

Introduction to SBA'S BUSINESS LOAN PROGRAMS



Office of Financial Assistance

FINANCIAL ASSISTANCE

TWO MAJOR BUSINESS LOAN PROGRAMS

- 7(a) Program
- 504 Program

LOAN PROGRAMS

7(a):

- For general business purposes
- Offered through participating lenders

504:

- For fixed assets
- Economic development requirement
- Offered through certified development co.

7(a) LOAN PROGRAM



7(a) LOAN PROGRAM

PARTICIPATING LENDERS:

- Commercial banks
- Savings and loans
- Commercial finance companies

7(a) LOAN PROGRAM

LOAN GUARANTEE PROGRAM

- Lender funds entire transaction
- SBA guarantees major portion
- Participating lender at risk for balance
- Risks shared pro-rata

7(a) LOAN PROGRAM

USE OF PROCEEDS EXAMPLES:

- Expand or renovate facilities
- Purchase or pay for:
 - Equipment
 - Fixtures
 - Leasehold improvements
- Refinance existing debt (subject to limitations)
- Purchase land or building
- Construct commercial building
- Working capital
- Purchase new business

7(a) LOAN PROGRAM

Repayment terms:

- Maximum loan maturities are generally:
 - 25 years for real estate
 - 10 years for equipment
 - 7 years for working capital

7(a) LOAN PROGRAM

INTEREST RATES:

- Can be fixed or floating
- Floating based on Wall Street Journal prime rate

7(a) LOAN PROGRAM

INTEREST RATE MAXIMUMS:

Over \$50,000

- 2.25% over prime - less than 7 years
- 2.75% over prime - 7 years or longer

Over \$25,000 to \$50,000

- 3.25% over prime - less than 7 years
- 3.75% over prime - 7 years or longer

\$25,000 and under

- 4.25% over prime - less than 7 years
- 4.75% over prime - 7 years or longer

7(a) LOAN PROGRAM

LOAN LIMITS:

- Maximum guaranty is \$1.5 million
- Maximum loan size is \$2 million

Guaranty Percentage limit:

- 85% on loans up to \$150,000
- 75% on loans over \$150,000

For multiple loans:

- Limits apply to total outstanding

7(a) LOAN PROGRAM

GUARANTEE FEES:

1 year or less

- 0.25% of guaranteed amount

Over 1 year

- \$150,000 or less:
 - 1.00% of guaranteed amount
- Over \$150,000 up to \$700,000:
 - 2.5% of guaranteed amount
- Over \$700,000
 - 3.5% of guaranteed amount

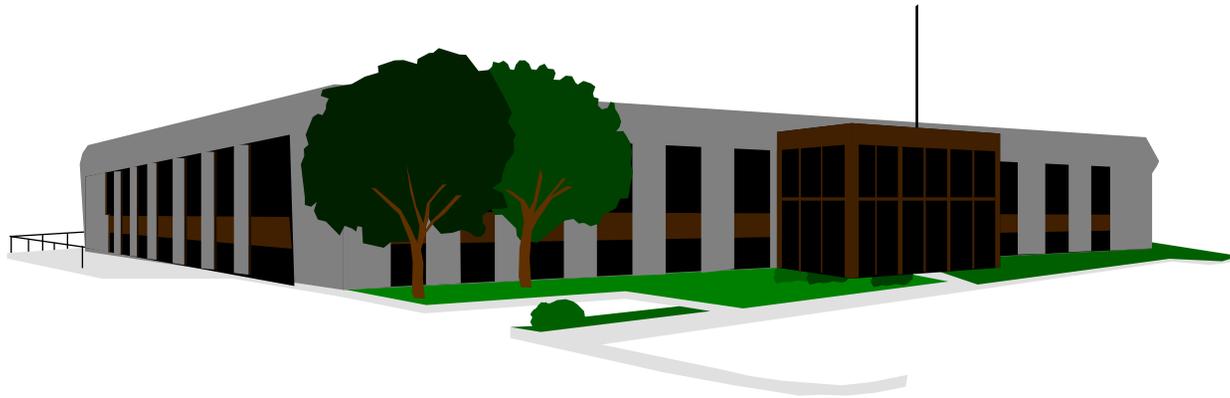
Fees may be passed on to borrower

7(a) LOAN PROGRAM

ANNUAL SERVICING FEE:

- 0.50% of outstanding guaranteed amount
- Must be paid by lender
- Cannot be passed on to borrower

504 Loan Program



504 Loan Program

- **CERTIFIED DEVELOPMENT COMPANIES**
 - NON PROFIT CORPORATIONS
 - PURPOSE IS ECONOMIC DEVELOPMENT
- **PROGRAM FOCUS**
 - CREATING JOBS
 - RETAINING JOBS
 - 1 JOB PER \$35,000 OF SBA FINANCING

504 Loan Program

FINANCES FIXED ASSETS

- LAND
- BUILDING
- EQUIPMENT

504 Loan Program

BASIC FINANCING STRUCTURE

- 10% EQUITY
- 40% DEBENTURE SECURED BY 2ND LIEN
- 50% SENIOR DEBT SECURED BY 1ST LIEN

504 Loan Program

DEBENTURE

- GUARANTEED BY SBA
- FIXED INTEREST RATE
 - BASED ON 5 OR 10 YEAR TREASURIES
- 10 OR 20 YEAR REPAYMENT TERM
 - BASED ON USEFUL LIFE OF ASSET FINANCED
- POOLED & SOLD TO PRIVATE INVESTORS

504 Loan Program

SENIOR DEBT

- INTEREST RATE FIXED OR FLOATING
- REPAYMENT TERM
 - VARIES WITH USEFUL LIFE OF ASSET
 - UP TO 25 YEARS

504 Loan Program

- COLLATERAL USUALLY LIMITED TO PROJECT ASSETS
- SIZE STANDARDS BASED ON:
 - TANGIBLE NET WORTH: \$6,000,000
 - AVERAGE NET INCOME: \$2,000,000
 - 7(a) STANDARDS CAN BE USED AS ALTERNATE
- SAME ELIGIBILITY ISSUES AS 7(a)

7(a) & 504 Comparison

- **DIFFERENT FINANCING STRUCTURE**
 - INTEREST RATES
 - REPAYMENT TERMS
 - LIEN POSITION
 - LOAN STRUCTURE
- **SOME DIFFERENT STANDARDS**
 - SIZE
 - COLLATERAL REQUIREMENTS

7(a) & 504 Comparison

- BOTH FINANCE FIXED ASSETS
- 7(a) FINANCES OTHER GENERAL PURPOSE NEEDS
- WHICH IS BETTER?
 - DEPENDS ON BORROWER'S INDIVIDUAL SITUATION