

# Arkansas Business Navigator Podcast

***Episode 3: SBA Loan Products, New Veteran Owned Small***

***Business Certification***



Hello and welcome to the Arkansas Business Navigator Podcast, the show that reviews U.S. Small Business Administration and Arkansas Business Navigator resources available to support small businesses and entrepreneurs in the natural state.

I'm Brandon Mathews and featured in today's episode are some of the SBA's Loan Products, their requirements, and how to access them; changes made to the small business veteran certification program, and upcoming Navigator events. So let's dive in.

It's my money and I need it now! You all remember that commercial from the early 2000s about diversified financial services company, J.G. Wentworth? I was a kid then, but that commercial has stuck with me for over 15 years, and while context is different, I think the people in the commercials and entrepreneurs today need money now and are looking for sources. SBA has some products that can help small business owners access capital and funding they need to start, grow, or reimagine their business. I'm going to share some details about three products offered by the SBA, but before I get into that, there are a few things you should know about the SBA and lending. Number one, the SBA does not make loans to businesses; instead, lenders like banks or credit unions make the loan to the business and the SBA provides the lender with a guarantee on a portion of the loan to limit their risk and exposure should things not work out with the business. There are dozens of local, state, and national lenders across Arkansas that offer SBA Loans and you can find one by using the Lender Match tool created by SBA. I'll drop a link in the show notes.

So, when is the right time for you to get a traditional commercial loan from a bank versus an SBA loan product. Banks have an ideal customer and take into consideration several factors such as collateral, your credit score, cash flow of the business, whether it is a start-up or existing business, and the current market conditions. If you are someone with sterling credit, experienced in management, have large collateral and cash reserves, and a sound business idea, chances are the lender may feel comfortable making an in-house loan. But what if you don't have management experience, your credit is okay, but not

great, and you have limited startup funds and collateral? This situation might be the right time for you and your lender to discuss SBA loan products.

The 7(a) Loan Program is SBA's most common loan program and is generally regarded as the most versatile. Basic uses for the 7(a) loan include long- and short-term working capital, revolving funds based on the value of existing inventory and receivables, purchasing equipment, machinery, fixtures, supplies, or materials, real estate including land and buildings, starting a new business or buying an existing one. You can even refinance existing business debt if certain conditions are met. You can apply for up to \$5 million with an 85% guarantee on \$150,000 or less, and a 75% guarantee for loans greater than \$150,000 up to \$3.75 million. That's a lot of cash. The SBA sets maximum interest rates for different amounts based on the prime rate plus a percentage. As of this recording, the prime rate is 7% which means max fixed interest rates range from 10% to 13.5% depending on the total loan request. Generally speaking, 7(a) loan terms are for 10 to 25 years depending on the project uses and ability to repay. For example, working capital, furniture, fixtures, and equipment should not exceed 10 years but there can be exceptions. Real estate maxes out at 25 years.

The second SBA loan product is called a 504 Loan and is provided through a certified development company or CDC which is a licensed entity by the SBA. This program has more limitations on how funds can be used than the 7(a) loan but is a great product for long-term, fixed asset needs such as real estate purchases, building new facilities, improving or modernizing land, streets, utilities, and land scaping. You cannot use a 504 loan for working capital or consolidating, repaying, or refinancing debt. Investments in rental real estate are also excluded. The maximum loan amount is also \$5 million with some projects or types of businesses eligible for up to \$5.5 million. 504 loans also differ in structure than 7(a) loans because there are three parties involved instead of two. A CDC loans 40% of the project, a lender like a bank or credit union lends 50%, and you would be responsible for 10% of the loan. In some cases, you may be required to provide up to 20% if you are a new business or a special use property is involved as examples. Unlike the 7(a) Loan, only the CDC portion of the loan has an SBA guarantee. The CDC portion of the loan can have terms of 10, 20, or 25 years while the lender portion may have a shorter term. This means you will have two loans offering flexibility in repayment. 504 Loan interest rates are fixed and pegged to an increment above the current market rate for 5-year and 10-year U.S. Treasury issues.

But what if you don't need \$100,000s or millions in funding? The final SBA Loan Program for today is Microloans. Microloans provide up to \$50,000 to a business and are accessed

through a nonprofit community-based lender that partners with the SBA. This type of loan is flexible and can be used for working capital, inventory, supplies, furniture and fixtures, and equipment. You cannot use a microloan to pay existing debts or to purchase real estate. Maximum terms typically don't exceed seven years and interest rates, the loan amount, and lender requirements are set by the nonprofit intermediary lender making the loan. Arkansas has three organizations offering SBA Microloans with two located in Fayetteville and Huntsville. The other is based out of Texas. As such, each application and experience may vary slightly.

While there are many other programs offered through SBA, the 7(a), 504, and Microloan programs are three of the most common products offered. Each has its own set of advantages and are all designed to help small business owners access capital they might not otherwise be able to do. Check the show notes to links to the SBA website that explains more details about each program, eligibility, and how to apply. You can also reach out to any of the Arkansas Business Navigator partners or Arkansas Small Business and Technology Development Centers across the state.

Veterans Day recently passed, and SBA Administrator Isabella Guzman, head of the U.S. Small Business Administration, announced the upcoming launch of the SBA's new Veteran Small Business Certificate Program. The VA's Center for Verification and Evaluation (CVE) will transfer the verification process to the SBA, aligning with other business certification programs already overseen by them. This change is part of the National Defense Authorization Act of 2021 and is slated to take effect January 1, 2023. So what should if you are a veteran and operate a business? Don't panic! Firms verified by the VA's CVE as of January 1, 2023 will be automatically granted certifications by the SBA for the remainder of the firm's eligibility period. All firms verified the VA as of the January 1, 2023 transfer date will receive a one-year extension to their eligibility giving veterans an extra year to get recertified under the new SBA system. If you are already confused, and that's reasonable, check out the link in the show notes for more information about the changes, who it affects, and when they take place. The SBA and VA are working to make the transition as seamless as possible and to communicate changes and updates to all stakeholders and partners. As an aside, if you are a veteran, spouse of a veteran who wants to get into government contracting. My colleagues at Arkansas Procurement and Technical Assistance Center are a great, free resource, helping you become eligible for local, state, and federal government contracting, and identifying and applying for contracts. You can learn more about their no-cost services by going to [ptac.uada.edu/](https://ptac.uada.edu/).

As the holiday season descends upon us, Arkansas Business Navigator event is winding down. There is one opportunity I wanted to share with you. Without access to adequate funding or knowledge of financial literacy, most entrepreneurs will not be able to start their businesses or grow their existing companies. In this two-hour webinar, Coach Shaterial Starnes, Author and Publisher of Navigating The Credit Repair Maze and Top Ten Credit Repair Tips, will discuss the importance of building personal credit and provide tips to increase and maintain a good credit score. The webinar is titled, "Are you Credit Worthy?" and will take place January 19th, from 6pm-8pm. Contact Angela Gardner for registration details at 501-804-6759. You can check [arbusinessnavigator.com](http://arbusinessnavigator.com) for other events happening online and around the state.

Alright, now it's time for my favorite part of the podcast, our Listener Q&A. You can submit a question to be answered on the podcast by going to [uaex.uada.edu/abn-podcast](http://uaex.uada.edu/abn-podcast) and clicking on "Submit a Podcast Question." We really want to hear from you and make the podcast as engaging as possible. This week's question is, "When is the right time to talk to a bank about getting a loan? I have a full-time job and a side-hustle, but I need to buy more equipment and inventory if I want to grow this into my main job."

Ah, this is good. My suggestion is to schedule a meeting with your bank, credit union or lending institution and see what information they need and what they expect from clients. There is no harm in reaching out and doing so makes the financing meeting that much easier now that you've had an initial conversation. I just finished a series of workshops in Stone, Izard, and Lawrence Counties talking about access to capital. Kam and I through the Arkansas Business Navigator program would love to talk to you about your business idea and what the next steps might be to turn it into a full-time gig. The easiest way to get ahold of us is by going to our website, [uaex.uada.edu/abn](http://uaex.uada.edu/abn), and booking time with us on our calendar. You can also send us an email at [bmathews@uada.edu](mailto:bmathews@uada.edu) or [kgomez@uada.edu](mailto:kgomez@uada.edu). That's a wrap.

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