

# Funder Research Report: Small Business Administration

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## Mission

The Small Business Administration was created to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns" and "ensure small businesses a "fair proportion" of government contracts and sales of surplus property."

Over the past 10 years, the SBA has assisted nearly 435,000 small businesses get more than \$94.6 billion in loans. No other lender in this country – perhaps no other lender in the world – has been responsible for as much small business financing as the SBA has during that time.

## Types of Loans

The SBA is primarily a guarantor of loans made by private and other institutions and has three separate categories of loans designed to aid small businesses.

### Basic 7(a) Loan Guaranty:

- Designed for start-up and existing small businesses that may not be eligible for business loans through normal lending circumstances.
- Can be used for a variety of [business] purposes including working capital, machinery and equipment, furniture and fixtures, land and building (purchase, renovation and new construction), leasehold improvements, and debt refinancing (under special conditions).
- Typically delivered through commercial lending institutions.
- Loan maturity is up to 10 years for working capital and up to 25 years for fixed assets.

### Certified Development Company (CDC), a 504 Loan Program:

- Long-term, fixed-rate loan.
- To acquire real estate or machinery or equipment for expansion or modernization ("brick and mortar" financing).
- Secured through a private-sector lender with a senior lien, or through a CDC (funded by a 100 percent SBA-guaranteed debenture) with a junior lien covering up to 40 percent of the total cost, and a contribution of at least 10 percent equity from the borrower.

### Microloan, a 7(m) Loan Program:

- Provides short-term loans (up to \$35,000) to small businesses and non-profit child-care centers for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. Loans cannot be used to pay existing debts or to purchase real estate.
- The SBA guarantees a loan to an intermediary (nonprofit organizations with experience in lending and in technical assistance) who makes the microloan to the applicant. These organizations also provide management and technical assistance.
- Not guaranteed by the SBA.
- Available in select locations in most states.

## Recommendation

I would recommend the Small Business Administration as a potential loan source if your team's focus is on a start-up or existing small business, or a non-profit child-care center. It is important to keep in mind that the Small Business Administration works with loans rather than grant, therefore, money received from them has to be paid back.