

The SBA Loan Guarantee Program: How it Works

www.sba.gov/financing

The SBA helps small businesses obtain needed credit by giving the government's guaranty to loans made by commercial lenders. The lender makes the loan and SBA will repay up to 85% of any loss in case of default. Since this is a bank loan, applications are submitted to the bank and loan payments are paid to the bank. The bank is also responsible for closing the loan and disbursing the loan proceeds.

SBA's involvement is limited to reviewing the loan application submitted by the bank to assure they meet eligibility and credit standards. SBA provides the bank with a written Authorization outlining the conditions of the SBA guarantee; any material changes to this authorization generally require SBA approval. Most commercial banks and some non-bank commercial lenders participate in this program.

The 7(a) guaranteed loan program is SBA's primary lending program. The borrower applies to a lending institution, not the SBA. The lender applies to the SBA for a loan guaranty. The SBA can process the lender's request through a variety of methods. Guarantees are up to \$4,500,000 of each loan made by participant lenders. These loans typically range from \$25,000 to \$5 million and are repaid in monthly installments. They can be used for a variety of business purposes including working capital, equipment acquisition, debt refinance, change of ownership, and real estate purchases. Maturities depend on the use of loan proceeds but typically range from 5 to 25 years.

Find the **SBA Participating Lender List** at www.sba.gov/wa under "Resources"

Streamlined 7(a) Loan Processing

Preferred Lender program - SBA has delegated certain lenders the authority to approve SBA loans unilaterally. Preferred lenders operate under the same 7(a) guaranteed loan guidelines as detailed above. SBA generally provides a loan guarantee to the lender within 24 hours of their request.

SBA Express Loan Program - SBA Express loans are backed by an SBA guarantee of 50 percent, the lender uses its own application and documentation forms and the lender has unilateral credit approval authority as in the PLP Program. This method makes it easier and faster for lenders to provide small business loans of \$350,000 or less, with SBA generally providing a loan guarantee to the lender within 24 hours of their request.

Patriot Express Loans - Loans of up to \$500,000 are available to veterans and members of the military community. Eligible military community members include: Veterans and Service-disabled veterans; Active-duty service members eligible for the military's Transition Assistance Program; Reservists and National Guard members; current spouses of any of the above; and the widowed spouse of a service member or veteran who died during service or of a service-connected disability.

These loans can be used for most business purposes, including start-up, expansion, equipment purchases, working capital, inventory or business-occupied real-estate purchases. They qualify for SBA's maximum guaranty of up to 85% for loans of \$150,000 or less, and up to 75% for loans over \$150,000 up to \$500,000. Patriot Express loans feature SBA's fastest turnaround time for loan approvals, and lowest interest rates for business loans - generally 2.25 percent to 4.75 percent over prime depending upon the size and maturity of the loan.

General Credit Requirements

SBA and private lenders consider the following criteria to test credit worthiness.

- (1) **Repayment Ability:** You must show that you can meet business expenses, owners draw, and loan payments from the earnings of the business. This is usually demonstrated through historical performance and/or thoroughly documented cash flow projections.
- (2) **Management:** You must show ability to operate the business successfully. For a start-up, you should have experience in the type of business you propose to start, as well as some significant work experience at a management level.
- (3) **Equity:** The owners must have enough of their own money at stake in the business:
 - (a) For a New Business (or when buying a business) you should have approximately one dollar of cash or business assets for each three dollars of the loan.
 - (b) For an Established Firm, the after-the-loan business balance sheet should show no more than four dollars of total debt for each dollar of net worth (i.e., a 4:1 Debt/Equity ratio - may vary by industry).

Definition of Equity: You may be required to pledge nonbusiness assets (often a second mortgage on your personal residence may be required for collateral). However, this should not be confused with equity in the sense it is used here. As used here, the equity is the owner's net investment in the business.

- (4) **Credit History:** Your personal and company credit histories will be reviewed. Prudent lenders prefer applicants who have a history of meeting their obligations. If your credit record has blemishes but there are extenuating circumstances, prepare to explain fully.

Guarantee Portion - Under the 7(a) guaranteed loan program SBA typically guarantees from 50% to 85% of an eligible bank loan up to a maximum guaranty amount of \$3,750,000. The exact percentage of the guaranty depends on a variety of factors such as size of loan and which SBA program is to be used. This will be worked out between the SBA and your bank.

Amounts - The maximum loan amount is \$5 million. The total SBA guarantee for any one borrower may not exceed \$3,750,000.

Maturity - Up to 25 years for real estate acquisition or construction. Most other SBA loans are limited to 10 years. Working capital loans are generally limited to seven years.

Interest Rates - SBA sets a maximum rate on its guaranteed loans. The rate may be either fixed or variable, as determined between the lender and applicant. The rate is pegged to the prime rate as published daily in the Wall Street Journal. The formulas are:

- Prime + 2.25% for loans > \$50,000, maturity < 7 years.
- Prime + 2.75% for loans > \$50,000, maturity 7 years or more.
- Lenders have the option of charging an additional 1% on loans under \$50,000 and 2% on loans under \$25,000.

Small Business Jobs Act of 2010

Benefits to small business
Effective 09/27/2010

Temporary modification of 504 loan program to facilitate refinance of existing owner occupied commercial real estate obligations.

SBA alternative size standard. Businesses are considered "small" if they meet the following requirements:

- Avg. net income (after tax) of \$5 million or less over past 2 years
- tangible net worth of \$15 million or less

Dealer Floor Plan Program

Guaranteed loans to finance vehicle inventory are now available under SBA's 7(a) guaranteed loan program. These loans are available from \$500,000 to \$5 million to retailers of titleable inventory such as cars, boats, and motor homes.

For up-to-date information on how the American Recovery and Reinvestment Act of 2009 can help your business, visit our website at: www.sba.gov/recovery

What a lender looks for

New Business

- (1) Describe in detail the type of business to be established.
- (2) Describe your experience and management credentials.
- (3) Prepare a detailed estimate of how much capital will be needed to start. State how much you have and how much you will need to borrow.
- (4) Prepare a current personal financial statement, listing all personal assets and liabilities.
- (5) Prepare a month-by-month projection of revenues, expenses and profit for the first twelve months. Also do a companion cash flow projection for the same period. Explain your major assumptions in an accompanying narrative.
- (6) List the collateral to be offered as security for the loan, with estimates of the market value of each item.
- (7) Take this material to your banker. If the bank wants an SBA guaranty for your loan, they will make application to us. You deal with the bank; the bank deals with SBA.

Established Business

- (1) Current business financial information. Prepare a current balance sheet and an income (profit and loss) statement for current year up to the date of the balance.
- (2) Historical business financial information: Prepare income statements and balance sheets for the past three full years. Do not include personal items on the statements. Reconcile the equity balances between each year.
- (3) Prepare a month-by-month projection of revenues, expenses and profits for the next twelve months. Also do a companion cash flow projection for the same period. Explain your major assumptions in an accompanying narrative.
- (4) Prepare a current personal financial statement for each owner, partner, or stockholder owning at least 20% of the business.
- (5) List the collateral to be offered as security for the loan, with estimates of the market value of each item.
- (6) State the amount and intended uses of the loan.
- (7) Take this material to your banker. If the bank wants an SBA guaranty for your loan, they will make application to us. You deal with the bank; the bank deals with SBA.

Revised October 2011

Loan Fees - (Temporarily waived per the 2009 Recovery Act)

SBA charges a fee for its guaranty. The fee is levied on that portion of the loan guaranteed by SBA, not the face amount of the loan. It is passed along to the borrower and is usually financed - i.e., built into the loan amount.

Fees for loan maturity exceeding 12 months:

- 2% of the guaranteed portion for loans up to \$150,000
- 3% of the guaranteed portion for loans above \$150,000 up to \$700,000
- 3.5% of the guaranteed portion for loans above \$700,000

Fees for loan maturity of 12 months or less:

- .25% (1/4 of 1%) of the guaranteed portion

Prepayment Penalties - Only on loans with terms of 15 years or longer. Decreasing prepayment penalties apply during the first three years of the loan.

Collateral - SBA's policy has two parts:

- (1) When a loan guaranty is approved, we expect all available company assets to be offered as collateral. If company assets are insufficient to fully secure the loan, liens on personal assets may be required. Often, this means a lien on residential real estate.
- (2) On the other hand, if adequate collateral simply is not available, this fact alone will not cause SBA to decline an otherwise qualified loan.

Eligibility - Most small businesses are eligible to receive SBA loan guarantees, however ineligible applicant cases include:

1. The applicant is not a small business.
2. The funds are otherwise available on reasonable terms, e.g., if the bank would make the same loan terms available without an SBA guaranty, or if personal assets could be used without hardship to the owners.
3. The loan is to pay off inadequately secured creditors.
4. Your business is engaged in speculation, lending, investment, or rental real estate.
5. The applicant is a nonprofit enterprise (except employee stock ownership programs).

Size Standards - Applicants must meet the SBA definition of small business. Size limits vary by specific industry (NAICS code). www.sba.gov/size

Additional SBA Financing Programs

SBA Microloan Program

Developed to increase the availability of small scale financing and technical assistance to prospective small business borrowers. Loans range from \$500 to \$50,000. Loans are made through the following designated intermediaries:

SBA Designated Microloan Lenders:

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| Seattle: Community Capital Development | 206-324-4330 |
| Seattle: Washington CASH | 206-352-1945 |
| Richland: Benton-Franklin Council of Gov't | 509-943-9185 |
| Spokane: SNAP Financial Access | 509-456-7174 x 111 |
| Yakima: Rural Community Dev Resources | 509-453-5133 |

Export Working Capital

<http://www.sba.gov/content/export-loan-programs>

Export Assistance Center, 206-553-0051

Loans are used to finance export sales - 90% SBA guaranty up to \$4.5 million.

SBA Disaster Loans

<http://www.sba.gov/about-offices-content/1/2462>

Field Operations Center West, 800-488-5323

If you are in a declared disaster area and are the victim of a disaster, you may be eligible for an SBA Disaster Loan - even if you don't own a business. As a homeowner, renter and/or personal-property owner, you may apply to the SBA for a loan to help you recover from a disaster.

504 Certified Development Company (CDC) Loan Program

CDCs provide growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. SBA financing typically represents 30-40% of overall funding, and can generally be as much as \$5 million. A CDC is a nonprofit corporation set up to contribute to the economic development of its community or region. CDCs work with the SBA and private-sector lenders to provide financing to small businesses.

CDC Companies

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|--|--------------|
| Ameritrust | 425-787-6100 |
| Evergreen Business Capital | 206-622-3731 |
| Northwest Business Development Association | 509-458-8555 |
| Panhandle Area Council | 208-772-0584 |

\$\$\$Need a loan to start, expand or buy a small business? Free Loan Briefings in Seattle, Spokane, Tacoma and Thurston County

Attend an SBA Loan Briefing and find out:

- ... How the SBA Loan Guarantee Program works
- ... The eligibility and credit requirements
- ... How proceeds can be used: to consolidate debt, help with cash flow or buy a building
- ... What lenders look for when considering your loan application
- ... Where to go for help with your business plan or loan proposal
- ... Programs available for women or minority owned businesses
- ... Alternative financing options

For location and times visit www.sba.gov/wa