It is no secret that businesses generally, and small businesses in particular, have been through rough times, and those are not over yet. Still, there is some assistance to be had as a small business owner if you know where to look. One prominent example is the Small Business Administration (SBA) and its Guaranteed Loan Programs.

Contrary to a common misconception, the SBA does not make direct loans to small businesses. Instead, the SBA establishes the guidelines for loans, which are then made by its "partners," meaning lenders, community development organizations, and microlending institutions. To eliminate some of the risk to the lending partners, the SBA guarantees that these loans will be repaid. In short, a business applicant is actually applying for a commercial loan, structured according to SBA requirements, with an SBA guaranty.

SBA-guaranteed loans may not be made to a small business if the borrower has access to other financing on reasonable terms. Because SBA loan guaranty requirements and practices can be changed by the government, it is important for potential applicants to obtain current and accurate information.

7(a) Loan Program

This program, the most basic and most used of the SBA loan programs, is for eligible borrowers who want to start, acquire, or expand a small business. The loan is obtained from a participating lender institution, and it provides long-term, fixed-rate financing for major fixed assets, e.g., land and buildings. The loan proceeds can also be used to acquire equipment, supplies, and materials, or for long- or short-term capital needs. Loan terms range from up to 10 years for working capital to up to 25 years for fixed assets. There are a few prohibited purposes for which a 7(a) loan cannot be used, such as for the financing of nonprofits, real estate investments, and monopolies.

CDC/504 Loan Program

The CDC/504 Loan Program is a long-term financing tool designed to encourage economic development within a community. It accomplishes this goal by providing small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization.

A Certified Development Company (CDC) is a private, nonprofit corporation that is created to contribute to economic development within its community. CDCs work with the SBA and private sector lenders to provide the financing to small businesses.

Typically, a project of this kind includes (1) a loan secured from a private sector lender, with a senior lien covering up to 50% of the project cost; (2) a loan secured from a CDC (backed by a 100% SBA-guaranteed debenture), with a junior lien covering up to 40% of the project cost; and (3) a contribution from the borrower of at least 10% of the project cost (equity). This arrangement means that 100% of the project cost is covered either by the contribution of equity from the borrower or from the senior or junior lien.

Proceeds from 504 loans must be used for fixed-asset projects, such as the purchase of land, including existing buildings; the purchase of improvements, including grading, street improvements, utilities, parking lots, and landscaping; the construction of new facilities or the modernizing, renovating, or converting of existing facilities; and the purchase of long-term machinery and equipment. The CDC/504 Loan Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.

Microloan Program

The Microloan Program gives small, short-term loans to small business concerns and certain types of not-for-profit child-care centers. The SBA makes funds available to specially designated intermediary lenders. These are nonprofit community-based organizations with experience in lending as well as in management and technical assistance. These intermediaries make the loans to eligible borrowers. The maximum loan amount is $50,000, but the average microloan is about $13,000.

Microloans may be used for working capital, the purchase of inventory or supplies, the purchase of furniture or fixtures, or the purchase of machinery or equipment. Microloan proceeds cannot be used to pay existing debts or to purchase real estate.

If you are a potential borrower, the SBA recommends four steps to take to get the ball rolling in its loan programs. First, estimate your business startup costs or the funds that you need to grow the business. Second, contact a local bank or lender to review the available loan programs for small businesses. Third, prepare a draft loan proposal. Finally, discuss all of the above with someone having solid knowledge of SBA loans, such as a representative of the SBA itself.