CELTIC BANK

The Definitive Guide to

SBA LOANS

Member FDIC

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Have you ever looked into getting a business loan?

Then you know there are a dizzying array of options out there. Traditional commercial bank loans. SBA loans. Alternative financing by non-bank lenders. Even your payment processors want to loan you money!

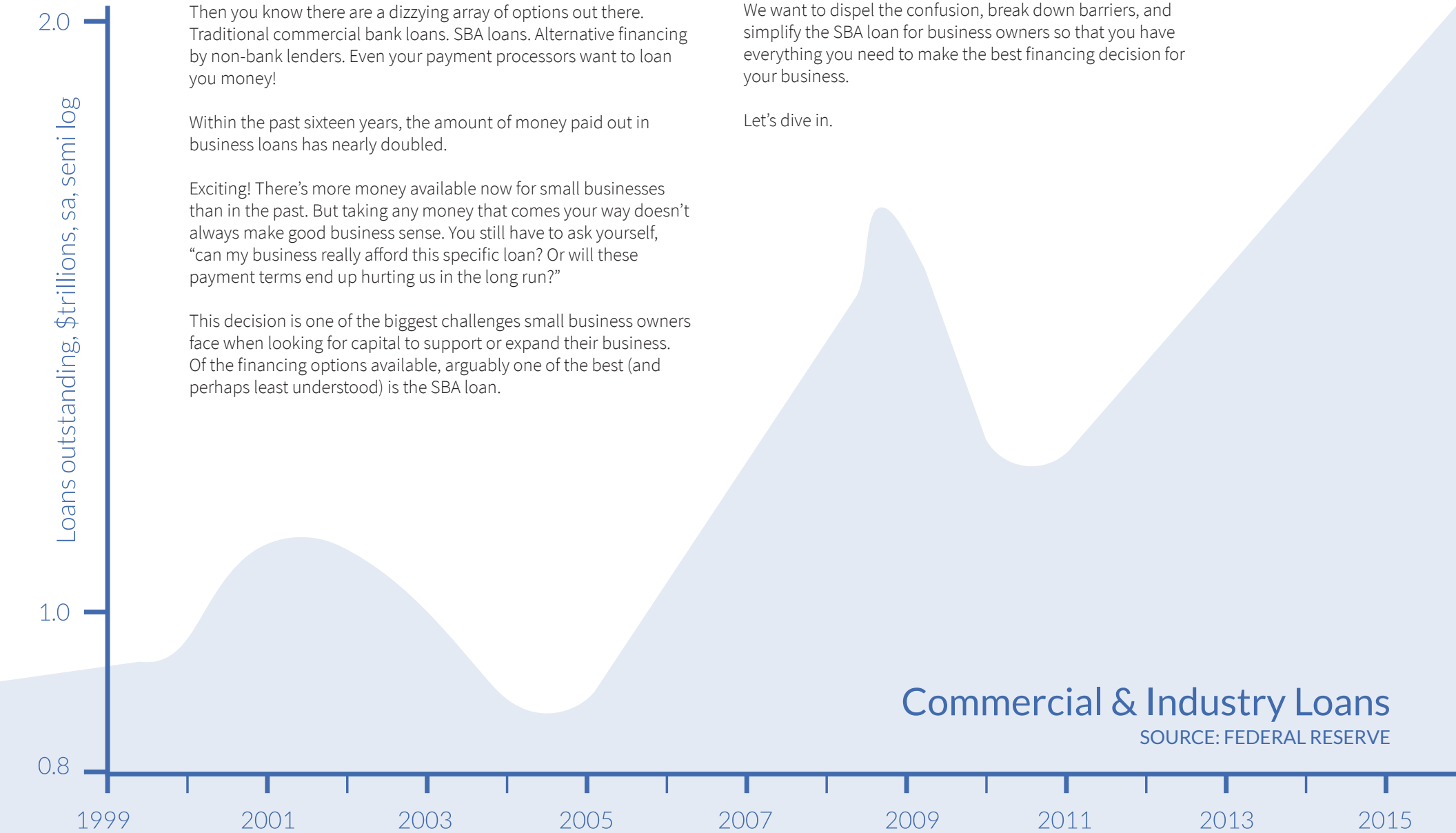
Within the past sixteen years, the amount of money paid out in business loans has nearly doubled.

Exciting! There's more money available now for small businesses than in the past. But taking any money that comes your way doesn't always make good business sense. You still have to ask yourself, "can my business really afford this specific loan? Or will these payment terms end up hurting us in the long run?"

This decision is one of the biggest challenges small business owners face when looking for capital to support or expand their business. Of the financing options available, arguably one of the best (and perhaps least understood) is the SBA loan.

We want to dispel the confusion, break down barriers, and simplify the SBA loan for business owners so that you have everything you need to make the best financing decision for your business.

Let's dive in.



SBA LOAN BASICS

So what exactly is an SBA loan? And how is it different from other business loans?

Great question. Let's start with the basics

What is an SBA loan?

An SBA loan is a small business loan backed by the U.S. Small Business Administration. By "backed," we mean that the SBA insures or guarantees some portion of that loan.

By insuring SBA loans, the government gives lenders a stronger incentive to loan money to small businesses. Small businesses with capital grow faster and are more able to weather difficult economic periods, which has a big impact on our economy.

"According to the SBA, the 28 million small businesses account for 54% of all U.S. sales and 55% of all jobs"

Perks of using an SBA Loan

But what makes an **SBA loan** the best choice for me and my business?

We know, we know. There are a lot of options for getting your small business loan. And while every option has its pros and cons, SBA loans are a balanced, sustainable way to get you the money you need—*without* putting the financial well-being of your company at risk. In a nutshell:

TRADITIONAL COMMERCIAL BANK LOANS

come with relatively low interest rates but are aimed at individuals with a high net worth or larger enterprises, so they can be difficult to obtain. In fact, only slightly more than 20% of business loan applications submitted to big banks in 2016 were actually approved. The high rejection rates, in addition to a lengthy application process, can make the traditional bank loan process very frustrating.

ALTERNATIVE FINANCING OPTIONS

like short term loans or lines of credit, merchant cash advances, and revenue cash advances - have high approval rates. But they also have high interest rates and can cut down profitability -reducing cash flows to sometimes unsustainable levels. Ultimately, this creates a great deal of stress on the owner and may even put the success and survival of the business in jeopardy.

SBA LOANS

may just be the happy medium between the traditional bank loans and alternative financing options. Created specifically for small businesses, SBA loans come with lower rates, longer payment terms, and flexible repayment options. We like to think of them as “sustainable business debt” that gives your business a real opportunity to grow.

Loan Uses

Okay, so far, these SBA loans sound pretty good. But what can I actually use the money for?

The short answer? A lot of things. One use that covers a lot of ground here is "working capital," or the money you need to keep your business working and growing. You can pay operating expenses with it. You can pay off outstanding bills with vendors or suppliers. You can use it for seasonal needs, like buying inventory to prepare for the holiday rush. And you can use it to fund bigger purchases to support or expand your business, like

- Equipment
- Machinery
- Furniture and other major office needs
- Fixtures
- Land

You can use your SBA loan to buy or construct a new building—or completely renovate an old one. Use it to expand your current operation. Or use it to buy a totally new business.

LET US HELP YOU PAINT THE PICTURE

Think of an SBA loan as a manageable "balanced diet and exercise" approach to financial fitness.

Meeting the rigorous qualification standards set by traditional bank loans can be the financial equivalent of competitive bodybuilding.

You can get there if you're super motivated.

But it's going to require a lot of time and effort, and the success rate is low. But the instant solutions offered by many alternative financing options are more like a quick-but-crazy crash diet. It gets you what you need, and fast, but sometimes at an unhealthy cost which will have long-term effects on your overall business health.

SBA loans are the healthy long-term loan solution for your business

Not usually as quick (e.g., "same-day funding") as the crash diet, but not a risk to your health, either. And when you get the funding you need, the low monthly payments and interest rate won't eventually land your business in the hospital.

SBA Eligibility

I'm assuming that just because a portion of the money is guaranteed by the SBA does not mean that lenders will dole out cash to anyone with a hope and a dream. What are the requirements for getting an SBA loan?

You're right.

There are definitely some requirements your business has to meet. But they may not be as strict as you've been led to believe. Here is a quick list of SBA loan requirements, taken right from the SBA.

Keep in mind that many lenders also add their own qualifications.

SBA Loan Requirements Checklist

- ✓ Operate for profit
- ✓ Be small (as defined by the SBA)
- ✓ Do business in the U.S.
- ✓ Have reasonable invested equity
- ✓ If necessary, be willing to pledge personal assets
- ✓ Demonstrate a need for the loan
- ✓ Use the money for a sound business purpose
- ✓ Not be delinquent on existing debt with the U.S. government

and/maybe

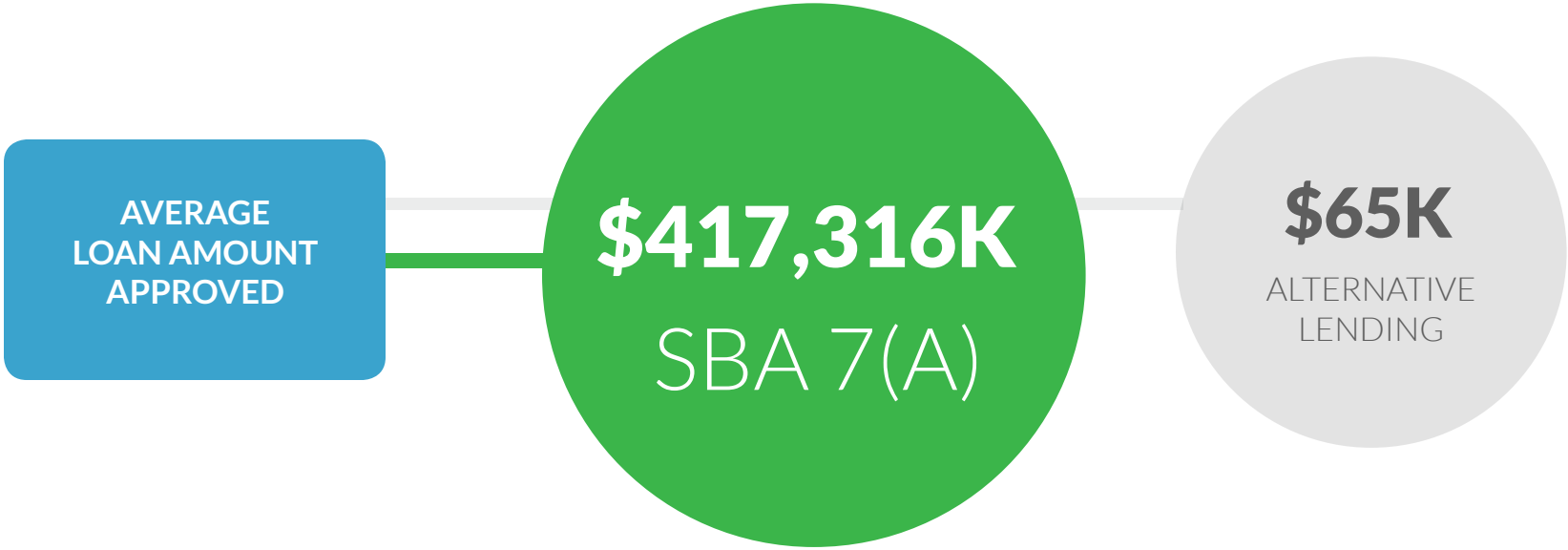
- ✓ Be in business two years or more
- ✓ Be profitable
- ✓ Have a "good" credit score
- ✓ Have no bankruptcies or foreclosures in the past 3 years
- ✓ Have no recent charge-offs or settlements
- ✓ Have no criminal record other than minor vehicle violations

Loan Amounts

I've heard that SBA loans are generally too small. Is this true?

Although some say that SBA loans are often too small to make much of a difference, there is actually a broad range of loan amounts available to those who qualify. Did you know you could get up to a $5 million loan under the SBA 7(a) program? **SBA loans typically range anywhere from $25,000 up to $5 million,** depending on eligibility, lender, and the intended use of the money.

Now that you have the basics, let's take a deeper look at the SBA's business loan programs.



https://www.valuepenguin.com/average-small-business-loan-amount

SBA LOAN PROGRAMS

Your small business is unique, and it has unique needs. Knowing this, the SBA has created a number of loan programs to better meet those needs. But for a lot of business owners learning how to navigate these loan programs can be intimidating and confusing.

It's not as complicated as it seems. Most loans will fit into either the 7(a) or the 504 program, but there are other programs, too.

Whatever your need—chances are there's an SBA loan to match it.

TYPES OF LOANS	AMOUNTS AVAILABLE	TURN AROUND TIME	USES
7(A) LOANS	Up to $5 million	2-3 months	Working capital, equipment, real estate, renovating, seasonal,debt refinacing
EXPRESS LOANS	Up to $150,000	24 hr decison, 48 hr close	Working capital, equipment and inventory
	$150,000 - $350,000	36 hr decison, 48 hr close	Working capital, equipment and inventory
MICRO-LOANS	Up to $50,000	Varies by lender and anticipated use	Working capital, equipment, inventory, furniture and fixtures, supplies, and small machinery
504 LOANS	Up to $5 million	2-3 months	Land purchases, equipment, improvment and construction projects
EXPORT LOANS	$250K - $5 million	Varies by loan type	Expansion and development of overseas markets, working capital for exported goods and services, funding for foreign trade shows, stanby letters of credit, and product literature translation

7(A) Loan

For those looking to borrow substantial amounts of money, the 7(a) loan provides a viable solution. With no minimum loan amount and a cap of $5 million, the 7(a) loan is a flexible funding source for your small business. And because the SBA will guarantee up to 85% on loans under $150,000 (and up to 75% on loans over that amount), the government assumes a big chunk of the risk. This means that lenders have much greater incentives to help you get the loan you need.

Great. But what would be the specific purposes for my 7(a) loan?

Luckily for you, the 7(a) loans have the largest range of uses—including long and short-term working capital needs. This means that you can use your loan to pay operational expenses, purchase inventory, and help with seasonal financing needs. The large amount of capital available through the 7(a) loan also means that you can get the resources your small business needs for its next big purchase. It can be used for equipment, for real estate—even for construction and renovation projects.

Express Loan

Generally speaking, when my business needs money, we really needed money yesterday. I understand that it takes time to review and approve a loan, but is there any way to expedite that process?

The SBA Express loan is an accelerated loan. It has a 36-hour turnaround response time for those who are in need of *funding now.* Through the Express loan program, qualified applicants can get up to $350,000 to cover working capital, equipment, or inventory.

While the government will only guarantee up to 50% of an SBA Express loan for the lender, this loan provides a quick solution for immediate financial needs.

30
minutes
Complete your online application

→

1-2
days
Prequalify for the loan

→

1-2
weeks
Receive your loan
(Depending on paperwork)

Microloan

Now all of this sounds great, but I don't need that much money. What are your smaller lending options?

The microloan is just what it sounds like: a micro-loan. Microloans go up to $50,000 and are administered through intermediary lenders, or nonprofit organizations specializing in lending and technical assistance.

Microloans are available for use on a variety of things, including working capital, inventory and supplies, furniture, fixtures, and smaller machinery or equipment. They cannot be used to purchase real estate, renovate existing structures, or pay off existing debts. Because the approval of these loans is contingent on your intermediary lender, the turnaround time for microloan approval can vary greatly. Still, the microloan does offer a manageable solution for your smaller cash deficiencies.

504 Loan

Another type of loan available to small business owners is the SBA 504 loan. Designed specifically for land purchases, equipment, renovation and construction projects, the 504 loan is a specialized loan. Small businesses that meet certain job creation criteria, or small businesses that service fields which contribute to public policy, are eligible for these fixed rate, long-term loans. The SBA classifies those service fields as:

- *Business district revitalization*
- *Expansion of exports*
- *Expansion of minority business development*
- *Rural development*
- *Increasing productivity and competitiveness*
- *Restructuring due to federally mandated standards or policies*
- *Changes necessitated by federal budget cutbacks*
- *Expansion of small business concerns owned and controlled by veterans*
- *Expansion of small business concerns owned and controlled by women*

The maximum loan amount for a 504 loan is $5 million. Funds from an SBA 504 loan cannot be used for things like working capital, or for consolidating or refinancing debt.

SBA Export Loan Options

I've been thinking of expanding overseas. Are there any loan options for that?

Small businesses hoping to develop or expand export activities may be eligible for one of the SBA's specialized export loan programs.

INTERNATIONAL TRADE LOANS

offers assistance to small businesses seeking to expand or develop existing export markets to improve their competitive edge. Use it to acquire, build, renovate, or expand any facilities or equipment that produce goods which are sent overseas. These loans can also be used to help refinance other loans.

EXPORT WORKING CAPITAL LOAN

(or EWCP loan) provides up to $5 million to finance suppliers, inventory, and production of exported goods and services. It can be used to support foreign accounts receivable departments and to finance letters of credit, performance bonds, and down payment guarantees. With a low guarantee fee and quick processing time, the Export Working Capital program enables you to get what you need, when you need it.

EXPORT EXPRESS LOAN

provides up to $500,000 in funding for export development. This includes fees for foreign trade shows, standby letters of credit, and product literature translation for use in foreign markets. An Export Express loan can also be used to fund specific export orders, expand export production facilities, and purchase equipment, inventory or real estate.

APPLYING FOR AN SBA LOAN

So once I know what program my loan might fit into, how do I apply and get approved for an SBA loan?

How do I apply for an SBA Loan?

Applying for an SBA loan is probably not as tough as you think. In fact, for smaller loans the process can all be done online via a simple application and e-mail. For larger loans, you'll work with a loan officer over the phone or in person to identify your loan options and get your application process complete.

1. Begin by generally assessing your credit profile, deciding how much money you need and what for, and then gathering the necessary documents to complete the application.

2. The SBA loan application will ask you basic information about you and your business. Next you'll most likely receive a couple forms to fill out, like the Statement of Personal History and Personal Financial Statement, which both dig a little deeper into your financial situation, so the lender can decide what loan options are right for you. With some lenders, you'll also be assigned a loan coordinator who will prepare your tailored loan package and help you complete the application process.

3. Once the application is complete, it will be submitted for review. If approved, you'll need to accept a conditional offer, and then there's an underwriting process where financial histories are reviewed in depth and loan terms and conditions are laid out. Finally, when all documents are prepared and signed, you and your loan are ready to go.

What documents should I have ready?

Because of the large amount of money being loaned, there is a fair amount of paperwork involved which can take two to three months to complete. Having the needed documents prepared ahead of time can greatly shorten the process. And many of these documents you probably already have sitting in a filing cabinet or on your computer. While the documents needed will vary depending on loan product, these are the most requested items:

DOCUMENT CHECKLIST

- ✓ Profit and Loss statement & Balance Sheet
- ✓ Financial projections
- ✓ Ownership and affiliations
- ✓ Business certificates and licenses
- ✓ Loan application history
- ✓ Income Tax Returns (both personal and business)
- ✓ Resumes
- ✓ Business overview and history
- ✓ Copy of your business lease (if you lease property)
- ✓ Bank statements
- ✓ Schedule of business debt

Some lenders may start with a shorter list of credit documents to prequalify candidates for loans, eliminating the hassle of preparing a large amount of documentation only to find the loan was denied. In whatever case, having the proper documents prepared ahead of time can cut your loan's closing time from three months to three weeks, or even three days. *Fact!*

What about my credit score?

I've heard that it's difficult to get approved for a loan, and although my credit isn't bad, it definitely isn't perfect either. Do I even have a shot?

Most lenders start with your credit score.

Generally, a score above 700 is preferable, but there are some lenders willing to take a more flexible approach to determining your eligibility. This is done by evaluating the strength of other aspects of your business. These aspects include:

Equity Investment, or the amount that you personally have invested in your business. The more you have invested, the stronger your equity position is.

Earnings Requirements, or the healthy cash flow of your business. Are you able to make all your payments on-time? Both personal and commercial credit histories are used as an indicator of your earning requirements. Cash flow projections, which outline how you will generate the revenue to repay your loan, are also considered.

Working Capital, or the money it takes to keep your business running. Positive working capital occurs when your current assets are larger than your current liabilities—in other words, your business is making more money than it costs to run it. Positive capital makes you a strong loan candidate.

Collateral, or any asset used as a security by the lender for a second source of loan payment. This includes equipment, real estate, and accounts receivable. In some cases personal assets can be offered as collateral for loans as well.

Resource Management, or how well you manage the day-to-day duties of your business. That includes how quickly you pay and collect on bills, how you manage your resources, and your character and managerial capacity. Do you have education and experience in business, and have you been successful in your previous professional opportunities?

BANK SECRETS

for getting your SBA loan approved

Is there anything else I can do, or should know, to increase my chances for qualifying?

The answer is a resounding yes!

There are a number of small steps you can take to increase your odds of being approved for an SBA loan and they're more simple than you think.

Here are eight small steps that you can take to make the most of your loan application process and get the money you need now.....

Steps for getting your SBA loan approved

1. Separate your personal and business accounts

If you haven't already, you'll want to separate your personal and your business accounts as soon as possible. Leaving your business and personal accounts tied becomes a financial headache when it comes time to apply for a loan or file your taxes.

By establishing a separate business account, you give your business a chance to start building credit, which will make the loan process easier later on down the road. It also lessens the chance that a crisis in your personal credit will drastically affect your business credit and vise-versa.

2. Be strategic in selecting a bank

Shopping for a loan is different than shopping for a coat. Instead of visiting every bank and lender to bargain shop and try on different fits, you want to be more strategic.

Take time to research which lenders carry the loan products you need. By knowing beforehand what your lenders offer, you'll avoid the sometimes demoralizing frustration of having your loan application rejected because you were looking for something the bank doesn't have.

Steps for getting your SBA loan approved

3. Know your numbers

It's a big red flag when a business owner wants to borrow large amounts of money without actually knowing his or her current financial performance.

Treat the meeting with your loan officer like a job interview. Come prepared with basic documents and have some responses ready for financial and other business questions. Practice your responses beforehand to ensure you remember them. Ultimately, you want to prove you'll be able to afford the loan you're asking for.

While this may sound extreme, the preparation helps you look confident, informed, and professional. And the more professional you are, the better impression you and your business will make on the lender.

While no bank expects you to be a financial whiz, you are expected to have a working idea of where your finances stand. Review your income statements, balance sheets, and cashflow reports before meeting with a loan officer and know the answers to the questions they're probably going to ask, like

- ✓ *How much money do you need and what will you use it for?*
- ✓ *When do you need the money?*
- ✓ *Would you be able to proceed with just a portion of that funding?*
- ✓ *What makes your business different than the competition?*
- ✓ *How are you planning to pay back this loan? And what if you aren't able to?*

Steps for getting your SBA loan approved

4. Raise your personal credit score

Know that for most of your loans—especially those under $150,000—your personal credit is going to play a big role in a lender's decision. Thankfully, there is a lot you can do to work on and improve your personal credit score.

Be vigilant and pay down your debts. Pay them on time. Your credit score tracks when and how often you pay down debts. If you have significant amounts of debt, slip in extra payments to pay that balance down. Frequent and on-time payments are signals that you'll be a responsible, reliable borrower.

When your debts are low, keep them that way. Credit scores look at credit utilization, or how much debt you have in comparison to how much debt you are approved for. Credit utilization under 30 percent is good, and under 10 percent is even better. In other words, if your credit card limit is $15,000, you want to have less than $4,500 on your card at any given time.

Work with your credit provider to improve your score. Some lenders will offer a "goodwill adjustment" to your credit history by removing a late payment or two for customers who call and request it. You can also try requesting an increase in your credit limit to better your credit utilization percentage. Keep in mind that this credit increase does not mean you get to increase your spending—it's strictly to keep the credit utilization percentage low.

5. Raise (or establish) your buisness credit score

Along with having good personal credit, you'll want to start building business credit as well.

Some easy ways to do this are:

✓ **Establish good trade lines with your suppliers**. Set up terms for days to pay, and make sure that you meet those terms. As you continue to make timely payments, ask your suppliers to report your payments to the credit bureau. The more of these payments you have on your account, the better off your credit is going to be.

✓ **Keep your record clean**. Make sure that you avoid bankruptcies, liens, and unpaid taxes. All of these things will negatively affect your business credit.

✓ **Follow the same principles of building personal credit**. Many of the principles of keeping your personal credit good apply with your business credit. Frequent, on-time payments, low credit utilization scores, and a willingness to work with your lenders make a huge difference. Keep your information current with leading business credit reporting agencies—Experian, Equifax, and Dun & Bradstreet—so the lender will receive your credit information as quickly as possible.

Steps for getting your SBA loan approved

6. Keep loan applications at a minimum

Each time you apply for a loan or other financing, a credit inquiry is reported to the credit bureau. Too many of these inquiries in a short amount of time begins to look suspicious.

If you want a loan, you might be tempted to go to all the big banks, the small ones, and even some alternative financing locations. But if you do, when an interested loan officer runs your credit report, it will show that there are a lot of other lenders currently evaluating your credit. This may make you look desperate for money, which you want to avoid if you're hoping to win the lender's confidence and get a loan.

Be careful about applying for a lot of credit cards—even for places like retail and department stores—right before you apply for a business loan. And remember that certain purchases—like cars or homes—require credit checks as well. One Saturday of car shopping can yield five or six inquiries on your account in a single day, raising a red flag in your credit reports.

7. Keep your communication open

Your lender doesn't expect you to know everything about SBA loans. So feel free to call, email, or meet with your loan officer to go over questions and expectations you have for your loan. Doing so can make the process a lot easier for them—and for you.

Borrowers who are quick to communicate when needs or issues arise go through the application process more quickly than those who do not. This means opening up multiple lines of communication—from mobile and landline phones to e-mail and fax—to get any discrepancies taken care of as quickly as possible.

Your lender has the vehicle to take you where you need to go. But in a lot of ways you are the driver who determines the speed. Have your docs ready and correctly filled out, be accessible during the application process, and you'll be doing all you can to streamline the process.

Steps for getting your SBA loan approved

8. Plan ahead, and time your loan for when you have money, not just when you need it.

We tend to wait until we're low on funds to apply for a loan, but low cash flow doesn't make us look like the strong, stellar loan candidate lenders want. While they may still work with us, it doesn't hurt to think ahead. Stay on top of your financial forecast to identify the lower income months before they hit, and apply for your loan while your funds are still high.

LET'S USE AN EXAMPLE...

Tom owns a transportation business. He would like to hire two additional full-time drivers to meet the busy spring and summer demands, but Tom has a problem. He needs a loan in order to afford these new drivers. His business does really well, but things always slow down at the beginning of the year, when he was planning to apply for his loan. He's afraid that his low cash flow in January will make it more difficult to get the loan he needs.

Tom decides to be proactive and apply for the loan early in October instead. After his two busiest seasons, and with all the end-of-season deliveries he has lined up, Tom is confident that his high and healthy cash flow will be enough to get him the loan. The loan is approved, and Tom saves it until he needs it in March to hire on his new employees.

Most people use loans as a reactive solution to cash flow problems, but it pays to take some time to think proactively. While Tom's lender may still work with him in the off-season, Tom has peace of mind knowing that he's taken care of for the coming months. Applying for loans preemptively ensures you'll have the money there and accessible when you need it, and can help stabilize seasonal cash flow problems.

CONCLUSION

While the amount of small business loan options available today can be overwhelming, you don't have to make this decision on your own. Contact a trusted lender today to see what SBA loans are available for you and your small business.

Whether you need working capital, upgraded equipment, or are thinking about opening a new location, you may want to seriously consider an SBA loan to get you there.

At Celtic Bank, we want to get you the funding you need to start or sustain your small business. From working capital to expansion, start-ups, acquisitions and more, we have the ability to tailor our loan solutions to meet your individual needs.

Celtic Bank specializes in SBA loans—in fact, we're known for them. As an SBA Preferred Lender, Celtic has been listed among the top ten largest SBA lenders in the US since 2013. This means that we have the ability to underwrite and approve loan requests in-house, getting you the money you need when you need it. We have a proven track record in a variety of industries—including mechanical, healthcare, hospitality, storage, and more. So we have the expertise to approach your loan application with the creativity and attention you deserve. If your proposition makes sense, we'll work to find a solution.

To learn more, or to apply for an SBA loan,
call us today at 801-509-6191 or visit our website at *www.celticbank.com*.