SMALL BUSINESS ADMINISTRATION (SBA) PROGRAMS

General Small Business Loans: 7(a)

The SBA has several loan programs that can be used to guarantee small-business loans made by private-sector lenders. These SBA loan programs require a borrower to work with a private-sector lender, which then seeks to have a certain percentage of its loan guaranteed by the SBA. Before meeting with the private-sector lender, the borrower should complete a business plan (which includes project costs, the borrower's contribution, use of loan funds, type and amount of security, and how the borrower expects to make repayments of the loan). The SBA relies on the private lender for analysis of the proposed loan. This analysis should evaluate whether the loan proposal meets the requirements of the SBA loan as well as the private lender's own requirements.

The 7(a) program is by far the most common of the SBA's loan guaranty programs. For loans less than or equal to $150,000, the SBA will guarantee up to 85% of the loan and 75 percent on loans of more than $150,000. Loans can be made for higher amounts, however, the maximum 7(a) loan amount is $5 million and there is no minimum. SBA's maximum exposure amount is $3,750,000. Thus, if a business receives an SBA-guaranteed loan for $5 million, the maximum guarantee to the lender will be $3,750,000 or 75%. SBA Express loans have a maximum guarantee set at 50 percent.

Policies:

Interest rate is negotiable, but is composed of a base rate (Wall Street journal Prime, London Interbank One Month Prime plus 3%, or SBA Peg Rate) plus a spread of 2.25% (for loans less than 7-year terms) or 2.75% (for loans with 7-year terms or longer). The spread on loans under $50,000 and loans processed through Express have higher maximums.

Terms are based on the ability of the borrower to repay, the purpose of the loan, and the useful life of the assets financed. Maximum terms have been established: 25 years for real estate; 10 years for equipment; 7 years for working capital.

Loans guaranteed by the SBA area assessed a guarantee fee based on the loans maturity and the dollar amount granted. The guarantee fee is initially paid by the lender and then passed on to the borrower at closing. For loans approved in FY2014, both the upfront guaranty fee and monthly ongoing servicing fee will be zero. For loans approved in FY2014 of $150,001 or more the monthly ongoing servicing fee has been reduced.

Security. The SBA prefers that every loan be secured with collateral that covers the amount loaned. The SBA will not reject a loan simply because of lack of sufficient collateral, provided that all available business and personal assets are offered by the borrower as security for the loan.

Eligibility. Borrowers must be classified as small (500 to 1500 employees in manufacturing, less than 100 employees for wholesaling, between $2 million and $35.5 million annual receipts for services, $7 million to $29.5 million for retailing, $7 million to $33.5 million for general construction, and $750,000 to $17.5 million for agriculture). There is an alternate size standard for businesses that do not qualify under their industry size standards for SBA funding – tangible net worth ($15 million or less) and average net income ($5 million o5 less for two years). This new alternate applies to SBA non-disaster loan programs. SBA will not lend to other lenders, speculators, or businesses involved in prurient performances or gambling. 7(a) loan funds can be used to purchase equipment, machinery, inventory, fixtures, improvements, supplies, land, and buildings; for working capital; for lines of credit; and for refinancing of debt in select cases. Finally, the borrower must be a sound business that can reasonably assure repayment of the loan.

Procedures:

Prospective borrowers should submit an application to a private lender for initial review. The lender then evaluates the application and decides whether to make the loan themselves or to seek a guaranty from the SBA. Should the lender seek an SBA guaranty, the prospective borrower and the lender will need to fill out some forms for the SBA to check eligibility and credit worthiness. The SBA will approve or reject the loan guaranty based on this information. If the SBA guarantees the loan, it means that the government will repay the lender if the borrower fails to repay the loan.

Popularity of use in the region: The 7(a) program is the SBA's primary business loan program, and is the most-used non-disaster financial assistance program. It accounts for over half the SBA loan activity in the Region between October 2000 and May 2010, when $121 million was lent to small businesses through the program. It is a good complement to revolving loan fund projects, since the security required is similar for both, and the money from each source can be used for some purposes that the other cannot.

The SBA's 7(a) Program has several special purpose loans tailored for specific business needs.

CAPLines

Policies: The CAPlines program is designed to help small businesses meet their short-term and cyclical working capital need. This program can be used to finance seasonal working capital needs; finance the direct costs of performing certain construction, service and supply contracts, subcontracts, or purchase orders; finance the direct cost associated with commercial and residential construction; or provide general working capital lines of credit that have specific requirements for repayment. There are four programs under the CAPLine umbrella: 1) The Loan Contract Program finances costs associated with contracts, subcontract or purchase orders; 2) The Seasonal Line of Credit Program supports buildup of inventory, accounts receivable or labor and materials above normal usage for seasonal inventory; 3) The Builders Line Program provides financing for small contractors/developers to construct or rehabilitate residential or commercial property; and 4) the Working Capital Line Program is a revolving line of credit (up to 5 million) that provides short term working capital.

Procedures: As with the 7(a) program as a whole for loans less than or equal to $150,000, the SBA will guarantee up to 85% of the loan and 75 percent on loans of more than $150,000. The maximum loan/line of credit amount is $5 million.

SBA Export Loan Programs

International Trade Loan Program (ITL)

Policies: ITL offers term loans to businesses that plan to start or continue exporting or that that have been adversely affected by competition from imports.

Procedures: The loan must enable the borrower to be in a better position to compete. The program provides a 90% guaranty on loan amounts up to $5 million.

Export Working Capital Program (EWCP)

Policies: The purpose is to help exporters seeking short-term working capital. Exporters can apply for EWCP loans in advance of finalizing an export sale or contract.

Procedures: Applicants generally must meet the same eligibility requirements as for the SBA's standard 7(a) Loan Program. Transaction collateral is typically adequate to secure a EWCP loan. Maximum loan amount is $5 million with maximum SBA guaranty of 90%.

SBA Export Express

Policies: SBA Export Express allows lenders and exporters a streamlined method for obtaining SBA financing for loans and lines of credit up to $500,000. Loan proceeds can be used for businesses purposes that will enhance a company's export development.

Procedures: The maximum SBA guaranty is 90% for loans of $350,000 or less; 75% guaranty for loans greater than $350,000.

U.S. Export Assistance Center (USEAC)

The Assistance Center is not a loan program but can provide technical assistance to entrepreneurs interested in learning about exporting their goods and services. To find the nearest USEAC, visit: www.sba.gov/content/us-export-assistance-centers.

Community Adjustment and Investment Program (CAIP)

Policies: The purpose is to aid US companies in areas that have been hurt by the North American Free Trade Agreement (NAFTA). These loans are used to make fee payments on 7(a) and CDC/504 loans.

As of March 1, 2014, no counties in Wisconsin were eligible for the CAIP program.

Microloan Program

Policies: small loans (under $500 to $50,000 (average microloan is about $13,000); short terms (maximum is 6 years), interest rates are negotiated between the borrower and the intermediary generally between 8 and 13 percent; made to small businesses and nonprofit child-care centers. Fund can be used for working capital or fixed assets, but cannot be used to repay existing debt. Collateral is usually business assets and borrower's personal guaranty.

Procedures: SBA makes the loan to a nonprofit community-based organization, which in turn lends the money to a business or nonprofit child-care center. This lender is required to provide technical assistance and business training to borrowers, and borrowers may be required to make use of these services before a loan application will be accepted.

Community Advantage (CA)

Policies: CA, a new pilot loan program was introduced by (SBA) to meet the credit, management, and technical assistance needs of small businesses in underserved markets. The program was designed to provide mission-oriented lenders, primarily nonprofit financial intermediaries focused on economic development, access to 7(a) loan guaranties for loans.

Procedures: The basic terms of CA loans are the same as SBA's standard 7(a) loans with some differences: Maximum loan size is $250,000; Maximum Interest Rate is Prime + 6%; Revolving lines are not allowed; and Loan Loss Reserve Requirements are a minimum of 5% of the unguaranteed portion of the CA lender's CA loan portfolio and a minimum of 3% of the guaranteed portion of each CA loan sold into the secondary market.

Small Business Investment Company (SBIC) Program

Policies: Alternative to bank lending, intended to provide gap financing. Distinct from other programs in that it creates the possibility of investment in a small business, rather than simply making a loan.

Procedures: SBICs are privately owned investment funds that are licensed by the SBA to receive SBA-guaranteed funds, which they then loan out to or invest in small businesses.

Popularity of use in the region: from October 2008 to September 2009, 14 loans for a total of $24,436,293 were made by SBICs in Wisconsin.

Employee Trusts

Policies: used to assist employee stock ownership plans. The small business borrower must put up collateral for the loan, and then borrows from the employee trust.

Procedures: As with the 7(a) program as a whole, the maximum loan amount is $5 million and the SBA will guarantee up to 85% of loans.

Pollution Control

Policies: loans that provide eligible small businesses with funding for planning, design, or installation of a pollution-control facility. Pollution-control facilities, including recycling facilities, are those that prevent, reduce, abate, or control pollution. Unlike other 7(a) loans, the use of funds for this special purpose loan must be used only for fixed assets.

Procedures: This program follows the guidelines for the 7(a) Loan Program with the following exception: use of proceeds must be for fixed assets only.

Other Special Purpose Programs

SBAExpress

Policies: The SBAExpress allows lenders to obtain a guaranty on smaller loans up to $350,000. It allows experienced lenders to process, structure, service and disburse SBA guaranteed loans.

Procedures: The SBA guarantees up to 50% of a SBA Express loan. Loans under $25,000 do not require collateral.

Certified Development Company (CDC) Program – also known as the 504 Program

Policies: This loan program is focused on providing long-term, fixed-rate subordinate mortgages to businesses that plan to expand and create jobs. Most for-profit small businesses (net worth below $15 million, net profit after taxes below $5 million) are eligible, including retail, service, wholesale, and manufacturing. Businesses that are ineligible include other lenders, speculators, or businesses involved in prurient performances or gambling. Maximum loans are as follows: $5 million for businesses that create a certain number of jobs or improve the local economy; $5 million for businesses that further certain public policy goals, such as veterans' benefits; $5.5 million for manufacturers and energy public policy projects. Recent addtions are: 1) $5.5 million is allowed for projects that reduces the borrowers energy consumption by at least 10%; and 2) $5.5 million for each project that generates renewable energy fuels, such as biofuel or ethanol production. Projects eligible under one of these two requirements do not have to meet job creation or retention requirements so long as CDC portfolio average is at least $65,000. Eligible uses of the loan are purchases of land, buildings, machinery, and equipment (working capital is not eligible). Most borrowers must contribute 10% of the total project cost. Start-ups and businesses that are less than 2-years-old must contribute an additional 5%. Borrowers must also contribute an additional 5% of the project costs if the primary security is a single-purpose building.

Procedures: Certified Development Companies (CDCs) make the loans, working with private lenders. The private lender contributes 50% of the project costs without an SBA guaranty, and is in the first security position on the project assets. The CDC then contributes up to 40% of the project costs with complete guaranty from the SBA, and is in second security position on the projects assets. The remainder of the project costs is provided by the borrower.

Popularity of use in the region: The second-most popular non-disaster SBA financial assistance program in the Region. It accounts for 30% of the SBA loan activity in the Region between October 2000 and May 2010, when almost $66 million was lent to small businesses through the program. It is often used in conjunction with revolving loan fund projects; since RLFs usually permit funds to be used for working capital in addition to fixed assets, they are a good complement to CDC/504 loans.

Disaster Recovery

Policies: only SBA program open to applicants that are not small businesses, though government and agricultural entities are ineligible. Physical Disaster Loans are SBA's primary aid program for rebuilding damages to private property that are not covered by insurance. Economic Injury Disaster Loans (EIDL) make working capital available to small businesses, small agricultural co-operatives, and nonprofits after a disaster, until normal business conditions return. A special type of EIDL is the Military Reservist Economic Injury loan, which is available for businesses to cover losses associated with one of their essential employees being called to active duty as a military reservist.

Procedures: Physical Disaster Loans allow homeowners, renters, nonprofits, and businesses of any size can apply for funds to replaced damaged equipment and assets. The maximum amount for renters is $40,000, $200,000 for homeowners, and $2 million for nonprofits and businesses. The maximum amount for EIDLs, alone or in combination with a Physical Disaster Loan, is $2 million. These loans are intended to help borrowers who have limited access to credit elsewhere, and interest rates and loan terms will vary based on borrowers' access to other sources of funding and ability to repay the disaster recovery SBA loan. If the applicant has no access to other credit, the interest rate will not be higher than 4%, and not higher than 8% for applicants who can access credit elsewhere. The maximum term for any loan is 30 years. Any insurance payments an applicant received will be deducted from the amount for which the applicant is eligible to apply in a Disaster Recovery loan application. Repayment of the loan is usually scheduled to being five months after the loan is made. The application generally calls for an itemized list of damaged property, a copy of federal income tax information (further specified by the particular application), a brief history of the business, and personal and business financial statements. Applicants in a special flood hazard area, or who are legally required to, must carry flood insurance to be eligible for a Disaster Recovery Loan.

Popularity of use in the region: The disaster recovery program is the SBA's largest direct loan program.

HUBZone Empowerment Contracting Program

Purpose: to give preference in government procurement to small businesses that have a location in and hire workers in Historically Underutilized Business Zones (HUBZones).

Policies: To be eligible for the HUBZone program, a business must meet SBA's definitions of a small business, have a principle office (not necessarily a headquarters) within a HUBZone (as determined by the SBA), be under American ownership, and hire at least 35% of its workers from the HUBZone.

Procedures: businesses wishing to achieve HUBZone designation make an application to the SBA. http://www.sba.gov/content/understanding-hubzone-program