



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA Lending - Introduction

Facilitated by:

Jim Kahler - Texans Credit Union

Dale Donnell – SBA Consulting, LLC

Perry Espie – US Small Business Administration



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

American Recovery and Reinvestment Act

- **90% guaranty on most 7(a) loans**
- **Waive guaranty fees on most 7 (a)**
- **Waive Certain fees on 504 loans**
- **Extended thru 4/30/2010**



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

Small Business Job Creation and Access to Capital Act 2009 (S. 2869):

- Raises the loan maximums on 7(a), 504 and micro loans
- Extends the ARRA thru the end of 2010
- Refinance under the 504 loan program

Small Business Export Enhancement and International Trade Act of 2009 (S.2862):

- increase the capacity of small businesses to engage in trade with foreign countries

Small Business Contracting Revitalization Act of 2010 (S. 2989):

- encourage federal agencies to award contracts for goods & services to small businesses

Small Business Community Partner Relief Act of 2010 (S. 3165):

- temporarily waive the matching funds requirements for Microloan Intermediaries and Women's Business Centers

SBIR/STTR Reauthorization Act of 2009 (S. 1233):

- encourage small businesses to develop new technologies in fields from health care and defense to clean energy.



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

WHAT'S IN IT FOR ME?

Why would a lender want to participate in the SBA loan programs?

- Reduces risk
- Extends lending limits
- Reasonable collateral requirements
- Improves portfolio quality & profit potential
- Enhances flexibility
- Provides CRA credit



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

WHAT'S IN IT FOR ME?

Why would a borrower want to participate in the SBA 7(a) program?

- Access to Capital
- Longer term for improved cash flow
- “Reasonable” equity requirement
- Improved servicing flexibility
- Financing available for start-ups and collateral-weak ventures



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA Lenders & Certified Development Company

Who can participate in SBA Lending?

- SBA 7(a) Lenders
 - Regular Lenders
 - Certified Lenders
 - Preferred Lenders
 - SBA Express
 - Pilot Loan Programs
- Small Business Lending Companies



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA Lenders & Certified Development Company

Who can participate in SBA Lending?

- Certified Development Companies
 - Priority CDCs
 - Accredited Lenders Program
 - Premier Certified Lenders Program



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

LENDER REQUIREMENTS

Becoming a SBA 7(a) Lender?

- The following Lenders may participate
 - Federally Regulated Lenders
 - SBA Supervised Lenders
- Contact your local SBA District Office
- If eligible, execute a Loan Guaranty Agreement (Deferred Participation), SBA Form 750/SBA Form 750B

http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sops_50105b.pdf



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Special Programs

What other SBA 7(a) Programs are there?

- Small/Rural Lender Advantage (S/RLA)
- Pilot Loan Programs
 - Patriot Express
 - Export Express
 - Community Express



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Program

SBA 7(a) program is a deferred participation program

- The Lender makes the loan
- The Lender funds the loan
- The Lender services the loan
- The Lender liquidates the loan
- The Lender submits to the SBA for guaranty
 - The SBA guarantees a portion of the loan



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Loan Limits

- Section 502 of the Recovery Act authorizes SBA to guarantee up to 90 percent of a 7(a) loan except for SBA Express
 - All loans (except SBA Express) 90% *
 - (up to a maximum guaranteed amount of \$1,500,000)
 - SBA Express 50%

Maximum Amounts **

Loan Type	Loan Amount	Guaranteed Amount
Standard 7(a)	\$2,000,000	\$1,500,000
CLP	\$2,000,000	\$1,500,000
PLP	\$2,000,000	\$1,500,000
Small/Rural Lender Advantage	\$350,000	\$315,000
Community Express	\$250,000	\$225,000
Patriot Express	\$500,000	\$450,000
Export Express	\$250,000	\$225,000
Gulf Opportunity	\$150,000	\$135,000
SBA Express	\$350,000	\$175,000



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Loan Limits

- SBA Guaranty Amounts under regular program guidelines

Loan Amount	Guaranty %
For loans \$150,000 or Less	85%
For loans over \$150,000	75%
For SBA Express	50%

- * Recent legislation extended the 90% guaranty and waiver of guaranty fee thru 4/30/2010, or until funds are fully expended. There is additional legislation on the House and Senate floors that will extend Section 501 and Section 502 thru 12/31/2010, or until funds are fully expended.
- ** There is current legislation on the House and Senate floors which will increase the maximum 7(a) loan amount to \$5,000,000.



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA Guaranty & 504 Fees

- Section 501 of the Recovery Act authorizes SBA to reduce or eliminate certain fees on 7(a) and 504 loans
 - SBA will temporarily eliminate the SBA Guaranty Fee for all eligible loans, including those made with higher SBA guarantees until the funds are exhausted. *
 - SBA will temporarily eliminate two 504 program fees, the Third-Party Participation Fees and the CDC Processing Fee until the funds are exhausted. *



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA Guaranty & 504 Fees

- SBA Guaranty Fee under regular program guidelines

Loan Amount	Guaranty Fee *
For loans \$150,000 or Less	2.0%
For loans over \$150,000 up to \$700,000	3.0%
For loans over \$700,000 **	3.5%

* Guaranty fee is based on the guaranteed portion of the loan

** Plus 3.75% of the guaranteed portion over \$1,000,000

- CDC Fees under regular program guidelines

Funding Fee	0.25%
CDC Processing Fee	1.5%
Underwriting Fee (20 year debenture)	0.40%



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Maximum Maturities

The loan term must be appropriate for the borrower's ability to repay and the use of proceeds.

Working Capital	up to 7 years
Machinery & Equipment	up to 10 years (or the life of the asset)
Real Estate	up to 25 years (or the remaining life)

May use blended maturity or a maturity up to the maximum for the asset class comprising the largest percentage of the use of proceeds.



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Maximum Interest Rates

The maximum interest rate that may be established for any 7(a) loan is governed by SBA's regulations

Loan Maturity

For maturities less than 7 years

For maturities over 7 years

Maximum Variable Rate *

Base Rate ** + 2.25%

Base Rate ** + 2.75%

Loan Maturity

For maturities less than 7 years

For maturities over 7 years

Maximum Fixed Rate *

LIBOR Base*** + LIBOR Spread**** + 2.25%

LIBOR Base*** + LIBOR Spread**** + 2.75%

* Rates can be higher by 2% for loans of \$25,000 or less and 1% for loans between \$25,000 and \$50,000.

** There are three acceptable Base Rates, Prime Rate/LIBOR Base Rate/SBA Optional Peg Rate.

*** The LIBOR Base rate is the 1-month LIBOR in effect on the first business day of the month as printed in a national financial newspaper each business day PLUS 300 basis points

**** The average of the 5-year and 10-year LIBOR swap rates in effect on the first business day of the month as printed in a national financial newspaper published each business day.



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Use of Proceeds

SBA 7(a) loan proceeds may be used to finance:

- Working Capital
- Furniture & Fixtures
- Machinery & Equipment
- Purchase of Land & Building
 - Including construction and/or renovations
- Business Acquisition
- Refinancing of Existing eligible debt



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- The small business must:
 - Be an operating business;
 - Be organized for profit;
 - Be located in the United States (includes territories and possessions);
 - Be small (as defined by SBA); and
 - Demonstrate a need for the desired credit.
- The small business must not be able to obtain the loan “reasonable” terms elsewhere.
- The small business applicant must show that the funds are not available from alternative sources, including personal resources of the principals



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

Principal (20% or > owners) - Note: Personal F/S must include assets and Liabilities of all family members in the household)

Liquid Assets	
Cash on Hand & in Banks	\$0
Savings Accounts	\$0
Marketable Securities	\$0
Other Non-Exempt Liquid Assets	
Cash Surrender Value of Life Insurance	\$0
Liquid assets transferred by applicants within 6 months	\$0
Other	\$0
TOTAL LIQUID ASSETS	\$0
Less Required Injection	\$0
REMAINING LIQUID ASSETS	\$0
Less the appropriate personal exemption	\$0
EXCESS LIQUID RESOURCES (Loan must be reduced by this amount)	\$0



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- Ineligible Types Of Businesses
 - Non-profit businesses
 - For profit subsidiaries are eligible
 - Businesses Engaged in Lending
 - Banks,
 - Finance Companies;
 - Factors;
 - Investment Companies;
 - Bail Bond Companies; and
 - Other businesses whose stock in trade is money and which are engaged in financing.
 - Passive Businesses
 - Apartments
 - Mini-warehouses
 - office suites
 - shopping centers/flea markets
 - mobile home parks



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- Ineligible Types Of Businesses
 - Life Insurance Companies (but not independent agents)
 - Business Located in a Foreign Country or Owned by Undocumented (Illegal) Aliens
 - Businesses Selling Through a Pyramid Plan
 - Businesses Engaged in Gambling
 - Businesses Engaged in any Illegal Activity
 - Businesses Which Restrict Patronage
 - Government-Owned Entities, Excluding Native American Tribes
 - Businesses Engaged in Promoting Religion
 - Cooperatives



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- Ineligible Types Of Businesses
 - Businesses Engaged in Loan Packaging
 - Businesses Owned by Persons of Poor Character or on Probation or Parole
 - Equity Interest by Lender or Associates in Applicant Concern
 - Businesses Providing Prurient Sexual Material
 - Prior Loss to the Government
 - Businesses primarily engaged in political or lobbying activities
 - Businesses engaged in speculative nature



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- Eligible Passive Company (EPC)
 - Any legal ownership structure for the purpose of owning the R/E
 - OC must be eligible
 - Use of proceeds must be eligible
 - EPC and OC each small
 - The EPC must lease the project property directly to the OC
 - The lease must be in writing
 - subordinated to the SBA loan
 - equivalent term & payment
 - assigned to the Lender
 - OC leases 100%
 - OC is a guarantor or co-borrower
 - 20% or more owners must guaranty



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- **Businesses Owned by Non-US Citizens ***
 - Lawful Permanent Residents (LPRs) are eligible
 - Non-immigrant aliens may be eligible, certain additional restrictions apply
 - Management is expected to continue in place indefinitely and have U.S. citizenship or verified LPR status
 - Management must have operated the business for at least 1 year prior to the application date
 - The personal guaranty of management must be considered as a loan condition and if not required, the decision must be explained in the loan file
 - The Loan must be fully secured for the life of the loan
 - Must meet all other eligibility requirements

* USCIS status must be verified



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- SBA has several Eligibility Questionnaires to assist lenders
 - Eligibility Information Required For PLP Submission
 - SBA Eligibility Questionnaire for Standard 7(a) Guaranty
 - SBA Express and Pilot Loan Programs (Export Express, Community Express, and Patriot Express) Guaranty Request (Form 1920SX Part A)
 - Supplemental Information for SBA Express, Pilot Loan Programs and PLP Processing (Form 1920SX Part B)
 - SBA Express & Pilot Loan Programs Eligibility Information (Form 1920SX Part C)



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- SBA Key Eligibility “Hot Buttons”
 - Equity Injection
 - Size Standards
 - Refinancing
 - Business Acquisitions
 - Franchises / Fuel Agreements / License Agreements
 - Occupancy
 - Appraisals / Business Valuations / Environmentals



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- SBA Key Eligibility “Hot Buttons”
 - Equity Injection
 - Document it FULLY
 - Bank/Brokerage Statements
 - Canceled Checks
 - Settlement Statements
 - Try to avoid cash
 - Size Standards
 - http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sstd_tablepdf.pdf
 - Refinancing
 - When refinancing debt, the lender’s loan file must include a written analysis that specifically addresses certain issues



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- SBA Key Eligibility “Hot Buttons”
 - Business Acquisitions
 - Very specific requirements
 - Viewed as a Start-up
 - Arms Length
 - Goodwill and Seller Financing
 - Business Valuation
 - Verify seller’s financials
 - Franchises / Fuel Agreements / License Agreements
 - Franchise Registry (www.franchiseregistry.com)
 - Internal/external review for eligibility



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA 7(a) Eligibility Requirements

- SBA Key Eligibility “Hot Buttons”
 - Occupancy
 - Owner occupied
 - 51% for acquisition
 - 60% for construction
 - Appraisals / Business Valuations / Environmentals
 - Qualified professionals
 - Independent from Lender, Applicant (Seller)
 - Specific licensing requirements
 - Ordered by Lender
 - Certified to the Lender/SBA



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA Credit Criteria

- The 6 C's of SBA Lending
 - Cash Flow / Repayment ability
 - Credit History
 - Character
 - Capacity
 - Collateral
 - Credit Available Elsewhere



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA Credit Criteria

- SBA is a Cash Flow Lender
 - Repayment must be documented
 - Historical
 - Projected
- Collateral must “fully secure” the loan on a liquidated basis
 - Additional collateral is required, if it is available
- Personal Guarantees required for all 20% or more owners
 - Key personnel or others can be added
- SBA does not require a specific equity injection, BUT the credit decision must be “prudent” and comply with internal bank guidelines.



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

SBA Credit Criteria

- SBA credit administration procedures stress practices that are “generally accepted commercial banking standards employ by prudent lenders”
 - Lenders must analyze each application in a commercially reasonable manner, consistent with prudent lending standards.
 - SBA expects lender to service and liquidate their SBA portfolio under the same processes and procedures they use to administer their conventional commercial loan portfolio.
 - Specific actions may require prior SBA approval, depending on the level of delegated authority extended to the lender participant.
- The Lender risks impairment of the Guaranty, including full denial if these requirements are not met



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

Important things to remember

- **SBA does not make a bad loan good, it makes a good loan better**
- **Lack of preparation on your part does not constitute an emergency on my part.**



North Texas Association of Government Guaranteed Lenders

Fun with SBA Lending

Questions?