

4 Things You Need to Know About SBA Loans (and how they can help your small business)

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Many businesses are feeling the impact of the fast-moving coronavirus and the requirements from the federal and state governments to shut down or reduce staff. This has led many small business owners to ask the question, *"How do I ensure I have sufficient cash to sustain my business when my sales have dropped, while not taking on too much debt?"*

The answer: an SBA loan. This post shares more about SBA loans and next steps to take advantage of these loans to help your business get through these uncertain times.

1. What is an SBA loan?

An SBA ([Small Business Administration](#)) loan is a loan for small businesses that is partially guaranteed by the government which helps eliminate some of the risk for the financial institution who is granting the loan. By reducing the risk of the loan (up to 80-85%), small businesses are able to acquire loans that traditional banks might have previously deemed too risky.

2. What are my SBA loan options due to COVID-19?

The United States Small Business Administration (SBA) provides low-interest (3.75% for businesses, 2.75% for not-for-profits) Economic Injury Disaster Loans (EIDL).

These loans of up to \$2 million are intended to help cover normal operating expenses (payroll, inventory, fixed debt, etc.) that you would otherwise have been able to pay were it not for the Coronavirus. Your loan amount will be based on your actual economic injury and financial needs. It is not tied to property damage. The loan repayment term is determined by your ability to repay the loan.

You will be eligible for this loan only if you have exhausted all available sources of funding elsewhere. For example, if you still have an open line of credit or business credit card, you do not qualify.

3. How do I know if I need an SBA loan?

- Identify your immediate cash needs and demands.
- Calculate the cash you need to cover your business's core operations for at least the next 45 days.
- Run and update each week a cash flow forecast to monitor your short-term cash position carefully.

- If you do not have sufficient cash in the bank to cover these 45 day expenses, consider the following actions:
 - Collect on accounts receivables—now is not the time to let others hold onto the cash that is rightfully yours.
 - Draw on your existing line of credit (if you already have one) to establish at least a 45-days' worth of cash reserves. Consult your banker to determine if it makes sense to hold an even larger buffer.
 - Apply for an SBA Coronavirus Disaster Loan.

4. How do I apply?

You can [apply online via the SBA website](#). There are 3 SBA forms that will be required (SBA Form 5, SBA Form 413, and SBA Form 2202) in addition to other information listed below. These forms are provided electronically/online as part of the SBA online application.

- **Loan application (SBA Form 5)**, completed and signed. This is [electronic/online](#) in the portal.
- **Tax Information Authorization (IRS Form 4506-T)**, completed and signed by each applicant, each principal owning 20 percent or more of the applicant business, each general partner or managing member; and, for any owner who has more than 50 percent ownership in an affiliate business. Affiliates include, but are not limited to, business parents, subsidiaries, and/or other businesses with common ownership or management
- Complete copies, including all schedules, of the **most recently filed Federal income tax returns** for the applicant business; an explanation if not available
- **Personal Financial Statement (SBA Form 413)** completed, signed, and dated by the applicant, each principal owning 20 percent or more of the applicant business, and each general partner or managing member
- **Schedule of Liabilities listing all fixed debts (SBA Form 2202)** may be used

Estimated timeline: Once you have submitted your documents, the SBA will review your materials and estimate your total loss. A loan officer will determine your eligibility and possibly request additional information or documentation. The goal is to arrive at a decision within 2-3 weeks of your application submission.

Loan Closing and funds disbursement: Your loan closing documents will be provided for your signature. Once signed documents are received the initial disbursement of a maximum of \$25,000 will be disbursed. Subsequent disbursements will be scheduled until you receive the full loan amount.

For additional information: Contact the SBA disaster assistance customer service center. Call 1-800-659-2955 (TTY: 1-800-877-8339), email disastercustomerservice@sba.gov, or visit the SBA Disaster Loan Assistance website at disasterloan.sba.gov/ela. Please note that due to the large number of requests, you may experience delays on the site and long hold times.