

How can startups and newly established small businesses obtain small-scale but much-needed financing?

Startups and small businesses can be at a disadvantage when trying to obtain access to capital and credit. Traditional lending institutions may view small and new businesses as risky investments or an inefficient use of their time and resources. The U.S. Small Business Administration provides a solution: their Microloan Program provides loans up to \$50,000 to help small businesses start up, expand, and hopefully realize their potential.

Although the Microloan Program is administered through the SBA, the SBA itself does not have the authority to approve or decline a microloan application. Instead, the SBA provides funds to intermediary lenders, which are nonprofit community-based organizations with lending experience, that make the credit decisions and determine the loan terms for the borrower.

Borrowers can expect to put up some type of collateral, execute a personal guarantee, and fulfill training requirements before their loan application is considered. Although some borrowers may cringe at the thought of fulfilling training requirements to obtain financing, the purpose of the training is to help borrowers launch or expand their business and not to create an additional obstacle to obtaining financing.

Borrowers want to know what they can expect with regard to the terms of their loans since so much discretion resides with the intermediary lenders. From a rate standpoint, borrowers can expect to pay somewhere between 8 and 13 percent. As for the repayment term, it can be as long as six years.

Though loan rates and repayment terms are important, it is essential that borrowers understand the general parameters of what they can and cannot do with the proceeds of their loans. Basically, microloans can be used for working capital, inventory, supplies, furniture, fixtures, machinery or equipment but cannot be used to pay existing debts or to purchase real estate.

Owners of startups and small businesses take heed: the SBA's Microloan Program may be just the lending resource you need to enable your business to reach the next level.

