



How Do You Know When an SBA Loan is Needed?

Your financial institution has a goal of increasing commercial loan volume and you're reviewing an application from a local small business. After evaluating the business owner's information, it's evident that the business doesn't meet the qualifications for a regular commercial loan. Do you reject the application outright? Or do you explore the possibility of an SBA loan to assist this business? What factors will help determine the borrower's eligibility for SBA loan?

Let's look at some snap-shot scenarios:

- **What does the historical Debt Service Coverage tell you? Well, it's OK, but not great.** The business has a historical DSC of 1.02x, less than your 1.25x minimum. Yet supportable projections show the DSC will improve in future years: the business is depending on projections of future revenue and net income to meet the minimum DSC requirement.
- **Other credit factors are positive, but you just can't find sufficient collateral to satisfy your Credit Committee's conservative standards.** The borrower's financial statements show that adequate liquidity and acceptable leverage (debt to equity) meet your underwriting parameters, but the collateral pledged for the loan is less than your lending policy requires. The loan may be acceptable to your Loan Committee with an SBA Guaranty to mitigate the shortfall and limit the potential risk to only a small percentage of the total loan.
- **The borrower is engaged in export sales in some degree.** An SBA loan can help offset the risk of foreign sales. In all likelihood, your organization may view receivables from vendors outside the U.S. as less than optimal because of possible difficulty in collecting if an overseas customer defaults. Your Loan Committee might view the risk factor as more acceptable with the SBA's Guaranty.

SBA lending can be an important and profitable part of your business. Yet these examples show the level of expertise needed to conduct an effective SBA program. At J.R. Bruno & Associates, we're experts at every facet of SBA lending. We should be. As an approved SBA Lender Service Provider, we've assisted hundreds of lenders with their SBA programs since 1995. Call us. We'll help you separate the wheat from the chaff and make SBA lending easy and profitable for your organization!

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