

What Makes SBA Loans So Appealing To Small Businesses?



Small businesses that need financing should explore their SBA loan eligibility.

PHOTO BY BRUCE MARS FROM PEXELS

Small business owners, at every stage of running a business, know that eventually they may need additional capital to help them succeed.

It's fairly common to start a new venture with personal savings, or with loans from family members. But once those wells run dry, the vast majority of small businesses will need to turn to formal business financing in order to cover payroll gaps, take advantage of bulk deals, renovate their space, or expand to new locations, among other needs. And not every small business loan has the best interest of the borrower in mind.

That's where the SBA comes in. This federal agency helps disseminate funds to small businesses through what is considered the crown jewel of small business financing: the [SBA loan program](#).

You might expect that business owners would prefer not to deal with the bureaucracy of the federal government when seeking funds for their venture. But the appeal of all of the SBA's loan options is too strong. For many, an SBA loan is their ticket to the kind of business loan typically reserved for big, well-established businesses.

Here are four reasons why small business owners should explore their eligibility for an SBA loan if they haven't already.

The SBA Makes Bank Loans Possible

Most small business owners seeking financing won't have the [business credit](#) history, revenue, or even capital needs to make a bank loan worth it for the bank.

Bank lenders not only have to consider that a small business is a bigger risk to lend to than a big business, but that the amounts small business owners typically need—thousands of dollars, rather than millions of dollars—aren't worth the time and effort needed to underwrite them.

As a result, an SBA loan may very well be a small business owner's first bank loan product ever.

If obtaining and repaying the SBA loan goes well, these small businesses will be a much more appetizing borrower to banks going forward. And as low as the SBA interest rate is, interest rates for traditional bank loans often go even lower, hovering in the low single digits.

There Are SBA Loans For Businesses At Every Stage

The SBA loan program isn't just one size fits all. There are multiple loan products you can qualify for, no matter what stage your business is in.

The three most popular SBA loan products, for example, are the 7(a), the 504/CDC, and the Microloan program. [The 7\(a\) loan](#) is the most flexible, as you can use it for general working capital needs, including refinancing debt and buying inventory. The 504/CDC loan is for buying commercial real estate, among other uses (mostly for buying large fixed assets). Both of those products are only for businesses that have operated for at least a few years, and can be for millions of dollars.

An SBA Microloan, on the other hand, is capped at \$50,000 and is specifically geared toward new business owners, as well as business owners from underserved entrepreneurial communities, including women, minorities, and veterans.

No matter if you just started your business yesterday or 10 years ago, there's an SBA loan product that can work for you.

There Are SBA Loans For Businesses With Every Need

As mentioned above, some SBA loans are for working capital, while others are for buying real estate or covering startup costs. You can use it to consolidate debt from other loans you took out as a less informed business owner, or when you were more in need of quick capital.

Even exporters, who find obtaining financing difficult, can find an SBA loan that's geared toward their needs.

In fact, if you already have an SBA loan, you're not precluded from taking out a second SBA loan (though you can't use it to refinance the first loan).

There are only a few specific reasons why a small business owner won't be approved for an SBA loan besides lack of time in business or poor business and personal credit, including recent run-ins with the law and if your business is in certain blacklisted industries, such as gambling.

The SBA Has An Interest In Seeing Borrowers Succeed

The SBA has a vested interest in seeing your business succeed with their loan, since they guarantee up to 85% of the loan to the bank.

Of course, no good lender wants the borrower to default on a loan—it's a lose-lose for all parties. But no lender will provide the level of resources—including counseling, training, and connecting you with other groups who can help guide you to success—that the SBA provides.

The SBA makes a lot of their resources for new and existing small business owners available to anyone—starting with their [SBA Business Guide](#) and their [Local Assistance database](#)—but borrowers will have even more aid at their fingertips once paying back a loan is on the line. This kind of helping hand will absolutely be of value to small business owners.

There is no risk-free business loan option. All business loans require you to put up assets, and/or repay interest, and/or put a strain on your credit score—especially if you fail to repay. An SBA loan, however, is the least risky loan option out there for small business owners, so if you're confident in your plan to start or grow a business, this is clearly the place to start when seeking the financial help you need.