First Hawaiian Bank

SBA loan summary

If you're aiming to grow your business, buy equipment or real estate, or refinance existing debt, a Small Business Administration (SBA) Loan can provide the alternative financing you need.

Do you need a loan?

- [ ] Know what do you need the money for
- [ ] Investigate raising capital internaly

Investigate loans available

- [ ] 7(a) Loans
- [ ] 504 loans
- [ ] Microloan
- [ ] Disaster Loan
- [ ] Urgency
- [ ] The state of your business

Preparing to apply

- [ ] Check credit rating
- [ ] Document personal background
- [ ] Update your resume
- [ ] Document management structure

Documentation

- [ ] Review your business plan
- [ ] Prepare an overview and history of your business
- [ ] Statement of intent
- [ ] Review debts
- [ ] Document your contribution
- [ ] Resume
- [ ] Any debts or liabilities.
- [ ] Your contribution
- [ ] Financial records
- [ ] Legal documents
- [ ] Other loans
- [ ] Cashflow forecast

SBA Forms

- [ ] Borrower Information Form (1919)
- [ ] Personal financial statement (413)

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Considerations

The SBA was established to assist businesses that struggle to obtain loans from traditional lenders.

While the SBA guarantees the loan, the funds are actually borrowed from a bank, not directly from the SBA.

As the funds are coming from your lender, it's wise to complete your application with their assistance. Not only do they have their own criteria, but as an SBA lender they'll be able to guide you through the process.

Benefits

- Greater chance of approval compared to traditional loans. Lenders have a reduced risk through a government guarantee.
- Down payments are usually less compared to conventional loans.
- Can come with longer repayment terms, reducing monthly loan repayments and improving cash flow.
- May require less collateral than traditional loan.
- Some loans are designed for startups. e.g. Microloan program.
- SBA can help with disaster funding.
- Can be the right option if:
  - you are looking to increase your working capital
  - you need new equipment or premises
  - you want to expand your facilities
  - you need to refinance existing debt
  - you need help after a disaster.

Disadvantages

- The application process can be lengthy.
- As most of the SBA loan programs have an upper limit, you may not be able to access as much finance as you need.
- You may need to provide personal guarantees, putting your personal assets at risk if you default on the loan.
- It can take longer to get approved by the SBA than a traditional lender. You'll need to plan to ensure you have the cash reserves or cash flow while you're waiting.
- You'll still need a good credit score. If you haven't been in business long enough to have established a credit history, they'll look at other factors.

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Do you need a loan?

What do you need the money for?

Before taking the step to apply, think carefully about why you need a loan.

Is it worth going into debt, or can you raise the funds another way, like selling rarely-used assets or finding business savings? Even though the SBA guarantees the loan, it's crucial to explore all other options before borrowing.

Consult your accountant – there might be another solution to your capital needs.

Internal sources of capital

Rationalize inventory to reduce holding levels, or change your business model.

Review any assets that could be sold without disrupting your core business. For example, any machinery that lays idle for most of the year could be sold then hire what you need.

There may be other sources of funding that might be better for cash flow such as equity funding from angel investors, VCs or crowdfunding.

Investigate loans available

Consider each of the loans available and decide if one of them is right for your business. SBA has a section on their loan programs which is important for you to read and understand covering each of the following options:

7(a) Loans

Your eligibility is based on what you do to make money, your circumstances and where you operate. For example, 7(a) loans can be used for:

- Acquiring, refinancing, or improving real estate and buildings,
- Short- and long-term working capital.
- Refinancing current business debt.
- Purchasing and installation of machinery and equipment, including AI-related expenses.
- Purchasing furniture, fixtures, and supplies.

504 loans

This is also known as a Certified Development Company (CDC) loan, and is for financing fixed assets such as real estate or equipment, excluding properties that will be used as rentals. The maximum loan amount is $5.5 million and can be used to:

- Purchase or construct items like real estate, land and new facilities.
- Buy long-term machinery and equipment.
- Make improvements to utilities, parking lots and landscaping.
- Upgrade, renovate, modernize, or improve existing facilities, land, streets, and parking lots.

Microloan

With an average loan of around $13,000 and a maximum amount of $50,000, a microloan helps small businesses, and some not-for-profit childcare centers cover the costs of starting up and expanding. The microloans can be used for a variety of purposes, including providing working capital, buying inventory and supplies, repairing premises, or enhancing small business processes.

The maximum repayment term is six years. This type of loan works well for online or home-based businesses. Freelancers might also find it helpful for expanding their business.

Disaster Loan

There are three different kinds of SBA disaster loans offered to businesses:

- Business physical damage loan to replace or repair property, stock, supplies, equipment or other assets that were damaged in a disaster.
- Economic injury disaster loan (EIDL) if you have a small business that's struggling to meet its financial obligations because of a disaster.
- Mitigation assistance to help protect against future disasters.
- Additionally, Military Reservist loans help eligible small businesses that have an essential employee called to active duty cover their operating expenses.

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Urgency
SBA will look at how urgently you need the funds, and what you need it for, i.e. business start-up, growth and expansion or re-financing. It's important to review the loans available.

The state of your business
It's important to evaluate the state of your business when considering an SBA loan, as it's one of the first things they'll look at. Are you in a transitional phase? Might you have difficulty in being approved for a loan by a bank?

Preparing to apply

Credit rating
If this is the first time you're applying for a loan, an SBA lender will check your credit rating. It's best to get there first and find out how your credit looks with Equifax.

Put together a document with details on your personal background
Write an honest outline that Includes your educational and business background, and your previous addresses going back at least two years

Update your resume
It's important to clearly lay out your employment history, both as a business owner and as an employee. Emphasize evidence of management or business experience, especially if you're starting a new business.

Management structure
Define and write down the management structure of your business. It's important to show your business is being effectively managed and that you're guiding your team properly.

Documentation

Regardless of which loan you're applying for, there's paperwork that applies to all of them. Getting all the below organized in advance should speed up the process and demonstrate your diligence.

Business plan
Review and refine your business plan. It's a vital part of the application process. An SBA lender will want to understand your business and its strategy, reasons for applying for the loan, planned goals and objectives and proposed staff and their roles.

History of your business
Prepare an overview and history of your business. You'll be asked specific questions about your business and its background, and you want to have all that information at your fingertips.

Statement of intent
SBA lenders want to know how the funds will be used, have a statement handy, one that outlines why you're applying for the loan and how you intend to spend it.

Debts
Review your debts and make a list of them. SBA lenders will want to know what your liabilities are and it's useful to be able to provide that information immediately.

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Personal background
Outline your personal background, educational and business experience and your previous addresses going back at least two years.

Resume
A resume that lays out your employment history, both as a business owner and as an employee. Emphasize evidence of management or business experience, especially if you're starting a new business.

Your contribution
Your contribution to the loan and how you intend to make repayments.

SBA lenders will be interested to know how you're contributing to your business before they grant you a loan. Inform them of your assets and liabilities, experience in business, skills and abilities, and income and living expenses.

Once you've collected the information around the history and state of your business, it's time to locate the financial documents. The SBA and your lender will want to see:

Financial records
Income tax returns and financial statements for the past 3 years.

Legal documents
Any legal documents such as business licenses and registrations, copies of contracts with any third parties and commercial leases, depending on what's required.

Other loans
Any loans you've applied for in the past, as well as any applications that may have been declined.

Cashflow forecast
You'll also possibly need to provide a 3 year cashflow forecast.

SBA Forms

There are several forms you'll need to fill out, depending on the loan you're applying for. In most cases, you'll have to complete:

Borrower Information Form (1919)
You need to complete this form when applying for a 7(a) loan and submit it to the SBA participating lender. The SBA is looking to determine your suitability for a loan and needs to conduct background checks, so the form asks for details about you as the owner/applicant, the loan, existing indebtedness and information about any other government financing you may have used.

Personal financial statement (413)
The SBA uses this information to determine if you'll be able to meet the loan repayments.

It's always best to check these forms with your bank manager or accountant, or at the very least, get them to review the paperwork before you submit it to the SBA.

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Notes

Note
This is a guide only and should neither replace competent advice, nor be taken or relied upon as financial or professional advice. Seek professional advice before making any decision that could affect your business.