

7 myths about SBA loans

The Small Business Administration (SBA) offers numerous programs to assist entrepreneurs with starting, managing and growing their businesses. Thousands of American businesses are turning to this resource because financing remains a formidable challenge. However, many misconceptions exist about these government-guaranteed programs but it's really one of the best-kept secrets. Following are seven common myths about SBA.

Myth #1: My business is successful and doing well. I don't need an SBA loan.

Fact: Many small business owners use SBA

Benefits include:

- Longer terms – 7 years for working capital, 10-15 years for equipment, up to 25 years for real estate
- Lower down payments
- Increased cash flow
- Flexible repayment options such as monthly installments of principal and interest and no balloon payments

Myth #2: The SBA helps people with bad credit get a loan.

Fact: The SBA requires:

- A good business plan (showing good cash flow) and good credit history
- The goal of the SBA is to provide assistance when a borrower's collateral may not meet conventional lending standards
- An SBA guaranty helps overcome some financing challenges but not bad credit history

Myth #3: The SBA itself lends money to a small business owner.

Fact: The lender (bank, credit union, non-bank lender) actually lends the money

- The SBA guarantees a portion of the loan (between 50-80%, depending on program)
- Uses for SBA funds include purchase of existing land and buildings (owner-occupied), expand or modernize facilities, purchase machinery, equipment, leasehold improvements or inventory, and finance increased receivables and augment working capital

Myth #4: SBA loans are grants from the government that I won't have to pay back.

Fact: This is not a grant

- Not only the SBA, but also the lender, will expect that the loan be repaid

Myth #5: Any small business can get an SBA loan.

Fact: The SBA defines small business with specific guidelines including: one that is independently owned and operated; is not dominant in its field and meets SBA employment or sales standards

- Some industries or purposes are prohibited
- An experienced SBA lender can help determine if your business is eligible

Myth #6: It will be piles of red tape and tons of paperwork.

Fact: Well, it CAN have a lot of red tape (it's the federal government, after all!) but an experienced SBA lender can handle all that for you

- Express programs and others are designed to reduce this paperwork

Myth #7: It's all the same program, so I can get an SBA loan anywhere.

Fact: SBA loans involve a more complex process

- Banks that have earned the Preferred Lender Program (PLP) status can help you save time and reduce complications

Recommendation

If you are interested in an SBA loan, or just want to find out if an SBA program would be right for you:

1. Work with a bank (like KeyBank) that has Preferred Lender (PLP) status – visit Key.com/SBA today for more information
2. Work with a banker who has experience with SBA lending