



Loan Fact Sheet

How the SBA Loan Guarantee Works

The SBA helps small businesses obtain needed credit by giving the government's guaranty to loans made by commercial lenders.

The lender makes the loan and SBA will repay up to 85% of any loss in case of default. Since this is a bank loan, applications are submitted to the bank and loan payments are paid to the bank. The bank is also responsible for closing the loan and disbursing the loan proceeds.

SBA's involvement is limited to reviewing the loan application submitted by the bank to assure they meet eligibility and credit standards.

SBA provides the bank with a written authorization outlining the conditions of the SBA guarantee; any material changes to this authorization generally require SBA approval.

Most commercial banks and some non-bank commercial lenders participate in this program.

Does the SBA provide grants to small businesses?

The SBA does not offer direct grants of money for starting or expanding the operations of a small business.

SBA's grant programs generally support non-profit organizations, intermediary lending institutions, and state and local governments in an effort to expand and enhance small business technical and financial assistance.

The **7(a) guaranteed loan program** is SBA's primary lending program. The borrower applies to a lending institution, not the SBA. The lender applies to the SBA for a loan guaranty. The SBA can process the lender's request through a variety of methods. Guarantees are up to \$3,750,000 (75% of each loan made by participant lenders). These loans typically range from \$25,000 to \$5 million and are repaid in monthly installments. They can be used for a variety of business purposes including working capital, equipment acquisition, and real estate purchases. Maturities depend on the use of loan proceeds but typically range from 5 to 25 years.

Streamlined 7(a) Applications and Approvals

Preferred Lender Program - SBA has delegated certain lenders the authority to approve SBA loans unilaterally. Preferred lenders operate under the same 7(a) guaranteed loan guidelines as detailed above. SBA generally provides a loan guarantee to the lender within 24 hours of their request.

SBA Express Loan Program – SBA Express loans are backed by an SBA guarantee of 50 percent, the lender uses its own application and documentation forms and the lender has unilateral credit approval authority as in the PLP Program. This method makes it easier and faster for lenders to provide small business loans of \$350,000 or less, with SBA generally providing a loan guarantee to the lender within 24 hours of their request.

SBA Veterans Advantage - An SBA Express loan offered with no guaranty fee (Ongoing fee of 0.52%) for small businesses owned and controlled by one or more of the following groups: veteran, active-duty military in TAP, reservist or National Guard member or a spouse of any of these groups, or a widowed spouse of a service member or veteran who died during service, or a service-connected disability.

Additional SBA Financing Programs

SBA Microloan Program was developed to increase the availability of small scale financing and technical assistance to prospective small business borrowers. Loans range from \$500 to \$50,000. Loans are made through the following designated intermediaries: CDC Small Business Finance, 619-243-8639. CDC also offers SBA's **Community Advantage Loans** targeting the underserved market.

The **504 Certified Development Company (CDC) Loan Program** provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. A CDC is a nonprofit corporation set up to contribute to the economic development of its community or region. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. For more information, call Advantage CDC 562-983-7450, CDC Small Business Finance 619-291-3594, California Statewide CDC 800-982-9192, Capital Access Group 415-217-7600 ext. 104, Southland EDC 858-578-1504 x221, or TMC Financing 626-703-6700.

Export Working Capital loans are used to finance export sales - 90% SBA guaranty on a loan up to \$5 million. Call the U.S. Export Assistance Center, (909) 466-4136 for more details. www.export.gov

Disaster Loans - If you are in a declared disaster area and are the victim of a disaster, you may be eligible for an SBA Disaster Loan - even if you don't own a business. As a homeowner, renter and/or personal-property owner, you may apply to the SBA for a loan to help you recover from a disaster. For more information, Field Operations Center – West, 800-488-5323 or go to www.sba.gov/services/disasterassistance

For more information on all the SBA Loan Programs visit www.sba.gov/financing.

General Credit Requirements - SBA and private lenders use similar criteria to test credit worthiness.

- (1) **Repayment Ability:** You must show that you can meet business expenses, owners draw, and loan payments from the earnings of the business. This is usually demonstrated through historical performance and/or thoroughly documented cash flow projections.
- (2) **Management:** You must show ability to operate the business successfully. For a start-up, you should have experience in the type of business you propose to start, as well as some significant work experience at a management level.
- (3) **Equity:** The owners must have enough of their own capital at stake in the business:
 - (a) *For a New Business* (or when buying a business) you should have approximately one dollar of cash or business assets for each three dollars of the loan.
 - (b) *For an Established Firm*, the after-the-loan business balance sheet should show no more than four dollars of total debt for each dollar of net worth (i.e., a 4:1 Debt/Equity ratio, although this may vary by industry).

Definition of Equity: You may be required to pledge non-business assets (often a second mortgage on your personal residence may be required for collateral). However, this should not be confused with equity in the sense it is used here. As used here, the equity is the owner's net investment in the business.

- (4) **Credit History:** Your personal and company credit histories will be reviewed. Prudent lenders prefer applicants who have a history of meeting their obligations. If your credit record has blemishes but there are extenuating circumstances, prepare to explain fully.

Guarantee Portion - Under the 7(a) guaranteed loan program SBA typically guarantees from 50% to 85% of an eligible bank loan up to a maximum guaranty amount of \$3,750,000. The exact percentage of the guaranty depends on a variety of factors such as size of loan and which SBA program is to be used. This will be worked out between the SBA and your bank.

Amounts - The maximum loan amount is \$5 million. The total SBA guarantee for any one borrower may not exceed \$3,750,000.

Maturity - Up to 25 years for real estate acquisition or construction. Most other SBA loans are limited to 10 years. Working capital loans are generally limited to seven years.

Interest Rates - SBA sets a maximum rate on its guaranteed loans. The rate may be either fixed or variable, as determined between the lender and applicant. The rate is pegged to the prime rate as published daily in the Wall Street Journal. The formulas are:

- Prime + 2.25% for loans > \$50,000, maturity < 7 years.
- Prime + 2.75% for loans > \$50,000, maturity 7 years or more.
- Lenders have the option of charging an additional 1% on loans under \$50,000 and 2% on loans under \$25,000.

Fees - SBA charges a fee for its guaranty. The fee is levied on that portion of the loan guaranteed by SBA, not the face amount of the loan. It is passed along to the borrower and is usually financed (i.e., built into the loan amount).

If loan maturity exceeds 12 months the fee is:

- 2% of the guaranteed portion for loans up to \$150,000
- 3% of the guaranteed portion for loans above \$150,000 up to \$700,000
- 3.5% of the guaranteed portion for loans above \$700,000

If the loan maturity is 12 months or less, the fee is:

- .25% (1/4 of 1%) of the guaranteed portion

Prepayment Penalties - Only on loans with terms of 15 years or longer. Decreasing prepayment penalties apply during the first three years of the loan.

Collateral - SBA's collateral policy is in two parts:

- (1) When a loan guaranty is approved, we expect all available company assets to be offered as collateral. If company assets are insufficient to fully secure the loan, liens on personal assets may be required. Often, this means a lien on residential real estate.
- (2) On the other hand, if adequate collateral simply is not available, this fact alone will not cause SBA to decline an otherwise qualified loan.

Eligibility - Most small businesses are eligible to receive SBA loan guarantees, however ineligible applicant cases include:

- (1) The applicant is not a small business.
- (2) The funds are otherwise available on reasonable terms, e.g., if the bank would make the same loan terms available without an SBA guaranty, or if personal assets could be used without hardship to the owners.
- (3) The loan is to pay off inadequately secured creditors.
- (4) Your business is engaged in speculation, lending, investment, or rental real estate.
- (5) The applicant is a nonprofit enterprise (except employee stock ownership programs).

Size Standards - Applicants must meet the SBA definition of small business. Size limits may vary by specific industry group (NAICS code). For more information go online to www.sba.gov/size.

What a lender looks for when reviewing a loan request

New Business

- (1) Describe in detail the type of business to be established.
- (2) Describe your experience and management credentials.
- (3) Prepare a detailed estimate of how much capital will be needed to start. State how much you have and how much you will need to borrow.
- (4) Prepare a current personal financial statement, listing all personal assets and liabilities.
- (5) Prepare a month-by-month projection of revenues, expenses and profit for the first twelve months. Also do a companion cash flow projection for the same period. Explain your major assumptions in an accompanying narrative.
- (6) List the collateral to be offered as security with estimates of the market value of each item.
- (7) Take this material to your banker. If the bank wants an SBA guaranty for your loan, they will make application to us. You deal with the bank; the bank deals with SBA.

Established Business

- (1) Current business financial information: Prepare a current balance sheet and an income (profit and loss) statement for current year up to the date of the balance sheet (dated within the last 60 days). At least three (3) years complete Tax Returns for the business and personal (for each person owning 20% or more of the company).
- (2) Historical business financial information: Prepare income statements and balance sheets for the past three full years. Do not include personal items on the statements. Reconcile the equity balances between each year.
- (3) Prepare a month-by-month projection of revenues, expenses and profits for the next twelve months. Also do a companion cash flow projection for the same period. Explain your major assumptions in an accompanying narrative.
- (4) Prepare a current personal financial statement for each owner, partner, or stockholder owning at least 20% of the business.
- (5) List the collateral to be offered as security, with estimates of the market value of each item.
- (6) State the amount and intended uses of the loan.
- (7) Take this material to your banker. If the bank wants an SBA guaranty for your loan, they will make application to us. You deal with the bank; the bank deals with SBA.

Management Assistance

SBA also offers management assistance through its resource partners (listed below). These organizations can assist you in developing plans for your business. They provide free business counseling, assistance in preparing a business plan, advice on financial requirements and other important elements of starting and managing a business. They also offer a variety of low-cost business workshops and seminars. We encourage you to contact these organizations directly or visit their websites, for more specific information about what they offer.

SCORE – Counselors to America's Small Business

550 West C Street, Suite 550
San Diego, CA 92101-3500
(619) 557-7272

<http://www.sandiego.score.org>

Mira Costa College – North San Diego SBDC

2075 Las Palmas Drive (New Location)
Carlsbad, CA 92011
(760) 795-8740.

www.sandiegosmallbiz.com

Southwestern College (SBDC)

Small Business Development Center
Higher Education Center
880 National City Blvd. #103
National City, CA 91950
(619) 482-6391

www.growmybiz.org

Imperial Valley SBDC

1850 W. Main St., Suite C
El Centro, CA 92243
(760) 312-9800

www.ivsbdc.org

San Diego District Office

550 West C Street, Suite 550, San Diego, CA 92101-3500
(619) 557-7250 or (619) 727-4883

www.sba.gov/ca/sandiego

All SBA programs and services are offered on a nondiscriminatory basis