



Formerly NDC | Partners in Community Development

## Small business loan fund: Frequently asked questions

As you market your loan fund to small businesses in your community, partners and business owners are bound to ask you questions. This FAQ document will prepare you to answer the most common questions about the loan fund. If you are asked a question and don't know the answer, don't hesitate to contact us. We're happy to help!

### Eligibility and qualifications

#### **Will I qualify?**

We evaluate loan applications on an individual basis, and can give you a good sense as to whether you are a fit for the program after you submit your basic documents. In general, you must meet the following basic requirements:

- Your business must be profitable after paying owners a reasonable salary to be eligible to apply
- You must have a good track record of paying business and personal loans on time
- You must be up to date on all taxes
- You must be a U.S. citizen when applying for SBA financing

#### **How long does the business need to be operating?**

There is not a minimum time requirement, but generally, a business should have filed two years of tax returns prior to application.

#### **What credit score is required?**

There is no minimum credit score, but generally, the score should be above 640 for all owners. Any score lower than this typically means that there is a recurring and unresolved personal credit issue.

#### **Is collateral required?**

We follow SBA guidelines, which require that any available personal or business collateral be pledged as security for the loan. That said, if you do not have any collateral to pledge, we will still review the application as we can often approve loans that do not have available collateral.

#### **Can startups apply?**

Startups are welcome to apply; however, they are considered on a limited basis. In evaluating startup applications, we look for principals with strong, relevant industry experience, sufficient outside income

to cover personal living expenses, available collateral, and the ability to contribute 10% to 20% of the total project cost as a down payment.

### **Are there industry restrictions?**

With the exception of businesses that are speculative in nature (gambling), real estate businesses (or those businesses whose income streams are passive in nature), and cannabis related businesses, all other businesses can apply.

### **Is there a minimum revenue required?**

There are no minimum revenue requirements; however, we generally work with businesses generating \$250,000 or more in annual revenue.

## **Loan terms and structure**

### **What loan amounts are offered?**

Loan amounts range from \$100,000 to \$5,000,000.

### **What are the interest rates?**

Interest rates vary. We offer both variable and fixed rates. Variable rates are based off of the Prime rate published in the Wall Street Journal (WSJ). They range from WSJ Prime Rate plus 1.0% to WSJ Prime Rate plus 2.75% (and higher in some cases).

### **Are rates fixed or variable?**

We normally offer variable rate loans, though fixed rate options are periodically available.

### **What can loans be used for?**

Your loan can fund almost any business expense, including working capital, debt refinance, equipment purchase, leasehold improvements, business acquisitions, real estate purchase and buildout. Loans cannot fund personal expenses.

### **What repayment terms are available?**

For working capital, equipment, leasehold improvements, business acquisitions and debt refinance, the term is generally 10 years. For real estate purchases, the term is 25 years. The loan term always matches the amortization period, meaning there is never a balloon payment at the end of the loan.

### **Can the loan be extended or renewed?**

The loan term always matches the amortization period, meaning there is never a balloon payment at the end of the loan. Therefore, there is not a need to extend or renew it. If you need additional funding, you can let us know and we will review your request for additional funding.

### **Are there pre-payment penalties?**

For loans with terms of 10 years or less, there are no prepayment penalties. For loans with a term of 25 years or more, there is a sliding scale prepayment penalty at 5% in year 1, 3% in year 2, and 1% in year three. There is no prepayment penalty in years 4-25.

## Application process

### **What documents are required?**

The required documents vary on a case-by-case basis. In general, businesses need the following documents to get started:

- 3 most current years of business and personal returns
- Interim business financials (balance sheet and profit/loss statement)
- Fully completed debt schedule and personal financial statement templates (we will provide applicants with these when they apply)
- Personal credit release for all principals with 20% or more ownership in the business

### **Is a business plan required?**

In general business plans are not required, but for some projection based deals or for startups it is.

### **Are personal financial statements needed?**

Yes, for all principals with 20% or more ownership in the business.

## Fees and costs

### **Are there application fees?**

There is no application fee, meaning there is no cost to receive a loan decision. However, there are standard SBA as well as fees associated with loan packaging. We are always transparent about these costs and they will be itemized in a list we will provide to applicants.

### **What closing costs should be expected?**

Standard closing costs depend on the use of funds. However, the following closing costs are expected for all loans:

- Legal fees
- Standard third-party searches to verify prior debtors and the good standing of all parties involved in the loan
- For real estate purchases: fees for environmental reports and appraisals
- For business acquisitions: fees for a business appraisal

### **Is a down payment required? How much?**

If a business is already operational, a down payment is normally not required. However, 10% is required when the purpose of the loan is to acquire a business or purchase real estate.

## Timelines

### **How long does approval take?**

Time to approval depends on how quickly applicants are able to provide the required documentation to apply.

After we receive all required documentation, we will make a decision on whether to move forward by issuing a term sheet (a summary of the financing we are able to offer) in about 1 week. From there, it takes 2-3 weeks to fully underwrite the loan and seek approval from our loan committee.

### **How quickly can funding occur?**

After approval, the closing process generally takes 2-4 weeks. For working capital, equipment purchase, debt refinance, and business acquisitions, funding will occur immediately at closing.

For construction and leasehold improvements, funding will occur in stages of project completion in conjunction with a third-party construction monitor.

## Guarantees and liability

### **Is a personal guarantee required?**

Yes, for all principals with 20% or more ownership in the business.

## Special circumstances

### **What if my business is seasonal?**

We work with seasonal businesses and take time to understand historical seasonality patterns. From there, we evaluate projected seasonality, its impact on repayment capacity, and how the requested capital will help manage anticipated fluctuations.

### **Can franchises apply?**

Yes, franchises can apply provided they are in the SBA approved franchise directory, which can be found [here](#).