



U.S. Small Business Administration

U.S. Small Business Administration

SBA and Your Commercial Lending Program

Your Small Business Resource

A Partnership that Works for Small Business

Helping Small Business
start, grow and succeed.



What will be Covered

- SBA Information Sources and Contacts
- Why Lenders use SBA Guarantees
- 7(a) Basics
- 7(a) Loan Programs
- Types of 7(a) Lenders
- Centralized Process
- Eligibility Requirements

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Lender Resources

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- **SBA Banking Web Site**
 - www.sba.gov/banking/
 - Standard Operating Procedures Including:
 - 50-10-5(A)= Processing SOP
 - Revised March 1, 2009
 - Policy and Procedural Notices
 - Loan Program Guides
 - SBA Forms



SBA Lender Resources

- **Michigan District Office**
 - (313) 226-6075
 - Al Cook, Ext. 221
 - Ken Kolasa, Ext. 228
 - Fax (313) 226-4769
 - Bank Notes – sign up at <http://web.sba.gov/list/>
 - Lender's Page - www.sba.gov/mi/
 - Past Issues of Bank Notes
 - Latest notices
 - Email – kenneth.kolasa@sba.gov
or allen.cook@sba.gov

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Why use an SBA Guaranty?

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- **Reduces Lender Risk**
- **Enhance Lender Liquidity & Profitability**
- **Increase Lender Regulatory Loan Limits**
- **Expand Lender Services to Small Business**



7(a) Basics

- **Terms of the Loan**
- **Uses of Loan Proceeds**
- **Basic Credit Requirements**
- **General Maturities and Maximums**
- **SBA Interest Rate Policy**
- **Fees**
- **Prepayment Penalties**

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



7(a) Basics

Terms of the Loan

U.S. Small Business Administration

Total Loan may not exceed
\$2,000,000

Your Small Business Resource

Total Guaranteed Amounts not to
exceed \$1,500,000 to any one
borrower + its affiliates:

Helping Small Business
start, grow and succeed.



Terms of the Loan

Maximum Guaranty Percentage

- \$150,000 or less = 85%
- Greater than \$150,000 = 75%

U.S. Small Business Administration

- **Recovery Act Change -Effective March 16, 2009**

- **90% guaranty (excluding SBAExpress)**
- **Available until support funds exhausted**
 - Will support about \$8.7 billion
- **Maximum guaranty remains \$1,500,000.**
 - Loans between \$1,666,666 and \$2,000,000 will have a guaranty from 75% to 90%

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Uses of Loan Proceeds

U.S. Small Business Administration

- **New starts**
- **Buyouts**
- **Expansions**
- **Working Capital**
- **Land / Buildings / Equipment**
- **Inventory / Materials**
- **Debt Refinancing**

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Basic Credit Requirements

- **Repayment ability from earnings**
- **Sufficient invested equity**
- **Character, reputation and credit history**
- **Experience and depth of management**
- **Nature and value of collateral**
 - Personal guarantees from all 20%+ owners
 - Must use all available if factored coverage is < 1:1

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



General Maturities and Maximums

Maturity- Shortest appropriate term consistent with repayment ability and useful life of assets being financed.

U.S. Small Business Administration

- **Working Capital:** Up to 10 years
- **M&E/F&F:** 10 years, Max 25
 - Not to exceed life of asset
- **Land/Building:** 25 years Maximum
 - Plus time needed to complete construction or renovation
- **Refinancing:** Based on use of proceeds of the underlying loan being refinanced – remaining useful life of assets.

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Maturity of SBA Loans

- Mixed Loan Uses – Two Approaches
 - Blended Term – Maturity based on weighted average
 - Term based on principal use of proceeds
 - May use the maximum term of asset class that is the largest percentage of use of proceeds
 - Must also consider ability to repay

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Weighted Average

<u>Purpose</u>	<u>Amt</u>	<u>%</u>	<u>Mat</u>	<u>WGT</u>
Real Estate	\$300.0	60	25	15
M&E	\$100.0	20	10	2
<u>W/C</u>	<u>\$100.0</u>	<u>20</u>	<u>7</u>	<u>1.4</u>
	\$500.0	100		18.4

18 year term!

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Principal Use of Proceeds

From Same Example:

U.S. Small Business Administration

<u>Purpose</u>	<u>Amt</u>	<u>%</u>	<u>Mat</u>
Real Estate	\$300.0	60	25
M&E	\$100.0	20	10
<u>W/C</u>	<u>\$100.0</u>	<u>20</u>	<u>7</u>
	\$500.0	100	25

Term = 25 years

Also consider repayment ability

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Interest Rate Policy

- Fixed and variable rates allowed
- Maximum Rates tied to Base Rates
 - Low prime rate published in Wall Street Journal or
 - “optional peg” rate or
 - New LIBOR rate – One Month Rate + 3 Percent to establish the Base Rate
- All 3 Rates Posted on Colson Web Site:

www.colsonservices.com/main/news.shtml

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Interest Rate Policy

Based on loan term

- < 7 years: Base Rate+2.25%
- 7 years or more: Base Rate+2.75%
- Loans \$50,000 or less can have higher rates
 - Loans up to \$25,000: 2 pts over max
 - Loans from \$25,001 to \$50,000: 1 pt over max

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Fees

U.S. Small Business Administration

- Guaranty Fees – Fee charged on guaranty portion of loan
- Lender Fee – On-going servicing fee charged to lender

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Calculation of Guaranty Fee

Calculated as a % of Guaranteed Portion

– May be passed on to borrower

<u>Loan Amount</u>	<u>Fee</u>
--------------------	------------

Up to \$150,000	2%
-----------------	----

– Lender may retain 25% of fee

\$150,001 to \$700,000	3%
------------------------	----

\$700,000 to \$2,000,000	3.5%
--------------------------	------

plus additional .25% fee on

guaranty portion over \$1,000,000

Loans 12 months or less maturity	.25%
----------------------------------	------

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Guaranty Fee

Recovery Act Change -Effective February 17, 2009

- Fees eliminated (except for loans of 12 months maturity or less.
- Retroactive
 - Agency will establish a refund mechanism with May 1 target date
 - Will last until \$8.7 billion approved

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Lender Fee

- On-going servicing fee for all SBA 7(a) loans
 - Cannot be passed on to borrower!
- .55 percent annual fee on guaranteed portion of 7(a) loans (for FY 2009)
 - Paid monthly
 - Fee Percent may be changed annually

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Prepayment Penalties

Only applies to loans with 15 years or greater maturity

U.S. Small Business Administration

- 5% of prepaid amount in 1st year
- 3% of prepaid amount in 2nd year
- 1% of prepaid amount in 3rd year

Your Small Business Resource

Helping Small Business
start, grow and succeed.



7(a) Loan Programs

- Regular
- Caplines
- SBA *Express*
- SBA Trade Finance Programs
 - Export Working Capital Program
 - Export *Express*
- Patriot Express
- Small and Rural Lenders Advantage Initiative

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA *Express*

- **Guaranty % - 50%**
- **Guaranty Fee - Same as Regular 7(a)**
- **Loan Limit - \$350,000 (per loan & cumulative Express)**
- **Lender must request SBA approval to participate**

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA *Express*

- **Interest Rate Maximums**
 - Loans \$50,000 or less: Base + 6.5%
 - Loans > \$50,000 to \$350,000: Base + 4.5%
- **Lenders use own forms & procedures**
 - Applications
 - Internal credit memoranda
 - Loan notes (legally enforceable)
 - Collateral documents
- **Lender has unilateral approval authority**

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



U.S. Small Business Administration

SBA Trade Finance Programs

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Export Working Capital Program

Benefits to Lender

- Support Client Growth
 - U.S. products are “on sale” worldwide
 - Exports support growth and survival
- Accommodate Customer Needs
 - Crack that WIP!
- Minimize Risk
 - EWCP provides a 90% guaranty on your client’s (exporter’s) performance
- Fee Income Opportunity
 - Wire transfers, LC’s, Servicing and other fees go to your bottom line

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Export Working Capital Program

Benefits to Lender

- Competitive Advantage
 - Trade finance capability provides market differentiation
 - “Today the transaction, tomorrow the relationship”
- Program Flexibility
 - Supports single, large transactions or multiple
 - Charming, accessible SBA Trade Credit Officers on the ground to aid in transaction assessment and tailored deal-structuring
- Quick Turnaround
 - Decisions usually within 5 working days
 - Preferred Lender Status now available = 24-36 hour turnaround.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Export Working Capital Program

Use of Proceeds

- Pay for the manufacturing costs of goods for export
- To purchase goods or services for export
- Finance foreign accounts receivable
- To support Standby Letters of Credit (performance bonds)

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Export Working Capital Program

What Do We Look for?

- **Exporter's ability to perform**
- Creditworthiness of exporter
- Purchase Order, L/C or signed contract
- Creditworthiness of foreign buyer
- Country risk
- Terms of sale (INCOTerm) and payment method
- Deal structure

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Export *Express*

SBA *Express* lenders eligible
\$250,000 maximum loan

U.S. Small Business Administration

Guarantee Amount

- **Increased to 90% by Recovery Act**
- For loans up to \$150,000 guarantee is 85%
- For loans from \$151,000 to \$250,000 guarantee is 75%

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Export *Express*

Use of Proceeds

- Export development activities such as marketing and trade shows
- Transaction specific financing such as production cost of labor, materials and overhead
- Revolving lines of credit for export purposes

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Export *Express*

Use of Proceeds

- Facilities or equipment to be used in the U.S. to produce goods or services for export
- Loan proceeds may not be used to finance overseas operations
- Lender must review Eximbank CLS to verify eligibility

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Trade Finance Success Story

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- **Firm:** Thumb Tool & Die
- **Product:** Plastics processing machinery and strand pelletizing equipment.
- **Situation:** Order from China \$4MM.
- **Need:** Pre-shipment working capital to support standby L/C and manufacture of equipment.
- **Solution: 2 loans:**
 - A \$2.25MM EWCP to support Standby L/C's and pre-shipment working capital needs.



For More Information

Contact:

United States Export Assistance Center

John R. O’Gara

Regional Manager

Export Solutions Group

U.S. Small Business Administration

8109 E. Jefferson Ave., Suite 110

Detroit, MI 48214

313-226-3670

john.o’gara@mail.doc.gov

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Patriot Express

- **85% - 75% Guaranty**
- **Increased to 90% by Recovery Act**
 - Business must be majority owned by:
 - Veteran, Member of Guard or Reserve, Active-duty service members eligible for T.A.P., Spouses, Surviving Spouse (Service connected death)
- **\$500,000 maximum loan**
 - Interest rate same as regular 7(a)
 - Same Streamlined loan process as *SBAExpress*
 - Unilateral approval authority
- **Lender must be approved for *SBAExpress* to participate**

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Small/Rural Lender Initiative

Eligibility: Lenders that have averaged fewer than 20 SBA loans per year over the last three years. Slides at end of presentation

U.S. Small Business Administration

\$350,000 Maximum Loan

Features:

1. Streamlined loan application and process for SBA loans of \$150,000 or less (85% guaranty)
2. Limited additional information and analysis required for loans above \$150,000 (75% guaranty)
3. Expedited SBA processing within 3-5 days
4. Submission Process same as regular 7(a)

Your Small Business Resource

Helping Small Business
start, grow and succeed.

Guaranty Increased to 90% by Recovery Act



Types of 7(a) Lenders

Regular & S/RLA Participants

- Submitted to **Loan Guaranty Processing Center**
- 10 day turn around on approvals
- 3-5 days for S/RLA

Lenders with Delegated Authority:

- Lenders have unilateral approval authority
- Documentation submitted to **Sacramento Loan Processing Center**
- *SBAExpress* & Patriot Express Lenders
- Preferred Lenders

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Regular 7(a) Loan Processing

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

SBA Centralized Process



How does Centralized Processing work?

- Determine that the loan cannot be made without SBA's guaranty.
- Determine SBA eligibility using the Eligibility Questionnaire.
- Complete 7(a) Application and supporting documents
 - Ensure all documents are complete including all signatures.
- Submit Application

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Submitting Application

Fax:

**SBA's Standard 7(a) Loan Guaranty
Processing Center**

606-435-2400

916-735-1680

U.S. Small Business Administration

Mail or FedEx:

**SBA Standard 7(a) Loan Guaranty
Processing Center**

262 Black Gold Blvd.

Hazard, KY 41701

or

**SBA Standard 7(a) Loan Guaranty
Processing Center**

6501 Sylvan Rd.

Citrus Heights, CA 95610

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Submitting Application

Email: 7aloanprogram@sba.gov
if attachments are under 5 megs.

U.S. Small Business Administration

FTP:

www.sba.gov/aboutsba/sbaprograms/elending

“Submit 7a Loan Documents Here”

Your Small Business Resource

Helping Small Business
start, grow and succeed.

U.S. Small Business Administration



SBA
Your Small Business Resource

Programs and services to help
you **start, grow and succeed**

> En Español

Home

SMALL BUSINESS
PLANNER

SERVICES

TOOLS

LOCAL
RESOURCES

Home > About SBA > SBA Programs > Electronic Lending > LGPC

LGPC

Standard 7a Loan Guaranty Processing Center (LGPC)



6501 Sylvan Road
Citrus Heights, CA 95610
Phone: (916) 735-1515 ext. 4368
Fax: (916) 930-2180



262 Black Gold Blvd
Hazard, KY 41701
Phone: (606)436-0801
Fax: (606)435-2400

[Mission Statement](#)

[Forms Library](#)

[Center Contact Phone List](#)

Resources

- > [Top Ten Screen Out Reasons](#)
- > [Submit 7\(a\) Loan Documents Here](#)
- > [Email 7\(a\) Questions Here](#)

SBA Program Office SBA Programs ▾

- > Home
- > Notices
- > Regulations & SOPs
- > Forms
- > Authorizations
- > Loan Program Guides
- > Lender/Loan Data
- > 1502 Reporting
- > Secondary Market
- > NGPC
- > LGPC
 - > FAQs
 - > Loan Application
 - > Forms Library
 - > Current Issues / Alerts
- > E-Tran
- > IRS Contact Information
- > Lender/ E- Payments
- > Commercial Loan Centers
- > SLPC

Business.gov

ExpectMore.gov

Strengthening
Social Security

Health Care

SBA RESOURCE
PARTNERS

> [USA.Gov](#) > [E-Gov](#) > [Regulations.gov](#) > [White House](#) > [SBW 2007](#)

▪ [Privacy & Security](#) ▪ [Information Quality](#) ▪ [FOIA](#) ▪ [No Fear Act](#) ▪ [ADA](#) ▪ [About Site](#) ▪ [Contact](#) ▪ [SBA Jobs](#) ▪ [Site Map](#)



Submitting a Loan to SBA

U.S. Small Business Administration

- If you have any questions please call your local field office
- or
- Email at 7aquestions@sba.gov

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Documentation

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- Eligibility Questionnaire - not required, however will expedite processing.
- Completed 7(a) Application and all supporting documents.
- A completed authorization may be submitted by the Lender. If not provided by the Lender, the Center will complete one.



Eligibility Questionnaire

- **Should be reviewed first!**
- **Not mandatory, but highly recommended – may become mandatory in future**
- **Make sure all information is entered and all appropriate boxes are checked**

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligibility Questionnaire Continued

Sections (see handout):

- I – General information
- II – Citizenship
- III – Personal History – Form 912
- IV – SBA Loan History
- V – Size & Affiliations
- VI – Preferences

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligibility Questionnaire Continued

U.S. Small Business Administration

- VII – Type of Business
- VIII – Use of Proceeds
- IX – Terms of the Loan
- X – Personal Resources Test
- XI – Conflicts of Interest
- XII – Ethical Requirements
- XIII – Special Programs

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligibility Questionnaire Continued

I – General information

- If no is checked on any statement, loan not eligible

II – Citizenship

- If one or more principals not a citizen, proceed to Addendum A.

- Send USCIS G-845 Form to:

U.S. Citizenship and Immigration Services

300 N. Los Angeles Street, B120

Los Angeles, CA 90012

Attn: Immigration Status Verification Unit

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligibility Questionnaire Continued

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

III – SBA Form 912

- Yes on Question 7 (Principal(s) on Probation or Parole) = not eligible
- Principals that have ever been arrested, charged, or convicted must be cleared through the District Office before proceeding with an SBA loan
 - See Sop 50-10-5, Subpart B, Chapter 2, for detailed requirements

IV – SBA Loan History

- Detail needed if applicant or affiliate(s) have current or previous SBA loan



Eligibility Questionnaire Continued

V – Size & Affiliations

- **Varies by NAICS code, but generally:**

Retail	\$7 to \$35.5 Million
Service	\$7 to \$35.5 Million
Manufacturing	500 to 1,500 Employee
Wholesale	100 Employees
Construction	\$7 to \$33.5 Million

U.S. Small Business Administration

Your Small Business Resource

For additional information: www.sba.gov/size

- The applicable size standards are increased by 25 percent when the applicant agrees to use all of the financial assistance within a labor surplus area.

Helping Small Business
start, grow and succeed.



What About Affiliates?

- The applicant + affiliates must be combined to determine eligibility
- It is an Affiliate when:
 - One party controls
 - OR
 - A 3rd party controls both
 - OR
 - An identity of interest exists
- Two pronged test:
 - Entire group, as a unit, must meet standard for the group's primary industry
 - The applicant, itself, must meet its size standard

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligibility Questionnaire Continued

U.S. Small Business Administration

VI – Preferences – a lender may not take any action in connection with an SBA-guaranteed loan that establishes a preference in favor of the lender.

- When other (non SBA) financing involved – it cannot have superior lien position on same assets used as collateral for the SBA loan.

Your Small Business Resource

VII – Type of Business

- A – Ineligible Businesses
- B – Special Circumstances
- C – Eligible Passive Companies

Helping Small Business
start, grow and succeed.



Ineligible Businesses

- **Non Profits** (for profit subsidiaries may be eligible)
- **Financial businesses**
- **Life Insurance companies**
- **Pyramid Sale distribution plans**
- **Government-owned entities**
- **Cooperatives**
- **Loan Packagers** (those that earn more than one-third of their income from SBA packages)
- **Speculative businesses**

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



More Ineligible Businesses...

- Gambling Activities
- Promoting Religion
- Providing Sexual Material
- Prior Loss to the Government
- Passive Owners of Property
- Principal(s) on Probation or Parole
 - Principals that have ever been arrested, charged, or convicted must be cleared through the District Office before proceeding with an SBA loan

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Special Circumstances

Must justify eligibility when:

- Legal gambling activities
 - Less than 1/3 of gross annual revenue
 - Not primary purpose of business
- Pawn shops/Check Cashing (>50% of income from loan interest)
- Motels, Trailer/RV Park, Campground
 - 50% of Income from transients staying less than 30 days

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligible Passive Company

- An Eligible Passive Company (EPC) is generally formed to hold the fixed assets of an Operating Company (OC)
- What makes this different from an “ineligible” passive company?
 - All parties financially obligated
 - Not considered investment because of lease arrangement
 - Benefit to a small business concern
- Specific requirements
 - Review requirements in SOP 50-10-5

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligibility Questionnaire Continued

VIII – Use of Proceeds

- Refinancing Debt
- Change of Ownership
- Real Estate involving rentals
- Non-eligible use of proceeds

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Refinancing Existing Debt

- Two-tiered Test:
 - Credit must not be available elsewhere on reasonable terms
 - Refinancing must provide small business a substantial benefit

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Refinancing

- Is the existing cash flow adequate to meet the existing obligations?
- Reasonable at inception may or may not still be reasonable for current needs of the business
- Be careful of credit risk

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Refinancing

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- Types of Debt
 - Restructuring of revolving lines of credit
 - Business credit cards
 - Interest exceeds SBA Maximum
 - Balloon notes
- Long-term Debt
 - 20% improvement to payment
 - For multiple notes, Each DOES NOT have to be improved by 20%, but none may have a higher debt service after the refinancing



Refinancing **SAME LENDER** debt

U.S. Small Business Administration

- Must be current for the last 36 months:
 - Not more than 29 days pass due at any time during that period
 - written certification of currency
 - transcript of account
 - Regular processing only

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Change of Ownership

- **Promote development of or preserve the business**
 - Must be in the best interest of the business (Not buyer or seller)
- **Arms-length transaction**
 - Buy-Sell Agreement
 - Third Party Evaluation of the price of the business being acquired if over \$250,000 (after subtracting tangible assets)
 - Current financial statements for existing business
- **Goodwill – seller financing**
 - No more than 50% of loan up to maximum of \$250,000
 - LGPC will review if goodwill is more than SOP allows – Notice 5000-1096 provides detailed requirements

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Real Estate Occupancy Rule

Existing Property

U.S. Small Business Administration

- 51% occupancy
- No additional occupancy requirement
- Loan proceeds cannot be used to remodel rental space

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Real Estate Occupancy Rule

For New Construction Loans

- 60% of space must be occupied by the applicant “permanently”
- 20% of space may be leased out “permanently”
- 20% of space may be leased out “temporarily”
 - applicant must occupy some of the space within 3 years
 - applicant must occupy all of the space within 10 years

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Non Eligible Use of Proceeds

These are generally not eligible for SBA financing:

- To pay delinquent taxes or other funds held in trust
- To pay or refinance debt used for distributions to associates of the applicant
- Community improvements (curbs and sidewalks, etc.) in excess of 5% of construction proceeds of the loan

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligibility Questionnaire Continued

IX – Terms of the Loan

- a. Guaranty Percentage
- b. Loan and Guaranty Amount
- c. Maturity
- d. Interest Rate

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Eligibility Questionnaire Continued

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

X. Personal Resources Test

- Must determine if liquid assets of the applicant's principals are available
- Use the personal resource formula to determine what amount of liquid assets are considered reasonable for the principals to retain
- Applies to 20% or more owners



Calculation of Exemption

- Document Liquid Assets on Eligibility Questionnaire
- SBA bases rule on “total financing package”, not loan amount
$$\text{TFP} = \text{SBA loan} + \text{other loans} + \text{equity injection}$$
- One exemption provided to each owner household
- Tiered calculation

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Personal Resource Exemption:

TFP

Exemption

whichever is greater:

U.S. Small Business Administration

\$250,000 or less

2x or
\$100,000

Your Small Business Resource

\$250,001 - \$500,000

1.5x or
\$500,000

Helping Small Business
start, grow and succeed.

Over \$500,000

1x or
\$750,000



Eligibility Questionnaire Continued

U.S. Small Business Administration

XI – Conflicts of Interest

- Review each item
- Not necessarily ineligible, but each “Yes” must have complete detail in “Comments” section

XII – Ethical Requirements

- If checked, loan not eligible

XIII – Special Programs

- CAPLines, Export Working Capital Program, and/or International Trade Program

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Franchise Information

- Franchise Registry (www.franchiseregistry.com)
- Lender should check with SBA concerning the franchise eligibility
 - If the franchise is on the franchise registry, the franchisor must certify there are no changes
 - If not on franchise registry, SBA must review franchise agreement & FTC Disclosure Document
- Examples of eligibility problems:
 - Franchisor restricts use of property
 - Franchisor has unilateral authority to rescind agreement without cause

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Application

Use the Application Submission Checklist

U.S. Small Business Administration

Not all of the checklist items apply to every loan, but review to ensure all required items are included.

Your Small Business Resource

Again, not required, but highly recommended.

Helping Small Business
start, grow and succeed.



Checklist Items

Listed as they appear on the checklist:

- SBA Form 4, Application for Loan Borrower's Application
 - Form 4 Exhibits:
 - Form 912, Statement of Personal History, for each 20% owner
 - SBA Form 4, Schedule A (or bank's collateral schedule)
 - Personal Financial Statements – bank form or SBA Form 413

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Checklist Items Continued

- Business Financial Statements:
 - Balance Sheet & P&L for last three years
 - Reconciliation of Net Worth
 - Interim Balance Sheet and P&L (within 90 days)
 - Subsidiary and affiliate info
 - Cash flow projection
- History of business
- Resume of principals

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Checklist Items Continued

- Miscellaneous:
 - Copy of lease
 - Detailed list of machinery and equipment
 - Real Estate purchase info (appraisal, environmental, purchase agreement)
 - Franchise Information
- Other Forms:
 - IRS Form 4506-T (Date of Submission)
 - New IRS Electronic Income Verification Express Service (IVES) program, Notice 5000-1087, Register at:
<http://www.irs.gov/individuals/article/0,,id=161649,00.html>
 - USCIS Form G-845 – Include USCIS Response
 - SBA form 1624 – signed and dated by applicant **and retained in lender's file**

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Checklist Items Continued

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- SBA Form 4-I, Lender's Application
 - Lender Completes Form
- 4-I Exhibits:
 - Sources and Uses of Funds
 - Bank's Credit Memo
 - Justification of New Businesses and Change of Ownership Narrative
- SBA form 1846 – signed & dated by lender
- Loan Authorization
 - Latest on **SBA Banking Web Site**
 - www.sba.gov/banking/



Regular SBA 7(a) Application

Steps to ensure good package:

- Review application checklist to ensure all required items are included
 - Complete Form 912 (Statement of Personal History)
- All required signatures
- No internal inconsistencies between write-up, financial statements and spreadsheets.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Application - Frequent Problems

- SBA Form 4
 - Form not appropriately signed on page 3
 - Items 9, 10, 11, 17, 18, and/or 19 not completed
 - Information on Form 4 conflicts with form 4-I and/or the credit memorandum with no explanation
 - Applicant's Certification on page 4 not signed (all owners and guarantors)

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Application - Frequent Problems

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- SBA Form 4-I (Lender's Application) and Credit Memorandum
 - Required information is not on the 4-I or the credit memorandum
 - Information on the form 4-I conflicts with the credit memorandum – no explanation
 - Form not signed and/or dated



Application - Frequent Problems

Not all required forms included with application

Forms include:

- SBA Form 912 – Statement of Personal History
 - Make sure it's complete!
 - Prior clearance for those with arrest/conviction/indictment
- SBA Form 413 - Personal Financial Statement
 - Spouse must sign!
 - May use own form if it provides all data required.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Application - Frequent Problems

Financial Information

- Equity Injection for a new business is not clearly delineated as to amount and/or source
- Interim Financial Statements and Personal Financial Statements older than 90 days
- Financial Statements not signed by principal of applicant
- Less than 3 years financial information for existing business
- Applicant's net worth does not reconcile – no separate reconciliation provided

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Application - Frequent Problems

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- No written certification and/or transcript of participant lender's loans when refinancing with SBA loan proceeds.
- Personal resource test not documented
- No information provided on affiliates, including signed financial statements



Application - Frequent Problems

Business acquisitions

- No Buy-Sell Agreement
- No/Poor Evaluation of the price of the business being acquired
 - No current financial statements for existing business
 - No reason provided for sale of business

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Application - Frequent Problems

Real Estate Problems

- No Buy-Sell Agreement
- No indication that the business will immediately occupy more than 50% of an existing building
- No indication that the business will immediately occupy 60% of a building to be constructed with plans to occupy more in three years and 80% within ten years

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

Questions??



U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

Small and Rural Lender Advantage Program

Eligibility: Lenders that have averaged fewer than 20 SBA loans per year over the last three years. May be expanded to all lenders



Lender Advantage Details

Maximum \$350,000 loan

U.S. Small Business Administration

Features:

1. Streamlined loan application and process for SBA loans of \$150,000 or less; with limited additional information and analysis required for loans above \$150,000 up to \$350,000
2. 75/85 percent guaranty
3. Expedited SBA processing with routine loans processed within 3-5 days
4. Submission Process same as regular 7(a)

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Key Features

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- Simplified SBA loan eligibility questionnaire and application forms
- Eligibility assistance through the Help Desk at the Standard 7(a) Loan Guaranty Processing Center



The Forms

- SBA Form 2301, Part A
 - “Small Business Application for Guaranty”
- SBA Form 2301, Part B
 - “Lender’s Application For Guaranty”
- SBA Form 2301, Part C
 - “Eligibility Questionnaire”

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Form 2301, Part A

U.S. Small Business Administration

Borrower's Application -
Documentation to be
submitted by Applicant to
the Lender:

Your Small Business Resource

Complete, signed and dated.
Separate, completed forms
identified in SBA Form
2301, Part A

Helping Small Business
start, grow and succeed.



SBA Form 2301, Part A – Page 1

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- Section A: general information
- Section B: the loan request from the Applicant, including Form 159 if Applicant hired an agent to assist in completing the application
- Section C: listing of any existing business indebtedness



SBA Form 2301, Part A – Page 1

- Section D: listing of those that have completed individual Section Ds (page 2 of the form)
- Section E: signature block

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Additional Items

Business Financial Statements and Projections :

- Same requirements as regular 7(a) loan

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Additional Items

An itemized list of collateral

- serial/ID numbers for any valued >\$5,000.
- Real estate requires legal description

Other information lender may require

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Form 2301 A – Page 2, Section D

- Page 2 of SBA Form 2301, Part A is the *individual* Section D
- This must be completed by EACH principal and guarantor. For example, if there are 3 principals and 2 additional guarantors, then each must complete and sign a Section D

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Form 2301 A – Page 2, Section D

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- D5: Disclosures including:
 - Lawsuits
 - Affiliates
 - Arrest information – SBA Form 912 needed if yes answered
 - Acknowledgement that applicant has received/read “statements required by law and executive orders”
 - Acknowledgement of liability for providing false information



SBA Form 2301 A – Page 2, Section D

U.S. Small Business Administration

- Statements Required by Law and Executive Orders. SBA is required to provide this information to all applicants.
- Signature and date

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Form 2301, Part B

Lender's Application

- Section A: Lender information as well as Applicant's name and NAICS code
- Section B: Loan Terms. Any required life insurance, standby agreement, or equity injection
- Section C: Use of Proceeds and breakdown of collateral

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Form 2301, Part B

- Section D: Attach the Eligibility Questionnaire (SBA Form 2301, Part C)
- Section E: IRS Form 4506-T must be completed and submitted by lender to the IRS

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Form 2301, Part B

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- Section F: Attach copy of Lender's Credit Memorandum. The requirements for what the Credit Memorandum must contain are described in the instructions that follow
- Section G: The Lender's certification to certain statements. (For example, lender has an executed SBA Form 750, *Loan Guaranty Agreement*)



SBA Form 2301, Part C

Eligibility Questionnaire

- Questionnaire (Part C of Form 2301) designed to simplify and expedite eligibility determinations by distinguishing between:
 - Applicants that are clearly eligible without any additional documentation;
 - Applicants that are not eligible; and
 - Applicants where additional information/documentation must be obtained to determine eligibility.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Form 2301, Part C

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- Responses are “true” or “false”
 - If “true” is the only option available it means applicant must meet that requirement or they are not eligible.
- Where “false” is a choice, this means that additional documentation will be required for SBA to determine eligibility.



SBA Form 2301, Part C

Example

Under the section entitled “The Small Business Applicant,” there is the following statement:

Applicant is not a franchisee or, if the Applicant is a franchisee,

the franchise is on SBA’s franchise registry. The franchise

registry is available at www.franchiseregistry.com

If the answer is “false,” then the Lender needs to obtain a copy of the franchise agreement for SBA’s determination if franchise is eligible.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Form 2301, Part C

- A Lender may get help to eligibility questions from:
 - SBA's SOPs, regulations, and notices, at www.sba.gov/banking
 - Local SBA District Office 313.226.6075
 - Al Cook, ext. 221; email: allen.cook@sba.gov
 - Ken Kolasa, ext. 228; email kenneth.kolasa@sba.gov
 - Standard 7(a) Loan Guaranty Processing Center at 916.735.1515 ext 4368 or
 - Email: 7aquestions@sba.gov

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

Lender's Credit Memorandum

- SBA will accept lender's credit memorandum in lieu of traditional SBA documentation assuming the following:
- Credit Memorandum must meet reasonable and prudent standards for the commercial lending industry – “model” available.
- To simplify loan documentation and analysis, SBA defines the following two loan tiers, which depend on size, complexity, and/or risk of loan:



Lender's Credit Memorandum

- Tier 1 – defined as loans up to \$150,000 EXCEPT for the following:
 1. New businesses (in business for two years or less) and changes of ownership.
 2. Businesses that have had judgments or bankruptcy filings.
 3. Businesses with a debt service coverage ratio of less than 1.2:1 to include all existing and new debt. (Debt service coverage is defined as projected net profit after taxes (for 12 months after loan approved) plus depreciation, interest, and amortization divided by all existing and new debt service.).

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Lender's Credit Memorandum

- For Tier 1 loans, the Credit Memorandum must include, at a minimum:
 1. Description of history and nature of the business
 2. Description of and comments on the business plan including:
 - A. Management experience of principal(s), particularly in the industry;
 - B. Financial condition of the business; and
 - C. Nature of any competition.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Lender's Credit Memorandum

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

3. Analysis/calculation of cashflow relative to debt service: Show how historical cashflow would cover total debt service after the SBA loan.
4. Spread of Business Balance Sheet to include requested loan funds and any required equity injection (as of date of loan disbursement). "Template" available
5. Ratio calculations (based on the Balance Sheet/Income Statement) for the following financial ratio benchmarks: Current Ratio, Debt/Tangible Net Worth, Debt Service Coverage, and other ratios the lender considers significant for the business/industry (inventory, receivables, payables, etc.).



Lender's Credit Memorandum

6. Collateral adequacy assessment (using liquidation values) to offset risk of default.
7. Explanation of and justification for the refinancing of any debt as part of the loan request, particularly Same Institution Debt.
8. Discussion of credit analysis, including lender's rationale for recommending approval.
9. Any additional information the lender considers relevant to the credit decision.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Lender's Credit Memorandum

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

- Tier 2 – defined as loans between \$150,001 and \$350,000 PLUS loans to the following:
 1. New businesses (in business for two years or less) and changes of ownership.
 2. Businesses that have had judgments or bankruptcy filings.
 3. Businesses with a debt service coverage ratio of less than 1.2:1 to include all existing and new debt.



Lender's Credit Memorandum

- For Tier 2 loans, Credit Memorandum must include items described for Tier 1 PLUS:
 1. Analysis of working capital adequacy to support projected sales growth in next 12 months.
 2. Analysis/calculation of cash flow relative to debt service:
 - (1) Show how historical cash flow (if appropriate) covers debt service after SBA loan (Same as Tier 1); and,
 - (2) Show how projected cash flow covers debt service after SBA loan.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



Lender's Credit Memorandum

3. Discussion of any:
 1. Seller financing;
 2. Stand-by agreements;
 3. 90+day delinquencies;
 4. Trade disputes.
4. For a change of ownership, discussion/analysis of business valuation
5. Discussion of any bankruptcy filings or judgments.

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Lender Resources

U.S. Small Business Administration

- **SBA Electronic Lending Web Site**

- www.sba.gov/banking/
- Standard Operating Procedure (SOP) 50 10 (5)= Processing SOP
- Policy and Procedural Notices
- SBA Forms

Your Small Business Resource

Helping Small Business
start, grow and succeed.



SBA Lender Resources

- **Michigan District Office**
 - (313) 226-6075, Fax (313) 226-4769
 - **Bank Notes -**
<http://web.sba.gov/list/>
 - **Lender's Page -**
http://www.sba.gov/mi/mi_lenderspage.html
 - Past Issues of Bank Notes
 - Notices
 - Email – kenneth.kolasa@sba.gov
or allen.cook@sba.gov

U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.



U.S. Small Business Administration

Your Small Business Resource

Helping Small Business
start, grow and succeed.

Questions??