U.S. Small Business Administration

GPS: Government Provided Security

Government-backed Guarantee Program Information:

Manage the risk of lending to credit-worthy small businesses

U.S. Small Business Administration

Your Small Business Resource

Baltimore District Loans

- Fiscal Year 2013

	Loans	Dollars
Total 7(a)	432	$166,765,500
Total 504	39	$ 45,106,000
Total 7(a) and 504	471	$211,871,500
504 3rd Party Loans	39	$ 60,958,060

- Total Economic Impact **$272,829,560**

7(a) Loan Program

SBA's primary business loan program

- Broad eligibility requirements
- Wide range of financing needs
- Maximum loan amount: $5 million
- Maximum guaranty: Proposed
  - 85% of loan to $150,000
  - 75% of loan $150,001 to $5.0 million

504 Loan Program

- **504/Certified Development Company**
- Maximum loan amount: $5.0 to $5.5 million
- Project costs: financed by 504
  - Loan 40%
  - Lender finances 50%
  - Equity finances 10-20%
- Uses: long-term; fixed assets
- Maturity: generally 10 - 20 years
- Interest 504 portion: fixed below market rate established when debenture is sold
- Interest lender portion: usually adjustable rate but is negotiable with lender

SBA Express

- SBA Express Program:
  - Maximum Loan $350,000
  - 50% Guaranty (LOC or Term)

No Fees (until 9/30/14)

- 7(a) Loans $150,000 or less
  - All Businesses
  - No Upfront Guaranty Fee
  - No On-Going Fee
  - Must aggregate approvals within 90 days

Bank still gets 85% guaranty on loan

Veterans Advantage

- SBA Veterans Advantage Program:
  - Maximum Loan $350,000
  - 50% Guaranty (LOC or Term)
  - Veterans pay no upfront fees January 1, 2014 through September 30, 2014
  - Of all SBA loans that go to veterans, 73 percent are $350,000 and below.

Example

A business can use different loan programs at the same time or spread them across the life of the business.

- Business Acquisition – 7a loan
- Line of Credit (LOC) – SBA Express
- Commercial Real Estate – 504 program

Example

A business can use the same loan program at the same time or spread across the life of the business.

7a – Permanent Working capital – up to 10 years

7a – Machinery and Equipment – up to 10 years

7a - Commercial Real Estate – up to 25 years

7a – Machinery and Equipment – up to 10 years

Why Use SBA Guaranty?

- Benefits to lender and borrower: Less down, less collateral, longer terms, no balloons, no call feature and lender gets a guaranty.
  - Lender makes determination on percentage down not SBA.
  - Lender determines what is enough collateral not SBA

Why Use SBA Guaranty?

- SBA is a cash flow lender and can use projected income.
  - Startups
  - Expansion

Purpose of an SBA Loan

- An SBA guaranty is not to be used to try and make a bad loan good but is to enhance an otherwise good loan.
  - shortage of collateral
  - a startup
  - need longer term
  - Etc.

Borrower Information Form

Chapter 2: Eligibility Requirements

Form 1919 is the ***New*** Borrower Information Form

SBA Form 1920 is the ***New*** Lender Application Form

SUBPART B

Chapter 4: Credit Standards

SBA considers there to be three categories of loan types and they are separated by their dollar amount and by the method used by the lender to request/obtain the guaranty

(**1**) 7(a) Small Loans (*formerly "SLA*,)" which consists of any loan of $350,000 or less processed using Standard, CLP, or PLP procedures.

(**2**) Any loan over $350,000 processed using Standard, CLP, or PLP procedures.

(**3**) Any loan that is processed using SBA Express or Export Express procedures

SUBPART B

Chapter 4: Credit Standards

Repayment Analysis - 7(a) Small Loans”

Lenders must analyze each application in a commercially reasonable manner, consistent with prudent lending standards. The **cash flow of the Small Business Applicant is the primary source of repayment**, not the liquidation of collateral. Thus, if the lender’s financial analysis demonstrates that the Small Business Applicant lacks reasonable assurance of repayment in a timely manner from the cash flow of the business, the loan request must be declined, regardless of the collateral available or outside sources of cash.

Effective July 2014

- SBA's Office of Capital Access has been testing and refining a predictive business credit scoring model for more than a decade, combining an entrepreneur's personal and business credit scores.
  - SBA's total credit score will make it easier and less time-intensive for banks to do business with the SBA.
  - This model is cost-reducing and credit-based.

Credit Score Info

- business_legal_name
- business_address>
- business_city
- business_state
- business_zip
- business_phone
- fed_tax_id
- DUNs number
- For all owners of 20% or more equity in the applicant small business, the following must be provided and will be included in the credit score.
- first_name
- last_name
- SSN
- city
- state
- zip

DUNS Number

- To obtain a DUNS Number have the small business go to www.sba.gov and then type in DUNS
- It will take them to a link titled “Getting a D-U-N-S Number”
- All they have to do then is follow the prompts – it is free

SUBPART B

Chapter 4: Credit Standards

For debt service coverage ratio for loans over $350,000, language is also modified for consistency to "must be equal to or greater than 1.0 to 1.15".

Collateral Requirements

Must provide a personal guarantee

When there are no 20%-plus owners at least one person must provide a full unconditional personal guarantee

SUBPART B

Chapter 4: Collateral

All users are advised to review the collateral section in the SOP 50 10 5(F) update closely.

It has been re-organized to include expanded guidance and clarify that Lenders must consider both what to take and how to value collateral based on loan size and type.

Collateral Lender Must Take

<$25K

- Not required to take collateral

Collateral Lender Must Take

≥$25K but ≤ $350K p.165

Same as non-SBA BUT

- Must obtain lien on applicant's fixed assets at minimum and all assets financed
- Refinance – must at least have same collateral as security provided for existing debt

Collateral Lender Must Take

>$350K **p.165**

- Must collateralize loan to max possible

- If fixed assets do not fully secure, take trading assets (10% book value) and must take equity in **personal real estate** of principals (if at least 25% equity)

SUBPART B

Chapter 6: Submission of Application For Guaranty

If the loan application does not receive an acceptable credit score, the lender may seek a Reconsideration and submit a full standard 7(a) loan application to the LGPC or can submit as an SBAExpress Loan.

Debt Service Coverage (DSC)must be equal to or greater than 1.0 to 1.15 on a Reconsideration.

SOP 50 57

Servicing and Liquidation

- Definition of Should is suggestion
- Definition of Must is required

- Deferment is a temporary solution to a temporary problem

- Capitalized words have definitions

SBA Success Stories

- AOL
- Apple
- Ben & Jerry's
- Callaway Golf
- **Chobani Greek yogurt (2005)**
- Federal Express
- Gymboree
- Hewlett-Packard
- Intel
- Jenny Craig
- Nike
- Outback Steakhouse
- Quiznos
- Radio One
- Staples
- **Under Armour**
- Yankee Candle

Contact Information

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Baltimore District

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