Business Financing - Where to get it and why you would want a SBA Loan and Seller Financing

Business financing can come in the form of conventional loans, SBA (Small Business Administration) loans, and seller financing. A combination of the three forms may be used, but SBA loans are by far the most popular. In fact, SBA loans are the primary source of capital injected into the small business community nationwide. Last year the SBA assisted small businesses with over $10 Billion Dollars of loan guaranties.

The Small Business Administration more commonly known as the SBA is a Federal Agency established in 1953 to protect and assist America's greatest resource ... small businesses. SBA's mission is to stimulate and foster economic development through small businesses, because helping small businesses get started and become successful is great for the nation's economy. Briefly, the SBA loan guarantee program works in the following manner. The SBA will guarantee a portion of a business loan made by a lender enrolled in the program. By issuing a partial Federal Guarantee to the Bank, your loan, which might not be approved on conventional terms, can now be approved via a SBA guaranteed loan.

SBA Loan benefits include longer terms and larger loan amounts than you might be able to obtain through a conventional loan. They also include competitive interest rates and no balloon payments or annual reviews. Furthermore, SBA loans are fully amortized and loan terms typically range from 7 to 25 years depending on the purpose. To understand the benefits of full amortization, consider a loan that is used to purchase commercial real estate.

The conventional bank loan is normally amortized over 15 to 20 years and renewed every 3 or 5 years. So, when a small business owner faces the 3-year review of that conventional loan:

- The bank may decide that its risk appetite no longer favors loans for those types of businesses and therefore requires full payment.
- The bank may review and re-amortize the loan over another 15 to 20 year period, which would mean more interest over the term of the loan.
- If the small business is doing well, the bank may renew the loan as is, but often the borrower has to pay thousands of dollars in costs associated with the renewed loan application.

All of that uncertainty and additional expense for refinancing or restructuring of the loan is eliminated with SBA financing.

SBA loans are also easier to secure because they are offered by private lenders, and are not restricted by regulatory constraints that make bankers hesitate to lend to small businesses. The typical private lender offers from $100,000 to $2,000,000 financing (more or less depending on the lender).

As a buyer, seller financing should not be overlooked. How much money is the seller looking for as a down payment? Will the seller finance some of the purchase price? Is there another lender involved (like a bank or a former owner)? Is there an assumable loan? What is the current balance of each loan the business has now? This is an essential area of inquiry if you are trying to save time. Most sellers are unrealistic in the early stages of selling their business, even if it is listed with a broker. Sellers usually hope for an all-cash buyer. Most buyer prospects are also unrealistic - buyers are often looking for 100% seller financing! In reality, the "average" deal is closer to 30-50% down in cash from the buyer with 50-70% financing from the seller, SBA, and banks.

Most first-time business buyers need seller financing. Sellers are much more likely to finance buyers they like, regardless of experience. But it can take time for sellers to warm-up to this idea and to a particular buyer prospect. Seller financing is great because it shows that the seller believes in the business, but most importantly he or she believes that you can run it profitably!