Borrowing for a New Business or Business Expansion

Step 1: prepare a well-developed business plan
There is no perfect plan but your plan needs to address basic information
Have the plan thoroughly vetted by 3rd parties such as the Small Business Development Center (SBDC), SCORE, and/or veteran business owners you know

Step 2: find a lender or lenders that approve loans based on business plans and cash flow
(a/k/a Primary Repayment Source)
types of lenders – cash flow or collateral

Step 3: cash flow lenders focus on evidence of sufficient cash flow to repay debt
Some cash flow lenders will only consider historical financial results
This is an obvious challenge for new or expanding businesses
Some lenders use credit scoring models to approve loans

Step 4: SBA is a cash flow lender that will use historical and/or projected cash flow
A well-developed business plan will include accurate projections, a break-even analysis, and supporting assumptions that provide acceptable proof that projected cash flow will repay the debt
SBA loan approvals involve 2 sets of underwriting guidelines
SBA underwriting guidelines
Guidelines of the bank involved in the approval
Sometimes the SBA is more restrictive/limiting, but other times lender guidelines are more conservative

Step 5: address "what if" question – Secondary Repayment Source
SBA guarantees are a form of a partial secondary repayment source
Lenders are mandated to address any collateral gaps based on asset liquidation values

Step 6: factors lenders assess from business plan
a) experience – both general business and industry specific
b) character – based on completion of SBA 912 form and review of borrower's personal credit
all owners of business with 20% ownership will be required to guarantee SBA loans
most banks have similar requirements for personal guarantees
c) equity – requirements vary but typically from 15-25% depending on a range of factors
d) collateral – this addresses the secondary repayment source question and is based on liquidation values of assets

Step 7: role of the SBA
SBA provides loan guarantees to lenders to enable them to approve loans that could otherwise not be funded, including:
Loans based on future cash flow
High risk industries

Insufficient clearly-defined secondary repayment sources
Loans that require a longer repayment term than the lender would typically provide
Borrowers with limited personal resources
Loans to purchase existing businesses
Loans with reduced/limited equity injection