

SBA Business Solutions

Helping You make Sense of Small Business Financing

SBA Loan Update

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Perspective

Welcome to the first issue of SBA Loan Update, an e-newsletter For those who support small businesses, and want to keep abreast of the opportunities available for them.

"SBA has rolled out more new programs in the last 6 months through the 2009 Recovery Act than in the last 6 years."

The American Recovery and Reinvestment Act has brought about great changes in SBA lending. SBA has rolled out more new programs in the last 6 months than they have in the last 6 years. Manuals are also being rewritten and revised to respond to changes in lending as a result of the economy. Where lenders and the SBA have seen greater losses, they have tightened credit standards. We will explain some of those changes here and in future issues. If you would like to see a specific issue addressed let us know. Our goal is the same as yours—to help our area small businesses succeed.

Coralie

ARC 0% Loans for Small Business—Help or Hype

The [U.S. Small Business Administration \(SBA\)](#) has started offering loans through lenders in our area for companies struggling with the economy. The companies need to have been in business at least 2 years, made a profit or had a positive cash flow in at least one of the last 3 years and not be behind in their taxes to be considered. **First step: Check with your current lender to see if they are participating in the program—they would be the one most likely to approve your request.** For program specifics, follow the link above. If you have additional questions, feel free to call.



New Dealer Floorplan Financing Program available through September 2010



The SBA is now offering floorplan loans from \$500,000 (minimum) to \$2,000,000, under a pilot program through September 2010. A decision whether to offer those loans beyond that date will be made at that time. Guarantees to the lender will be 60-75%, depending on the advance rate (how much the lender will lend you on that asset) and type of collateral. Maturity is 5 years. The program is open to eligible dealers of titleable assets, including but not limited to automobiles, motorcycles, boats (including boat

trailers), recreational vehicles and manufactured housing (mobile homes). **Check with your existing lender—they may not be aware of this opportunity.**

Small Business Resource Guide for Eastern Washington and North Idaho now available from:

SCORE
Counselors to America's Small Business

It was recently our privilege to edit and publish this guide for SCORE. It is similar to the one published by SBA Seattle, but has more resources for our area, and is easier to read. Changes and additional information are welcome for the next issue. You can get your copy from SCORE, SBA, or the BizStreet Resource Center at 801 W. Riverside, Spokane; your area SCORE chapter; or any Sterling or Banner bank branch.



SBA Lending up 45% since February – Start-up businesses funded, but equity requirements have changed

More than 400 banks that hadn't made an SBA-backed loan since 2007 resumed lending after the Recovery Act was enacted in February. As of August 1st, weekly loan volumes have risen 45% nationally since the stimulus bill passed, compared to the months immediately prior.

But compared to last year, the SBA's lending volume is still way off. For the quarter ended June 30, the SBA backed 30% fewer loans than it did a year ago, and 55% fewer loans than it did in 2007, before the recession set in.

In the Inland Northwest, SBA loans are up as well. **Don't expect to get a loan to start a business without investing your own money into the venture.** Gone are the days where you could get a loan with only a 10-20% injection of personal funds. Most of the lenders we talk to these days are requiring a 30% injection, unless the applicant is a dentist or veterinarian.

Further, **SBA changed the rules last year as to how home equity loans are considered as an equity injection.** Basically, they will only consider it as a source of equity if the applicant has income outside the business that can pay the debt. Otherwise they consider it another obligation of the business. Offering a house or other asset as collateral will not suffice either. Collateral is not the same as putting actual money into the business. Collateral is what you pledge as security for the loan, and what you can lose if the business defaults. The lender may require a lien on your home as additional security, but that does not take the place of a capital injection.

Why do they want the business owner to have more invested? It is quite simple. **The more the business owner has invested of his own funds, the more likely the business is to succeed.** That is because the owner is committed to the success of the company—they have a significant amount at risk as well as the lender and SBA. But, more importantly, the more money you have as equity, the less you have to borrow, and the less you will have to pay out to other people (lenders) to keep your business growing.

What if you don't have a lot of cash available? There are other options. For instance, if the entrepreneur is purchasing a business, and the seller is willing to wait to be repaid part of the sale proceeds, SBA may consider that as part of the injection.

Do not borrow against your IRA or retirement funds unless you go through an approved program for investing those funds in your business. Otherwise, you could face penalties from the IRS that offset any profits you make.

Another option is for the business to **borrow funds from family or friends.** If payments will not be made, including interest, during the term of the loan, those funds can be considered as equity. Most lenders still want the business owner to have some of his/her own funds at risk, since they want the business owner to be vested in the business, but this can help if you do not have enough equity of your own to qualify.

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Questions or comments? E-mail us at info@sbaBusinessSolutions.com or call 509-723-9398.

SBA Business Solutions, Inc. helps lenders and borrowers make sense of the alphabet soup of SBA Financing. Whether it is putting together a loan package, figuring out the best type of financing for your situation, or working with a lender to get what the SBA needs, we can help. With over 25 years of SBA lending experience, we can connect you with the resources you need to succeed!

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Next Month—

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