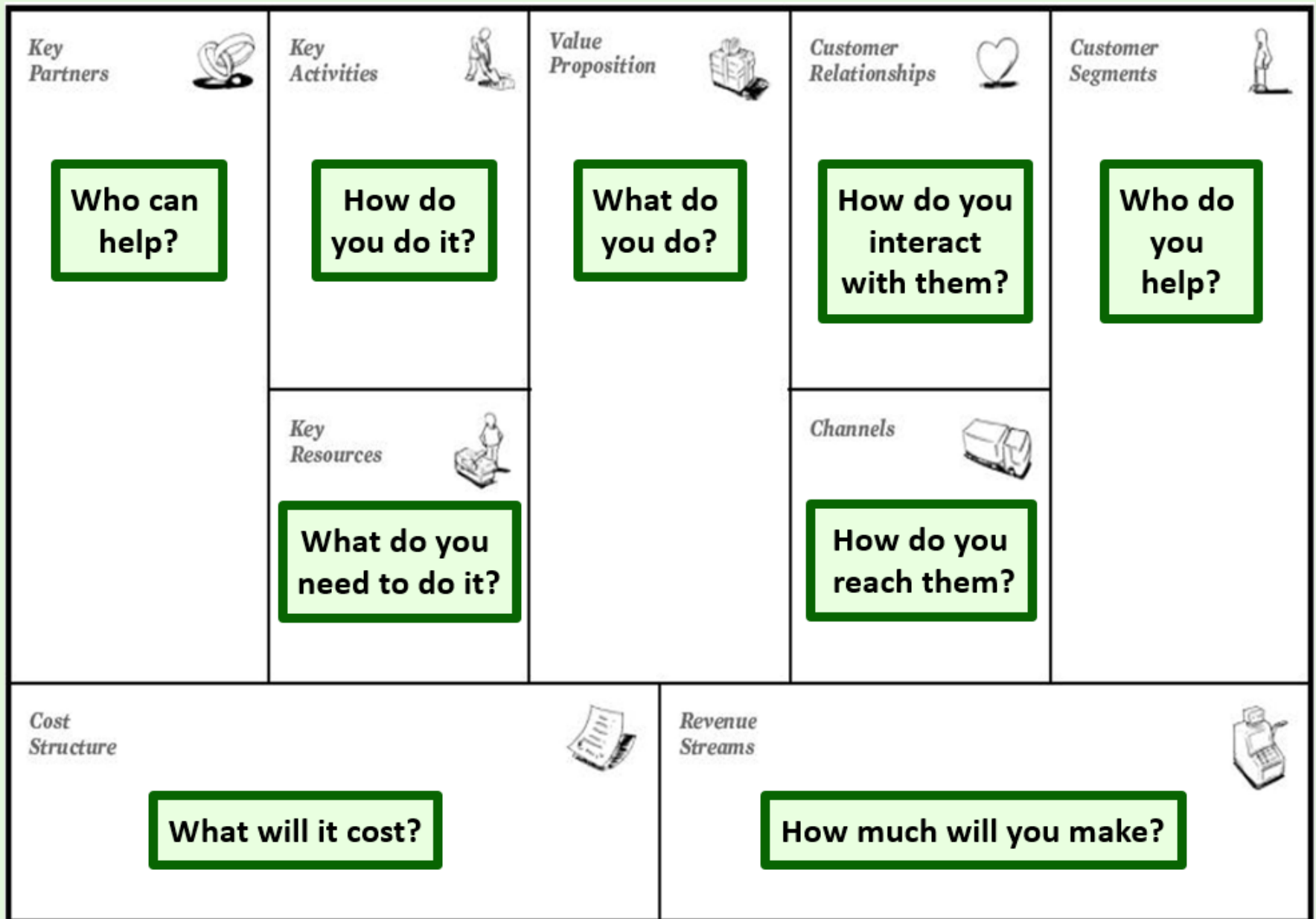
## Lean/Traditional

### **Lean, Business Model Canvas (BMC)**

- The BMC is a template and a strategic tool focused on the vision and purpose of your business.
- Since it is very visual, the BMC appeals to many entrepreneurs and is a great tool for brainstorming.

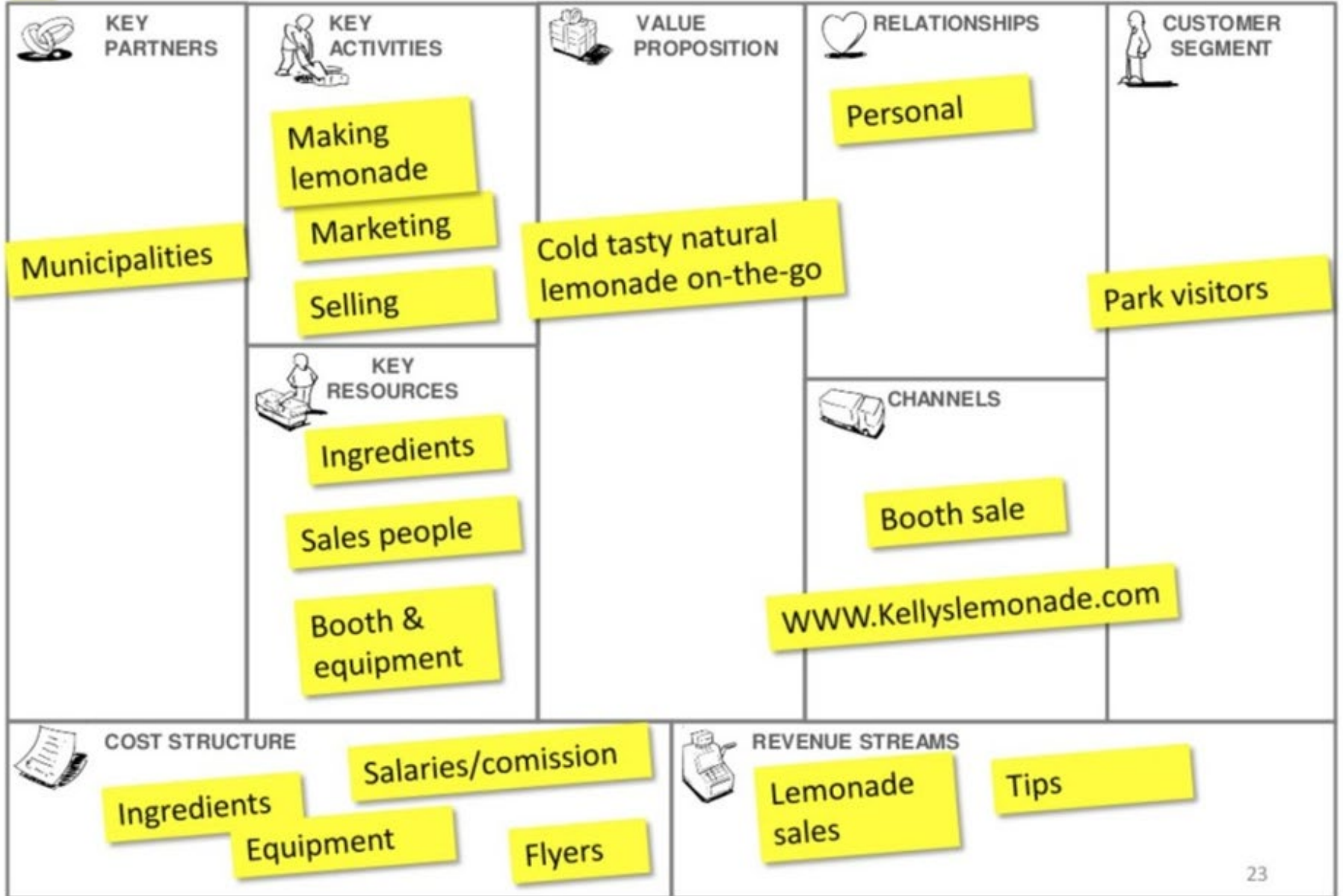
### **Traditional Business plan**

- Traditional business plans guide you through each stage of starting, running, growing and exiting your business
- Business plans can help you get funding or bring on new business partners





# Kelly's Lemonade Stand: Refreshing Lemonade



# Traditional Business Plan



- Executive Summary. The executive summary is the first and most important part of your business plan
- Company Description
- Market Analysis
- Organization and Management
- Goods and Services
- Marketing
- Financial Projections

# Lean/Traditional

Lean	Traditional
Visual component	Relies on words and numbers
Helps make a pitch	Necessary to get significant funding
Describes your business	Guides how to build your business
Looks at customer value	View business from owner's and customer's perspective
Not a strong emphasis on finance	Strong emphasis on finance
Excellent for brainstorming	Not set up for brainstorming
Helps get you started	Helps your business be successful

# Small Business Lending

- Non-bank lending is growing
- Alt lenders have the ability to leverage a broad set of data and machine learning versus banks
- Small business loan approval banks 58%, alternative lenders 71%
- Kabbage lends on the average of 10 million daily
- **Beware!** Up to 35% interest rates charged by alternative lenders

# Business Value Drivers



- Financial History
- Competition
- Owner Involvement
- Human Capital
- Customer Diversity
- Management Depth
- Customer Satisfaction
- Operating Efficiencies

# Central Region SBDC Success

## **During the past five years**

- 2018 named a center of innovation and excellence by the Small Business Administration
- 2019 SBDC client featured in the New York Times
- 2019 local SBDC client testifies in front of congress
- 2018 to date 119 new business starts and help clients access \$44,669,709.00 in start up capital



# Questions?

Please Call:

MN Central Region

Small Business Development Center

(320) 308-4842

[www/stcloudstate.edu/sbdc](http://www.stcloudstate.edu/sbdc)

<https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/general-small-business-loans-7a/7a-loan-application-checklist%20>