

# Growth opportunity

## How to expand your business through an SBA loan

INTERVIEWED BY LESLIE STEVENS-HUFFMAN

**Y**ou need operating cash to grow your business, but securing a traditional commercial loan isn't always easy for small and midsize business owners. Fortunately, Small Business Administration (SBA) loans are a worthwhile financing option. An SBA loan typically offers longer terms, more competitive interest rates and, best of all, bankers can be more lenient because the government guarantees up to 75 percent of the loan amount.

"An SBA loan is a sensible option for businesses that experienced a decline in sales and profits during the recession," says Santiago "Chico" Perez, SBA sales manager for California Bank & Trust. "Bankers can consider your financial projections, along with historical data, when evaluating your loan application."

*Smart Business* spoke with Perez about the growth opportunities through an SBA loan.

### When should business owners consider an SBA loan, and how do these loans differ?

New ventures traditionally have a hard time securing working capital, but you may get \$100,000 to \$5 million through a SBA loan, as long as you've run a similar enterprise and propose a viable business strategy. You also can use SBA funding to purchase another company or procure equipment or inventory to fulfill a new contract.

Generally, SBA loans can offer more favorable terms. For example, you only need 10 percent down to purchase real estate, and you can roll fees into the loan balance. SBA loans feature higher loan-to-value ratios, longer repayment periods and no balloon payments. Companies often qualify for higher loan amounts because they can amortize the purchase of buildings over 25 years or equipment over the remaining economic life, and need less cash flow to

service the debt. Owners also can use funds to buy raw materials, finished goods or equipment to expand into new markets.

### How does the SBA's underwriting criteria differ from traditional commercial loans?

Bankers will review standard requirements such as financial statements and credit reports, but some criteria differ:

- Projections. Bankers consider future sales and historical data when evaluating loan applications. Ensure your projections are realistic and correlate with current financials and forecasts. For example, earnings won't automatically double with a larger facility or new equipment. Instead, explain how the equipment lowers operating costs or how you'll use the extra space to add a new production line. Substantiate claims with copies of customer agreements and contracts.
- Resumes. Tout your management team's industry experience and track record.
- Ownership. Owners with more than a 20 percent stake must submit signed personal financial statements and tax returns.
- Down payment. Lenders must determine the source of a borrower's down payment, even if the funds are in an escrow account.
- Collateral. The need for collateral hinges on the loan purpose and program so review underwriting criteria at [SBA.gov](http://SBA.gov), and state both in your proposal.



### SANTIAGO "CHICO" PEREZ

SBA sales manager  
California Bank & Trust

[santiago.perez@calbt.com](mailto:santiago.perez@calbt.com)

**WEBSITE:** California Bank & Trust is an SBA Preferred Lender. Learn more at [www.calbanktrust.com/smallbusiness/loans/small-business-loans.html](http://www.calbanktrust.com/smallbusiness/loans/small-business-loans.html).

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- Tax returns. Owners must supply three years of tax returns, financial statements and balance sheets to qualify.

### Does the SBA offer other support to small business owners?

The SBA provides myriad tools and support to help owners create a loan proposal and navigate the underwriting process. Small Business Development Centers offer free assistance with financial, marketing, production and feasibility studies, and many centers engage local experts.

The SBA also provides mentorships, free counseling and business plan expertise through the national nonprofit SCORE.

### What else can owners do to successfully navigate the lending process?

Loan approval hinges on an accurate, thorough proposal, so take your time and seek expert advice. Bankers want to hear the story behind your numbers; be ready to explain how you overcame adversity and how you'll use the SBA loan to take your business to the next level. Help your banker understand your customers by including links to your company's website, LinkedIn page or Facebook page in your proposal. Finally, you can accelerate the process by selecting an approved Preferred Lender who can approve loans without submitting the entire package to the SBA. ●