SMALL BUSINESS LOANS AND SBA LOANS

How bank and government-backed loans work, what lenders look for, and how to get ready to apply.

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AT A GLANCE

- **Bank loans** usually need 2 or more years in business, steady profits, good credit and often collateral.
- **SBA loans** are bank loans partly guaranteed by the US Small Business Administration, which can mean longer terms and lower down payments. The main programs are **7(a)** (up to $5 million) and **504** (for real estate and major equipment).
- Since **March 2026**, SBA loans generally require the business to be **100% owned by US citizens or US nationals**.

WATCH OUT

SBA rules change often. As of 2026, businesses with any owner who is a green card holder, visa holder or non-citizen generally don't qualify for SBA 7(a), 504 or microloan programs. Other bank and community loans may still be available. Always confirm current rules with a lender.

Why it matters

Bank and SBA loans are often the lowest-cost way to borrow larger amounts for equipment, buildout, real estate or buying a business. Knowing what lenders look for helps you prepare and avoid a "no."

What lenders look for: the five Cs

C	What it means	What helps
Character	Your track record and credit	On-time payment history, honest answers
Capacity	Ability to repay from cash flow	Steady profits, a good debt service coverage ratio
Capital	Money you've put in	Your own investment in the business
Collateral	What they can take if you don't repay	Equipment, real estate, other assets
Conditions	The loan's purpose and the economy	A clear use of funds and a healthy industry

Debt service coverage ratio (DSCR) compares cash available for loan payments with the payments themselves. Many lenders want at least about **1.25**, meaning $1.25 of cash flow for every $1 of loan payments.

Main SBA programs (US)

Program	Used for	Maximum
7(a)	Working capital, equipment, buying a business, refinancing, real estate	$5 million
504	Real estate and major equipment, through a bank and a certified development company	Typically up to $5.5 million for the SBA portion
Microloan	Small loans through nonprofit intermediaries	$50,000

Since mid-2026, a qualified business can combine a 7(a) loan and a 504 loan for up to $10 million total. Most SBA loans are far smaller.

What you'll usually need

- 2 to 3 years of business tax returns (if you have them)
- Personal tax returns for owners
- Year-to-date profit and loss statement and balance sheet
- A debt schedule (list of existing loans)
- A business plan and use-of-funds
- Personal financial statement for owners
- Formation documents and licenses
- Details on collateral

Example: checking capacity

> EXAMPLE
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> **Marisol's** taquería earns **$90,000** a year in cash flow available for debt (profit before interest and owner draws, adjusted). She wants a loan with payments of **$60,000** a year. $90,000 ÷ $60,000 = **1.5 DSCR**, above the 1.25 many lenders look for. If the payments were $80,000, her DSCR would drop to 1.125, likely too low.

Step by step

1. **Check your credit**, personal and business. See **M-11 Building Business Credit**.
2. **Get your financial statements in order.** See **M-04 Reading a Profit and Loss Statement** and **M-05 Reading a Balance Sheet**.
3. **Write your use-of-funds plan.** See **R-25 Use-of-Funds Plan**.

4. **Talk to two or three lenders,** including your own bank and an SBA-experienced lender.
5. **Ask about** rate, term, fees, collateral, personal guarantee and prepayment penalties.
6. **Compare total cost,** not just the rate.

Common mistakes

- **Applying before your books are clean.**
- **Borrowing for the wrong purpose,** like using a short-term loan for long-term equipment.
- **Ignoring fees** and prepayment penalties.
- **Not knowing current eligibility rules.**

Your checklist

- ☐ Check personal and business credit
- ☐ Prepare statements, tax returns and a debt schedule
- ☐ Calculate your DSCR
- ☐ Confirm current eligibility rules with lenders
- ☐ Compare offers on total cost

Key words, explained

Word	What it means
SBA	US Small Business Administration.
Guarantee	The SBA's promise to cover part of the loan if it isn't repaid.
DSCR	Debt service coverage ratio: cash flow divided by loan payments.
Personal guarantee	Your personal promise to repay if the business can't.
Prepayment penalty	A fee for paying a loan off early.

Where to go next

- **R-07 Equipment Financing and Lines of Credit**
- **R-05 Microloans and Community Lenders**
- **R-26 Sources and Uses Worksheet**

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