



The Premier Business Management Firm
For Emerging and Growth Companies

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GENERAL GUIDELINES AND REQUIREMENTS TO BE CONSIDERED FOR A US SMALL BUSINESS ADMINISTRATION (SBA) GUARANTEED LOAN

A prospective loan applicant will be required to provide the following information to their lender to be considered for a loan to be guaranteed by the US Small Business Administration ("SBA"):

1. **Business Plan:** A document that describes the type of business, number of employees, management, market niche, sales and marketing plan, product or service, competition, location, length of time in business and ownership.
2. **Loan Request:** How much money will be required and how the money will be used. This must include the purpose of the loan and the amount and type (e. g. equipment \$20,000, leasehold improvements \$5,000, inventory \$30,000, sign \$10,000 and working capital \$35,000 = \$100,000).
3. **Down Payment:** Generally the applicant(s) must have 25% to 30% of the total funds required as their cash contribution or "sources and uses of funds" (e. g. the total amount required to start the business is \$100,000. Applicant(s) must have \$25,000 or 25%, and the loan may be for the remaining \$75,000 or 75%).
4. **Collateral:** Describe collateral offered to secure the loan, including equity in business, borrowed funds, cash to be invested, equity in residence, stocks and bonds, etc.
5. **Business Financial Statements:** If the business has been in operation, the applicant(s) must submit the last three years of financial statements (balance sheet and profit & loss statements) and an interim financial statement for the current year.
6. **New Business:** Must provide a pro forma balance sheet and 3-years of pro forma profit and loss statements. *The financial statements must show an ability to repay the loan from the business's operation in a reasonable time period.* A key element is cash flow. Cash pays monthly expenses - not profits. What does that mean? Profits can be tied-up in accounts receivable, inventory, and work-in-progress leaving in some cases insufficient cash to pay monthly expenses. Notes detailing the financial assumptions that were used to prepare the pro forma projections are very important to the lender. Assumptions that are either too conservative or too aggressive may negatively impact your ability to secure a loan because the lender does not have confidence in the borrower(s) or manager(s) ability.

7. **Personal Financial Statement(s):** Each owner of 20% or more of the business must provide a Personal Financial Statement and a Statement of Personal History, and will be required to provide a personal guaranty for the entire amount of the loan.
8. **Federal Tax Returns:** Each owner of 20% or more of the business must provide copies of their personal federal income tax returns for the past 3-years. If the business has been in operation, it must provide federal tax returns for the past 3-years.
9. **Second Real Estate Mortgage(s):** The lender may require a second, or junior, real estate mortgage in the owner(s) owner occupied residences generally when a) the equity in the residence is substantial and other credit factors are weak, b) such collateral is necessary to assure that the borrower(s) remain committed to the business, or c) the business is owned or operated from the residence.
10. **Owner(s) Manager(s):** A key consideration is the lender's belief that the owner(s) and or manager(s) have the training, education, experience, and motivation to operate the business. The character of the individuals is very important to the lender. The lender must subjectively decide if the borrower(s) are sufficiently trustworthy to repay the loan or generate a return on funds invested in the business. Prior management experience and industry experience are key considerations, as is a good credit rating.
11. **Loan Amount:** Typically our lenders require a minimum loan amount of \$150,000. The maximum SBA loan amount is \$2-million.
12. **Loan Term:** Generally the term is 5 to 10 years for equipment, leasehold improvements, and working capital. However some equipment loans may be longer if their economic life is longer (but never more than 20 years). Most loans are based upon an average weighted maturity of the various components of the total loan (e. g. equipment, leasehold improvements and working capital). Loans that include real estate may have a term of up to 25-years.
13. **Interest Rate:** Base rate is New York Prime plus a margin of up to 2.75%. The lender based upon its risk assessment of the loan sets the margin amount.
14. **SBA Loan Guaranty Fee:** The guaranty fee is paid by the borrower(s). The fee structure is: a) loan amounts to \$150,000 are 2% of the loan amount, b) loan amounts from \$150,000 to \$700,000 are 3%, c) loan amounts from \$700,000 to \$1-million are 3.5%, and d) loan amounts in excess of \$1-million pay 3.75%. These charges are usually a part of the total loan amount. The SBA charges an additional annual servicing fee of .50% on the outstanding loan balance.
15. **Documentation Fee:** Lenders often charge a loan documentation fee ranging from \$1,000 to \$1,500 to prepare the loan documents. The lender may also require the borrower(s) to pay for an attorney's opinion regarding the loan documentation.
16. **Recording Fees:** The borrower(s) will pay the cost to record any legal documents to prefect the lender's liens or security interests (e.g. Uniform Commercial Code fees, real estate mortgages, etc.).