

# Intro to SBA Lending – Part 1

Tuesday, January 19 – 11:00 a.m. Eastern

**For audio portion, dial 1-877-369-5243 or  
1-617-668-3633 and enter the access code  
of 0513347#**

**Thank you!**



*U.S. Small Business Administration*

West Virginia District Office

# Intro to SBA Lending Part I

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Presented by  
West Virginia District Office



# Mark Your Calendar

- Intro to SBA Lending, Part II – 10:30 a.m. on January 26  
Session includes:
  - Equity Requirements
  - Acceptable Sources of Injection
  - IRS Form 4506-T
  - Debt Refinancing
  - Changes of Ownership
  - Business Valuation Requirements
  - Occupancy Requirements
  - Franchises
- Intro to SBA Lending, Part III - 11:00 a.m. on February 2  
Session includes:
  - Servicing Actions
  - Liquidation Status Transfer
  - Site Visit & Reporting Requirements
  - Guaranty Purchase Requests
  - Charge-Off & Referral to Treasury

To register for any of the additional sessions, please send an e-mail to [richard.haney@sba.gov](mailto:richard.haney@sba.gov).

# Authorizing Officials now required for 7(a) Lender ETran access

- SBA has established new security measures as a result of the recent incidents. The new security measures require each lending institution have Authorizing Officials. **Authorizing Officials approve the access for their ETran users.**
- SBA recommends **two people** for each lending institution as Authorizing Officials for backup purposes.
- Authorizing officials should be **staff who frequently review email requests due to having to respond to email requests within 48 hours**. In addition to approving ETran users, AOs are responsible for recertifying accounts of individuals who actually use using ETran and SBA One. Recertification is required semi-annually.
- New AO requests should access the CAFS at: <https://caweb.sba.gov> and select Not Enrolled under SBA Account Login on the upper left of the screen. Complete all sections of the profile creating your own UserID and Password using the rules provided. Select “Partner ID” for user type. Enter the Location ID of your institutions headquarters location (can use the Lookup feature or contact your WVDO LRS) then select “Authorizing Official” under Job Classification. Under Supervisor Information enter your email address, first and last name. Send an email to [cls@sba.gov](mailto:cls@sba.gov) with the subject line PRODUCTION Authorizing Official Approval Request. State in the email you are requesting to become an authorizing official for your location ID.
- You will receive an email verifying your email address. You must click in the email and verify your email address within 48 hours. Your request will be deleted if no response is received within 48 hours.
- You will then receive an email from [cls@sba.gov](mailto:cls@sba.gov) indicating your account has been approved.

# Authorizing Official

- Once that first person has worked through the approval process, the second Authorizing Official should follow the steps outlined on the previous slide except the second Official will **not** have to send an email to [CLS@SBA.gov](mailto:CLS@SBA.gov) because the first Authorizing Official will approve the second Authorizing Official's access.
- For existing accounts, send an email to [cls@sba.gov](mailto:cls@sba.gov) with the subject line PRODUCTION Authorizing Official Approval Request. State in the email you are requesting to be an authorizing official for your institution and include your location ID (contact your LRS if you do not know it).
- Detailed instructions will be sent after the webinar.
- Note: CAFS access is supported by specific browser versions. These versions are: Microsoft Internet Explorer version 11 (IE 11); Firefox 40.0 and 41.0; Chrome 45.0 and 46.0; and Microsoft Edge.

# SBA One

**SBA One is a new online “one-stop” SBA portal.** It provides extensive built-in guidance to lead you through the submission of new SBA 7(a) loan applications including SBA Express loans.

- SBA has set up a “test” site that may be used to learn about the SBA One system. You are also encouraged to begin using the “live” site when you feel comfortable.
- SBA is giving expedited processing to non-delegated 7(a) loans submitted via SBA One. Non-delegated 7(a) loans are those that are NOT submitted under the Preferred Lenders Program (PLP) or SBA Express .

**We will include in the e-mail sent after today’s webinar:**

- instructions on how to sign up for both the SBA One Test site and the Live site.
  - For the Live site, you will need to follow the instructions re setting up an Authorizing Official.
- SBA One FAQs
- Fact Sheet on SBA One which provides information on the security protocols which you may share, as needed, with your IT department.

If you have questions about signing up for SBA One, contact your Lender Relations Specialist. If additional assistance is needed, referral to SBA One staff may be necessary.

# Part I Will Cover

- How the SBA Guaranty Works
- Fees and Fee Waivers
- Interest Rates, Maturities, Eligibility and Uses of Proceeds
- Credit Standards
- Collateral Policy
- Express Loans
- 504 Program

# Why Consider SBA Guaranteed Loan?

- Longer maturity needed.
- Inadequate collateral.
- Broaden your lending to include businesses outside your normal bank policy such as start-ups, changes of ownership & higher turnover businesses.

# How SBA Loan Guaranty Program Works

- Commercial LO decide they need an SBA guaranty. Lender must certify that, without the SBA guaranty, they would not be able to make the loan.
- Lender completes their underwriting and then decides what SBA loan program to use.
- Depending on the loan program used, either the lender will use their delegated authority to approve the loan or, for non-delegated loans, SBA will make the final decision.
- A Loan Authorization is prepared which outlines the terms of guaranty. Lender then closes and disburses loan per Authorization.

Delegated loan programs are:

- Preferred Lenders Program (PLP)
- SBA Express & Export Express Loan Programs

# How SBA Loan Guaranty Program Works

- If borrower defaults, lender may submit a Purchase Demand Kit (PDK) requesting that SBA honor its guaranty. Prior to submitting the PDK, lender is required to, at a minimum, liquidate all business personal property.
- After purchase, Lender is required to liquidate any remaining collateral and share the proceeds with SBA based on the guaranty percentage.

Want to know more about the SBA Purchase process?

Sign up for the Feb. 2 *Intro to SBA Lending, Part III* webinar by sending an e-mail to [richard.haney@sba.gov](mailto:richard.haney@sba.gov).

# Types of SBA Loan Programs

- 7(a) - Includes SBA Express & Export Express
- 504 - Fixed Asset

Quick Reference Loan Chart To Be Sent to Participants At Conclusion of Webinar

# 7(a) Loan Types

- 7(a) Loan Guaranty Program – up to \$5 million
  - Agency's flagship program available to all lenders with signed *Loan Guaranty Agreement*
  - Processed in the Loan Guaranty Processing Center (LGPC) in California.
- SBAExpress up to \$350,000
- Export Express up to \$500,000
  - Lenders must apply to become SBAExpress and Export Express lenders.

Total outstanding SBA loans to any one borrower either on their own or combined with their affiliates may not exceed these limits.

# 7(a) CAPLine Loan Program

- Short Term Working Capital Programs - Four Subprograms.
  - Working Capital Line (business must generate accounts receivable)
  - Contract Line
  - Seasonal Line of Credit
  - Builder Line (Spec building)
- Ten Year Maximum Maturity except Builder line has 5-year maximum.
- Maximum loan amount is \$5 million since this is a subset of the Standard 7(a) loan program.
- Interest rate maximums are the same as 7(a).

# Guaranty Percentages

- Regular 7(a)
  - Loans up to \$150,000 85%
  - Loans over \$150,000 75%
- SBAExpress Loans 50%
- Export Express
  - Loans up to \$350,000 90%
  - Loans over \$350,000 75%

# 7(a) Loan Fees

1. Guaranty fee – Bank pays fee then is reimbursed by borrower. May be passed on to Borrower after first disbursement. Lender must use [www.pay.gov](http://www.pay.gov) to remit this fee.
  - Term of 12 months or less - 1/4 of 1 % of guaranteed portion – fee is due within 10 days of receipt of loan number.
  - Term over 12 months (due within 90 days):
    - Loans up to \$150,000 – fee is 0% in FY 2016
    - Loans between \$150,001 and \$700,000 - 3% of guaranteed portion
    - For loans of \$700,001 to \$5 Million: 3.5% of the guaranteed portion up to \$1 Million, **PLUS**, 3.75% of the guaranteed portion over \$1 million
2. Ongoing fee of 0.473% per year on outstanding balance; collected monthly – Paid by Lender – may not be passed on to Borrower.

# 7(a) Fee Adjustment – FY 2016

SBA is offering three fee adjustments in FY 2016:

- All 7(a) loans (including Express programs) in the amount of \$150,000 or less, both yearly lender fee and upfront guaranty fee will be zero.
  - Since SBA is not charging lenders a guaranty fee, lenders may not charge a guaranty fee to the borrower in connection with these loans.
  - CAUTION: If two or more SBA loans are approved within 90 days of each other, guaranty fee is based on aggregate amount of the loans.

# 7(a) Fee Adjustment – FY 2016

## **SBA Veterans Advantage – only available to qualified small businesses:**

- SBA Express loans of \$150,001 to \$350,000, up-front guaranty fee is 0%.
- For non-SBA Express 7(a) loans of \$150,001 up to and including \$5,000,000 up-front guaranty fee is reduced by 50%, as follows:
  - For loans with a maturity in excess of 12 months:
    - i. For loans of \$150,001 to \$700,000: 1.5% of the guaranteed portion;
    - ii. For loans of \$700,001 to \$5,000,000:
      - 1.75% of the guaranteed portion up to \$1,000,000 PLUS,
      - 1.875% of the guaranteed portion over \$1,000,000;
  - For loans with a maturity of 12 months or less:  
0.125% of the guaranteed portion.

Lenders must document their loan file with borrower's eligibility using documentation identified in attachment to SBA Notice 5000-1319 (will be sent out after today's session), and must present copies of that documentation with any guaranty purchase request.

**NOTE:** There is no reduction in Lender's annual service fee for loans over \$150,000. Also, any multiple of 7(a) loans made within 90 days of one another are considered as one loan for purposes of determining guaranty amount and guaranty fees.

# Allowable Bank Fees

- Reasonable packaging fees for time expended / service rendered
- Lenders legal fees
- Borrower requested services
- Out of pocket expenses
- Must notify Colson Services on Form 159 (7a). Submit with your monthly 1502 report.
- Late payment fees if in the Note

# Allowable Packages and Other Fees

- SBA has revised its policy to permit lenders or third parties, including lender service providers (LSPs), to charge a fee based on a percentage of the loan amount for packaging and other services. Limits apply.
  - Note: A standard fee charged to all Small Business Applicants is not acceptable.
  - Lender may not charge for the lender's costs associated with underwriting the loan including the completion by the lender of SBA's application forms and lender's analysis.
- “Packaging services” includes assisting the Small Business Applicant with completing the application, preparing a business plan, cash flow projections, and other documents related to the application.
  - “Other services” includes consulting as to what financing is needed and what type, broker or referral fees.

# Interest Rates

- Standard 7(a)
    - Terms of less than 7 years – Base Rate\* + 2.25%
    - Terms of 7 years or more – Base Rate\* + 2.75%
    - May add 1% to above on Loans up to \$50,000
    - May add 2% to above on Loans up to \$25,000
  - SBAExpress Loans
    - Base rate\* + 6.5% on loans of \$50,000 or less
    - Base rate\* + 4.5% on larger loans
- \*Base Rate options:
1. Prime Rate\*\*
  2. LIBOR (1 month)\*\* + 3%
  3. SBA Peg Rate (published quarterly on Colson website)

\*\*in effect on the first business day of the month as identified in a national financial newspaper

# Maturity Maximums

- Working capital or inventory loan terms should be appropriate to the borrower's ability to repay but not more than 10 years.
- Real estate up to 25 years
- Machinery – 10 years or its useful life up to 25 years
- Just about everything else – 10 years

# Eligibility

- Must be a for-profit business open to the general public
- Must be small including its affiliates
- Must have a sound business purpose
- Ineligible businesses/uses of proceeds (not complete list, see SOP 50 10 5 (H))
  - Businesses involved in lending or speculation
  - To acquire real estate that will be held primarily for investment purposes
  - Pyramid-type businesses (e.g. Mary Kay)
  - Businesses deriving more than 1/3 of their revenue from legal gambling activities (e.g. lottery sales)
  - No payments allowed to owners, or to pay delinquent withholding, sales or similar funds held in trust
  - Mini-warehouses are now eligible.
  - Prior loss to the Government:
    - Small Business Applicant that incurred Delinquent Federal Debt or caused Prior Loss (either directly or as a guarantor);
    - Any business owned, operated or controlled by Small Business Applicant or an Associate of Small Business Applicant that incurred Delinquent Federal Debt or caused Prior Loss (either directly or as a guarantor); and
    - For Delinquent Federal Debt only, any guarantor who has a Delinquent Federal Debt

# Eligible Uses of Proceeds

SBA loan proceeds may be used to finance:

- Working capital
- Furniture and fixtures
- Machinery and equipment
- Land and building purchase including construction and renovation
- Business acquisition (add'l conditions apply)
- Refinancing of existing debt (add'l conditions apply)
- Eligible Franchises

# Reminders for 7(a) Loan Processing

- All new 7(a) loan applications (including Express loans) must be submitted via SBA's E-Tran Origination online submission system.
- SBA One: All 7(a) loans (including Express) now use the same set of application forms: SBA Forms 1919 and 1920.
- For all non-Express loans:
  - Applications must be submitted using the 10-Tab Loan Application Submission format (Center will return package if not in 10-Tab order). Download 10-Tab from <http://www.sba.gov/content/7a-submission-instructions-and-checklist>
  - Application documents must be uploaded into E-Tran (if each document is less than 10MB) or sent via SBA's Send This File webpage (<http://www.sba.gov/content/send-file>)
- Note and Guaranty forms - lenders may use their own versions on all 7(a) loans including Express loans (additional language must be added).

# 7(a) Loan Credit Standards

SBA has established separate credit standards for 7(a) loans:

## Non-Express loans:

- 7(a) Loans of \$350,000 or less –
  - Credit Score pre-screening which is based on a combination of consumer credit bureau data, business bureau data, borrower financials, and application data.
  - Lender enters certain information into E-Tran and a credit score is generated.
  - Minimum score is based on lower end of the risk profile of the current SBA portfolio and may be adjusted up or down from time to time. Current minimum score is 140.
  - If minimum score is met, lender will continue completing E-Tran entry and then upload documents into E-Tran or send them via Send This File.
  - If minimum score is not met, lender may:
    - submit a Standard 7(a) loan application to Processing Center following procedures for 7(a) loans over \$350,000, or
    - if SBA Express lender, submit an SBA Express application via E-Tran for a 50% guaranty.
    - re-submit after 90 days.

# 7(a) Loan Credit Standards

## 7(a) Loans of \$350,000 or less (continued) –

Credit analysis standards:

- An acceptable credit score satisfies the requirement for lender to consider the following:
  - (a) Credit history of the applicant (and the Operating Company if applicable), its Associates, and guarantors, including historical performance as well as the potential for long term success (character and reputation will be determined through the appropriate questions on SBA Form 1919 and, if required, SBA Form 912);
  - (b) Strength of the business;
  - (c) Past earnings, projected cash flow, and future prospects; and
  - (d) Applicant's ability to repay the loan with earnings from the business.

NOTE: SBA outlines on page 159 of SOP 50 10 5 (H) the information that must be included in your credit memo for loans of \$350,000 or less (Will also send a Credit Standards Overview).

# 7(a) Loan Credit Standards

## 7(a) Loans over \$350,000 – no credit scoring

- Small business applicant's debt service coverage ratio (OCF/DS) must be 1.15 to 1 or greater on a historical and/or projected basis.
- Must use SBA's definitions, as follows:
  - Define operating cash flow (OCF) as earnings before interest, taxes, depreciation and amortization (EBITDA);
  - Debt service (DS) is defined as required principal and interest payments on all business debt inclusive of new SBA loan proceeds.

# 7(a) Loan Credit Standards

## SBA Express and Export Express Credit Standards

- SBA has authorized Express lenders to make credit decision, including how much to factor in a past bankruptcy or whether to require an equity injection, without prior SBA review.
- Lenders must not make an SBA guaranteed loan that would be available on reasonable terms from either the lender itself or another source without an SBA guaranty.
- Credit analysis must demonstrate that there is a reasonable assurance of repayment.
- Lender is required to use appropriate, prudent and generally accepted industry credit analysis processes and procedures (which may include credit scoring), and these procedures must be consistent with those used for its similarly sized non-SBA guaranteed commercial loans.
- If lender's policy requires verification of equity injection then also must verify on Express loans.
- Lenders that do not use credit scoring for their similarly sized non-SBA guaranteed commercial loans may not use credit scoring for SBA Express or Export Express.

# 7(a) Collateral Policy

One of the primary reasons lenders use the SBA-guaranteed program is for those Small Business Applicants that demonstrate repayment ability but lack adequate collateral to fully repay the loan if the loan defaults. However, SBA does not permit its guaranty to be used as a substitute for available collateral.

- For loans of \$25,000 or less, lenders are not required to take collateral;
- For loans over \$25,000, up to and including \$350,000, lender must follow the collateral policies and procedures that it has established and implemented for its similarly-sized non-SBA-guaranteed commercial loans, but at a minimum, lender must take a first lien on assets financed with loan proceeds, and a lien on all of applicant's fixed assets to secure the loan. However, lender is not required to take a lien on real estate on applicant's balance sheet when real estate equity is less than 25% of fair market value.

# 7(a) Collateral Policy

- Lender may secure applicant's trading assets (using a 10% current book value for the calculation) if it does so for similarly sized non-SBA-guaranteed commercial loans.
- Lender may also take personally owned investment and residential real estate as collateral, and may limit the liens on that collateral in accordance with the provisions in SOP 50 10 5 (H).

# 7(a) Collateral Policy

- For loans in excess of \$350,000, lender must collateralize the loan to the maximum extent possible up to the loan amount.

If fixed assets do not fully secure the loan, the lender must take available equity in the personal real estate of the principals as collateral.

Note: SBA does not require a lender to collateralize a loan with personal real estate to meet the “fully secured” definition when the equity in the real estate is less than 25% of the property’s fair market value.

# 7(a) Collateral Policy

- When loan proceeds will be used to purchase assets, a first security interest in those assets must be obtained.
- When loan proceeds will be used to refinance existing debt, the loan must be secured with at least the same security and lien priority as the debt that is being refinanced.
- Unlimited Full Personal Guaranties are required on any individual who owns 20% or more of the Small Business Applicant.

# Express Loan Programs

- Are SBA's most popular loan programs
- Can be used for term loans or lines of credit (for up to 7 years)
- Credit authority delegated to lender
- Quick SBA response - new loan submissions are entered in E-Tran (or SBA One) and receive an immediate turnaround
- Lender uses mostly their own forms and procedures.
- Lender may take many servicing actions without prior SBA approval (See Matrix)
- Export Express may be used for businesses entering or expanding an export market that have been operating, although not necessarily in exporting, for at least 12 full months. Also, at least 70% of a revolving loan will be used for exporting.

# 504 Loan Program

- A financing tool which provides long-term, fixed-rate financing to small businesses to acquire commercial real estate and/or heavy machinery and equipment.
- Certified Development Companies, which are nonprofit corporations set up to contribute to the economic development of their communities, work with the SBA and private-sector lenders to provide financing to small businesses.

# How Does the 504 Program Work?

- Combination Financing of generally:
  - 50% Lender financing with no government guaranty (1<sup>st</sup> lien position)
  - 40% Government Financing through SBA-approved CDC (2<sup>nd</sup> lien position)
  - 10% Owner's Equity
    - Add 5% if business is less than two years old
    - Add additional 5% if limited-use building\*\*.
- SBA portion offers long-term, fixed rate financing
  - Maturity - 10 or 20 years depending on use of proceeds
  - Interest rate: normally funded at a rate lower than that of the bank, 4.831% in January 2016

\*\*Definition: Limited or Special Purpose Property - A limited-market property with a unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built.

# Maximum Debenture

- \$5,000,000 when meeting:
  - job creation criteria of one job per \$65,000 of CDC/SBA portion of the financing
  - or by meeting one of 14 Public Policy or Community Development goals.
- \$5,500,000 for “Small Manufacturers” (NAICS beginning with 31, 32 or 33) and certain energy projects

## COMMON PUBLIC POLICY GOALS

- Business district revitalization
- Rural development
- Minority business development
- Veteran-owned businesses
- Women-owned businesses
- Energy projects

# Eligibility

- The business must be operated for profit and fall within the size standards set by the SBA.
- Small =
  - Maximum tangible net worth is \$15 million or less; and
  - Average net income after Federal income taxes (excluding any carry-over losses) for 2 full fiscal years before date of application is \$5 million or less.
- Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

# Eligible Project Uses

- Fixed asset projects such as:
  - purchasing land and improvements
    - existing buildings, grading, street improvements, utilities, parking lots and landscaping;
    - construction of new facilities
    - modernizing, renovating or converting existing facilities;
    - purchasing long-term machinery and equipment.
  - Professional Fees – directly attributable and essential to the Project with the exception of attorney's fees incurred in closing the Interim and Third Party Loans. Examples include: title insurance, title searches and abstract costs, surveys and zoning matters.
- The 504 Program cannot be used for working capital or inventory; however, you may use 7(a) programs for these financing needs.

# Collateral

- Normally the project assets being financed are the only collateral required. SBA usually takes 2<sup>nd</sup> lien position.
- Personal guaranties of the principal owners are required.
  - Principal owners are those who own 20% or more of the business.

# Third Party Considerations

- Third Party Lender must certify in its commitment letter that it would not make the loan without SBA's participation.
- A one-time fee of 0.50 % of the senior mortgage loan amount. May be paid by Third Party Lender, CDC or borrower.
- Minimum maturity on lender's first trust loan is:
  - 7 years on a 10-year 504 loan;
  - 10 years on a 20-year 504 loan.
- 504 Loan Prepayment Penalty: payable during the first half of the term. Amounts to 100% of the interest in the 1<sup>st</sup> year, decreasing by 10% each year on 20-yr. debenture.

Fees paid by Borrower are approximately 2% of the SBA portion and included in the 504 loan amount.

# Review of 504 Loan Program

- Up to 90% financing available
- Financing includes both hard and soft costs
- 20 year fully amortizing for 504 portion
- 50% LTV for bank
- Generally, below market rate on 504 portion

# Useful Websites for Lenders

- New version H of SOP 50 10(5)  
[https://www.sba.gov/sites/default/files/sops/SOP\\_50\\_10\\_5\\_H\\_FINAL\\_FINAL\\_CLEAN\\_5-1-15.pdf](https://www.sba.gov/sites/default/files/sops/SOP_50_10_5_H_FINAL_FINAL_CLEAN_5-1-15.pdf)
- [www.sba.gov/for-lenders](http://www.sba.gov/for-lenders) (download forms, link to Franchise Registry, etc.)
- [www.sba.gov/wv](http://www.sba.gov/wv) - West Virginia District website
- [www.pay.gov](http://www.pay.gov) (used to pay Guaranty Fee)

# Questions

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# Contact Information

- Rick Haney at [Richard.haney@sba.gov](mailto:Richard.haney@sba.gov) or (304) 623-7449
- Leo López at [Leo.Lopez@sba.gov](mailto:Leo.Lopez@sba.gov) or (304) 347-5220
- WV Lenders Website:
  - <https://www.sba.gov/offices/district/wv/clarksburg/resources/west-virginia-lender-resources>