
SBA MICROLOAN PROGRAM

Session: Loan Side Basics

Microloan Program Purpose

The Microloan Program assists women, low income, veteran, and minority entrepreneurs, and other small businesses in need of financing in amounts of \$50,000 or less and business- based technical assistance.

Microloan Program – Loan Side Basics

- Loans From SBA to Intermediary Lender
- Loans From Intermediary to Micro Borrowers

SBA Loans to Intermediary Lenders

- Terms and Conditions, Rate Structure
- SBA Bank Account Requirements
- MRF and LLRF Permissions and Restrictions
- Disbursements
- Matching Funds
- LLRF Requirements
- Collateral Requirements
- Loan Repayment
- First Year Interest and Annual Loan Recasting



SBA Loan Terms & Conditions

- Term: 10 years
- Maximum loan to intermediary:
 - \$750,000 – 1st Year in Program
 - \$1,250,000 - thereafter
- Maximum outstanding : \$5 million
- Loans require a 15% non-Federal, non-borrowed cash match

Maximum Interest Rates Permitted

Are based on the intermediary's cost of funds



Maximum Rates

Microloans less than or equal to \$10,000: cost of funds + 8.50%

Microloans greater than \$10,000: cost of funds + 7.75%

SBA Bank Account Requirements

1. Three bank accounts must be set up when an intermediary enters the program:
 - Microloan Revolving Fund (MRF) Account
 - Loan Loss Reserve Fund (LLRF) Account
 - Technical Assistance Account (TA) (may be general operating fund account but only one grant account per intermediary is permitted)
2. Each subsequent loan from SBA requires two new accounts- a MRF and a LLRF account. Any new grant funds may be deposited to the existing TA Bank Account

SBA Bank Account Requirements (continued)

3. Bank Accounts must be interest bearing accounts at a Federally insured depository institution
4. MRF and LLRF to be at the same bank provided this does not cause the intermediary to exceed insurance limits
 - Funds must be liquid and accessible at any time without penalty
 - Certificates of Deposit, Sweep Accounts, and other such accounts are not permitted.

Permitted MRF Account Transactions

1. Receive Funds from SBA
2. Deposit other funds, which then are subject to program requirements
 - Matching funds
 - Repayments from borrowers
 - Refunds from LLRF in the event of a charge off
3. Make Microloans
4. Repay SBA
5. Transfer non-Federal funds to LLRF Only if match has been initially deposited to the MRF

MRF Account Restrictions

Intermediary Lenders are not permitted to:

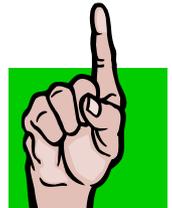
- Transfer MRF funds to non-SBA or operating account for disbursement to micro borrowers
- Deposit microborrowers' payments in a non-SBA account, even if funds are later transferred to MRF
- Withdraw interest earnings without prior written approval from SBA
- Withdraw funds for any reason other than to transfer non-federal matching dollars to the LLRF
- Invest idle account funds in T-bills or any other account not on the Tri-partite Agreement
- Close account or transfer funds to new account without prior written approval of SBA and SBA's receipt of all new executed collateral documents:

*Tripartite Agreement

*Security Agreement

*SF 5510

*SF 3881



Permitted LLRF Account Transactions

1. Deposit matching funds or other non-federal funds
2. Transfer non-Federal funds from MRF to LLRF when LLRF is underfunded
3. Transfer principal balance of charged off microloans from LLRF to MRF

The LLRF must never go below 15% of the outstanding balance of microloans owed to the intermediary (with certain exceptions).

SBA Loan Closings

- Closings \leq 120 Days of loan approval.
- Closing Documents at SBA HQ
- Disbursements made to Intermediary
 - 2 years to take Disbursements if \leq \$750K
 - 3 years to take Disbursements if $>$ \$750K

SBA Loan Disbursement

- Disbursements may be requested by email
 - First disbursement on initial SBA loan \leq 35% of approval
 - Subsequent disbursements after excess cash is committed
 - Generally, loans should be fully drawn down in no more than three requests
 - Requests may take up to 10 days to process
- Disbursement request must include evidence of 15% matching fund deposit (to MRF or LLRF)
- 24 months from Date of Loan Authorization to take full disbursement

Matching Funds

- Matching funds of 15% must be deposited for each and every disbursement.
 - Exception: the intermediary may deposit the full match required at time of initial disbursement
- The matching fund deposit may be made into either the LLRF or MRF account associated with the SBA loan.
 - Acceptable proof: deposit slip receipt, on-line transfer receipt, or bank statement showing account activity
 - Not acceptable: bank account balance
- Intermediaries must meet the 15% matching fund requirement regardless of whether the intermediary has a 10% or 15% loan loss reserve requirement.

Loan Loss Reserve Requirement

- The LLRF = 15% of outstanding microloan balance.
- The LLRF must be maintained in the appropriate account.
- After five years in the program, an intermediary may apply to reduce its LLRF requirement to 10%. Approval based on the intermediary's performance
- Approval of 10% LLRF does not reduce collateral requirements, it does make more lending possible.

Collateral Requirement



MUST BE greater than or equal to:

115% * Debt Owed to SBA

AT ALL TIMES

Collateral Coverage Requirement (continued)

- Intermediaries with a 10% LLRF requirement must still maintain collateral coverage of 115%
- Intermediaries will be required to develop a plan of action to remove any collateral shortfall. This plan must be approved by SBA.
- Failure to maintain appropriate collateral, and meet MRF and LLRF requirements may result in limitations on:
 - Loan disbursements
 - New loan approvals
 - Reporting requirements
 - TA funding



SBA Loan Repayment

- First payment is deferred until 13th month after loan note date
- Monthly payment amount is calculated as:
 - The principal balance and interest amortized over 108 months, plus
 - Any first year interest divided by 108 and added to the amortized principal and interest
- Regular payments are via preauthorized debit
- Regular payments are generally debited on the 7th of each month
- Other payments or final payments may be made via [pay.gov](https://www.pay.gov) or by check

First Year Interest

- Calculated based on the timing and amounts of disbursements to the intermediary during the first year of a loan.
- Calculated at the 1st anniversary of the Note
- Cost of Funds is applied retro-actively using the appropriate discount in accordance with the program rate structure.

Annual Loan Recasting

Each Year (on the anniversary of the Note Date) the SBA loan is re-amortized

- A new Cost of Funds rate is determined based on the average size microloan in the intermediary's portfolio
- The new Loan Payment is based on the current principal balance and the current Cost of Funds
- Intermediaries are informed when a payment is adjusted.

Questions?

Intermediary Loans to Micro Borrowers



Intermediary Loans to Micro Borrowers

- Microloan Restrictions
- Microloan Structure
- Costs/Fees
- Additional Options

Intermediary Loans to Micro Borrowers

Microloan Restrictions

Eligible Microloan Businesses

Microborrowers must certify, before they close their loan from the intermediary that:

1. The microenterprise is a legal, for profit business-
 - Except that non-profit child care centers may also receive SBA microloans
2. The microenterprise is located in the Intermediary's approved area of operations
3. The microenterprise meets SBA small business size standards
4. Neither the microenterprise nor the owner have been debarred from receiving federal funds
 - Must complete SBA Form 1624 - www.sba.gov/sites/default/files/tools_sbf_finasst1624.pdf
 - Excluded Parties List - www.epls.gov/
5. No owner of more than 50% of the business is more than 60 days delinquent in child support payments.

Such certifications must remain in the microborrower file

Maximum Loan to Microborrower: \$50,000

- Any borrower receiving a microloan of more than \$20,000 must pass a credit elsewhere test.
- No single borrower or business may owe more than \$50,000 at any one time.

Required Microloan Terms and Conditions

- Must be Fixed Rate, Fixed Term loans with regularly scheduled payments
- Maximum term of 6 years (72 months)
- Fixed rate no greater than the maximum rate permitted
- Note must contain language that pledges the note to SBA as collateral

Required Microloan Terms and Conditions Cont'd

- Pledge is found in **Loan Authorization Agreement** -

“This note has been pledged to the U.S. Small Business Administration (SBA) as collateral. Further assignment cannot be made without prior written consent of SBA.”

Microloans May Not

- Be structured as a line of credit
- Be extended so that the total term is longer than 72 months
- Have a balloon payment
- Be restructured solely for the purpose of delaying a charge off



Intermediary Loans to Micro Borrowers

Microloan Structure

Maximum Interest Rates Permitted

Are based on the intermediary's cost of funds



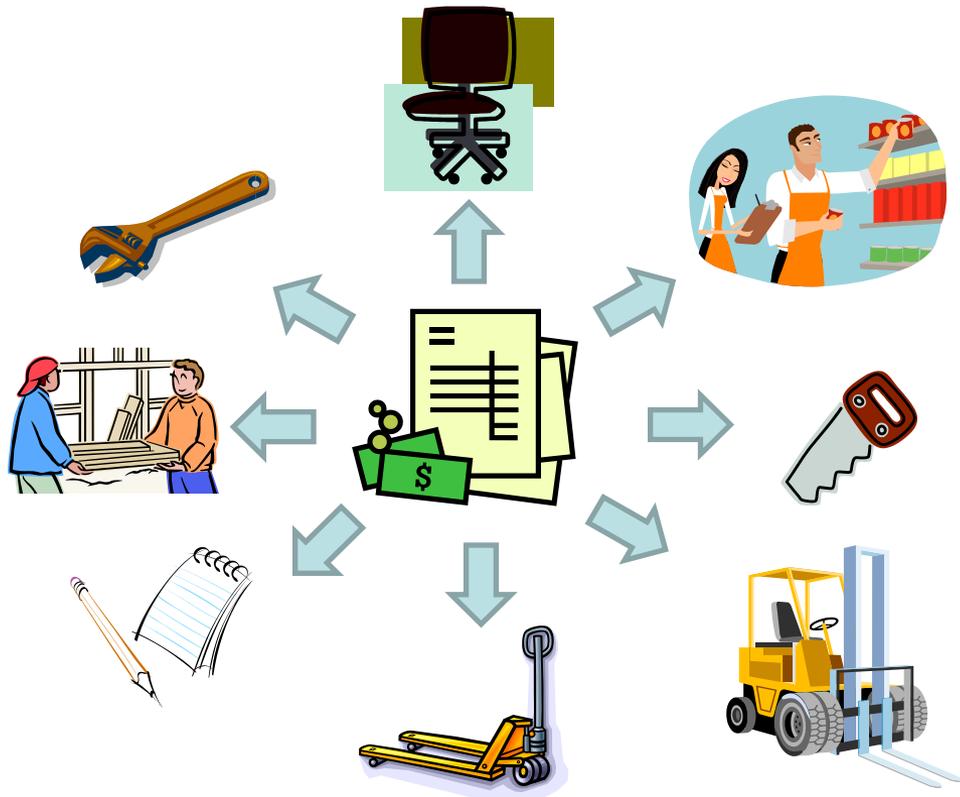
Maximum Rates

Microloans less than or equal to \$10,000: cost of funds + 8.50%

Microloans greater than \$10,000: cost of funds + 7.75%

Eligible Use of Microloan Proceeds

- Working capital
- Supplies
- Furniture
- Fixtures
- Machinery
- Equipment



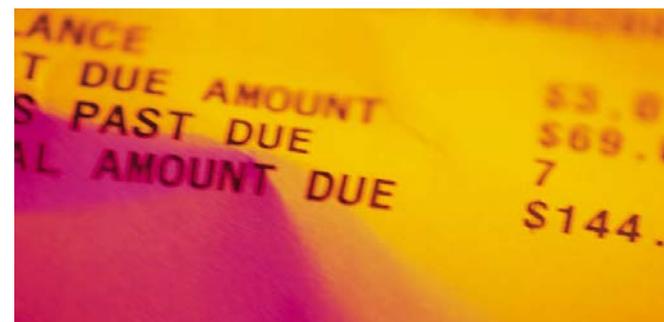
Ineligible use of microloan proceeds

- Real estate
- Leasehold improvements
- Anything not listed as eligible



Restructuring, Delinquency, and Charge-offs

- Microloans may be **restructured** as long as the total term of the loan does not exceed 72 months.
- Microloans may be **refinanced**
- Restructuring/refinancing should bring the microborrower current and reported as such in MPERS.
- Any microloan that is more than 120 days delinquent, or in default, must be charged off.



Microloan Charge-off Sequence

When a microloan is charged off:

1. Dollars equal to the amount of the charge off must be transferred from the LLRF to the MRF.
2. If the collateral coverage falls below 115% of the amount owed to SBA, the Intermediary will contribute non-borrowed, non-federal funds to the MRF and/or LLRF to meet the collateral requirement.
3. Funds must be deposited to ensure both collateral coverage AND, the appropriate LLRF amount.
4. Upon completion of Steps 1, 2 and 3 above, the charged off loan becomes the full property of the microlender. Any recoveries go to the microlender.

Collateral Requirement



MUST BE greater than or equal to:

115% * Debt Owed to SBA

AT ALL TIMES

Collateral Requirement



MUST BE greater than or equal to:

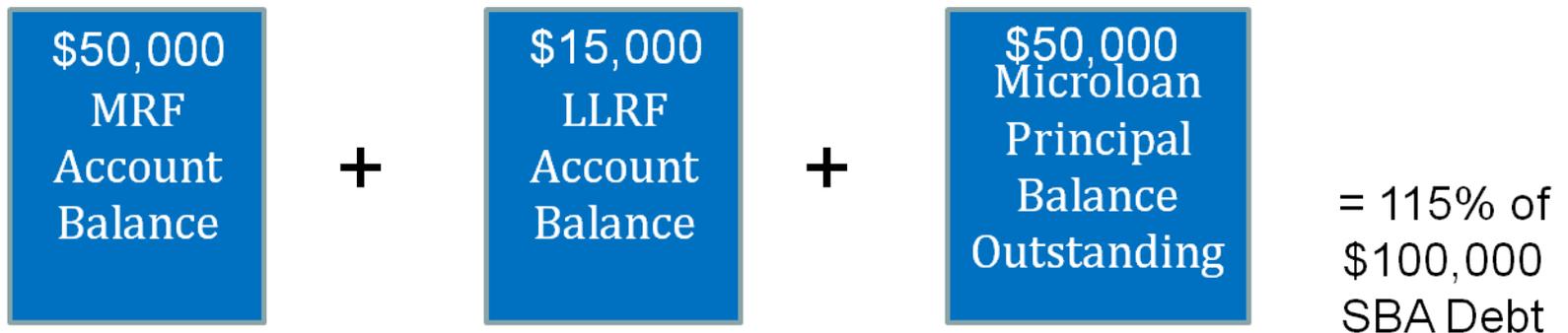
115% * Debt Owed to SBA

AT ALL TIMES

Collateral Requirement

When a microloan is charged off. EXAMPLE:

- Assume \$100,000 debt owed by the Intermediary to SBA (What YOU owe to the SBA) for these figures:



MUST BE greater than or equal to:

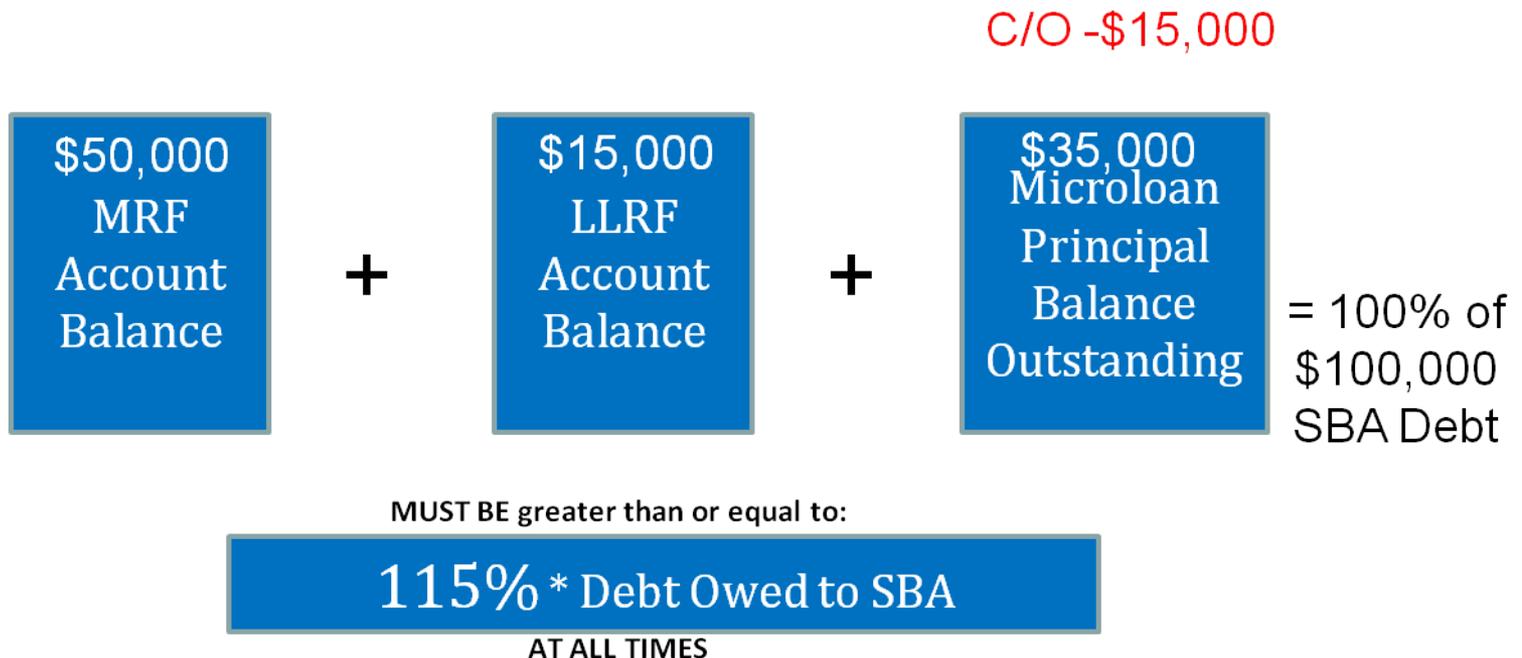
115% * Debt Owed to SBA

AT ALL TIMES

Collateral Requirement

When a microloan is charged off. EXAMPLE:

- Dollars equal to the amount of the charge off must be transferred from the LLRF to the MRF. In this case it's \$15,000.

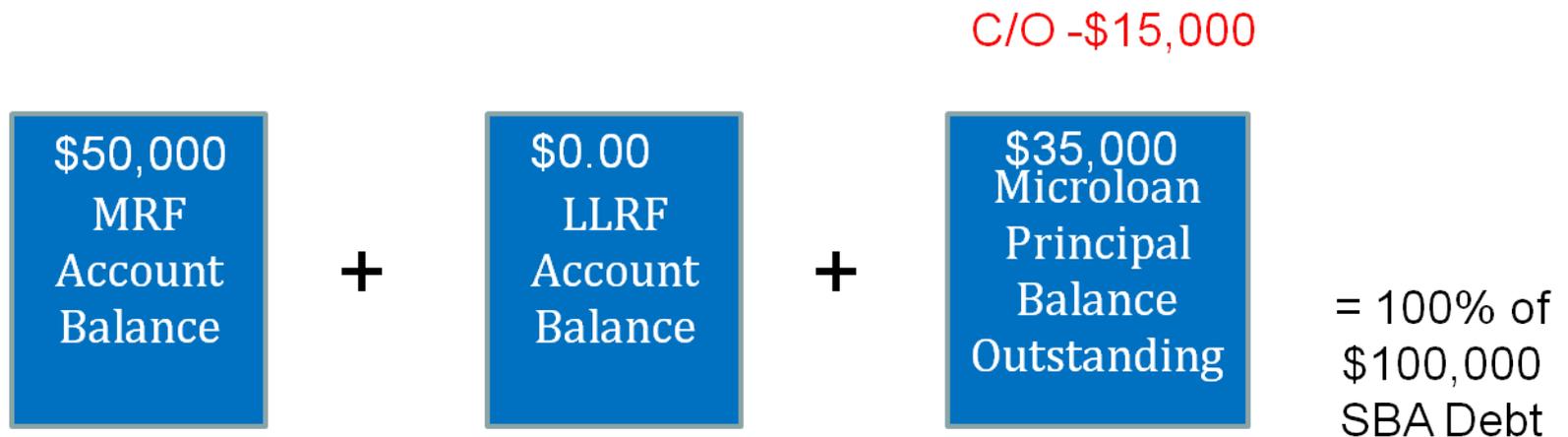


Collateral Requirement

When a microloan is charged off. EXAMPLE:

- \$15,000 is transferred from the LLRF to the MRF to cover the C/O.

\$15,000 goes from the LLRF to MRF



MUST BE greater than or equal to:

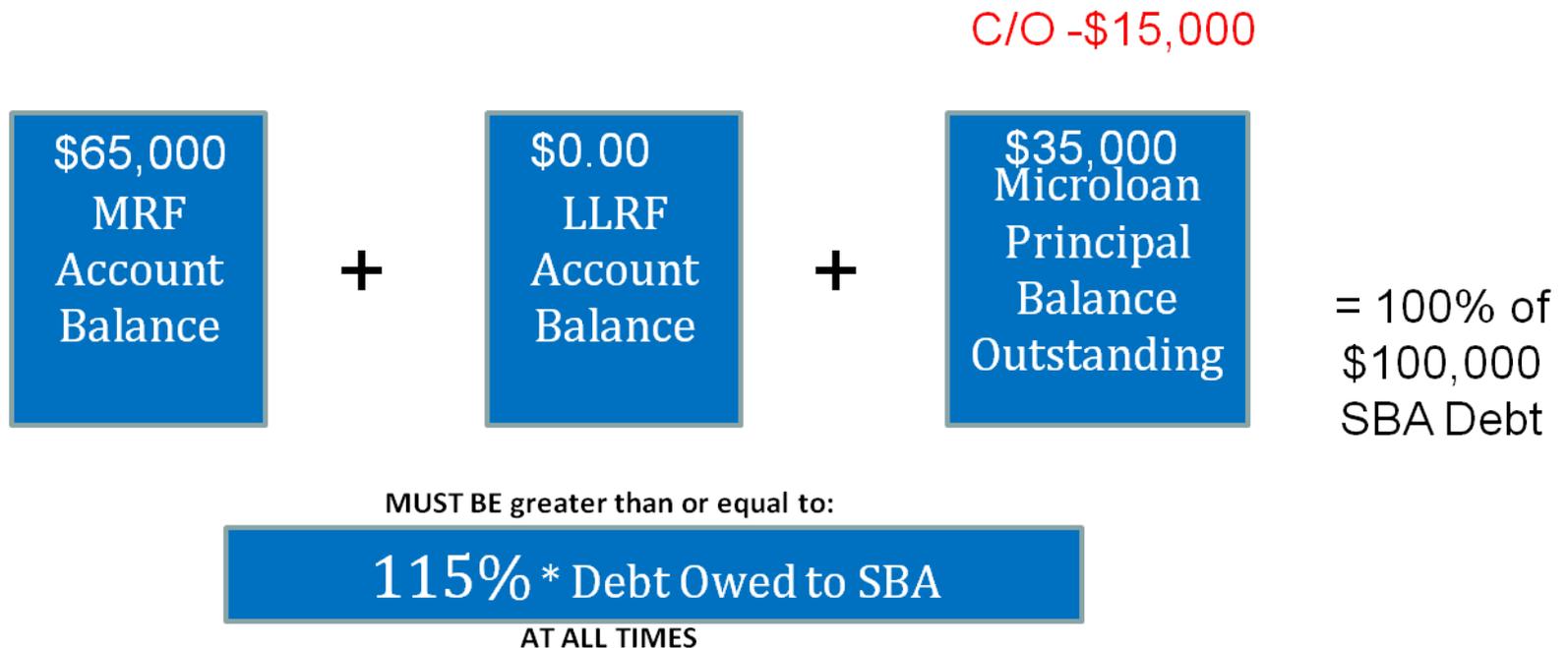
115% * Debt Owed to SBA

AT ALL TIMES

Collateral Requirement

When a microloan is charged off. EXAMPLE:

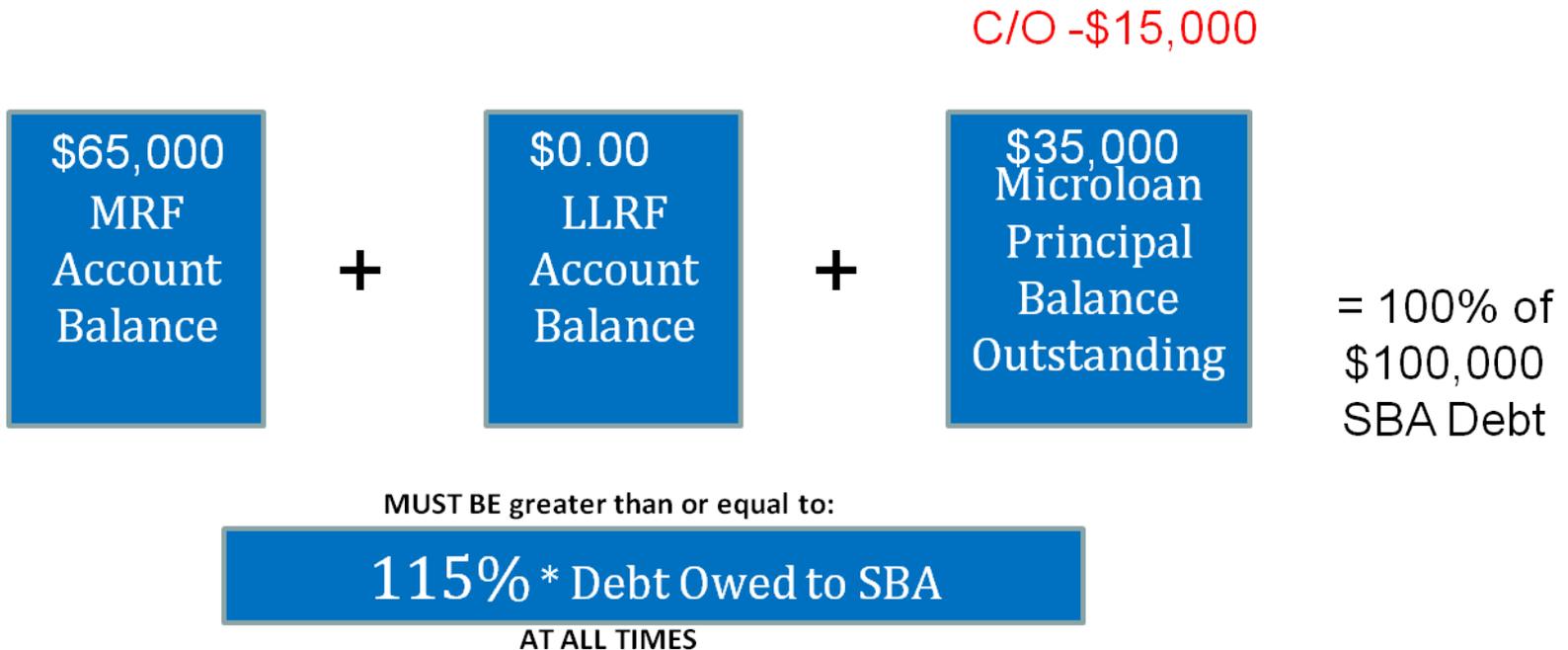
- \$15,000 is transferred from the LLRF to the MRF to cover the C/O.



Collateral Requirement

When a microloan is charged off. EXAMPLE:

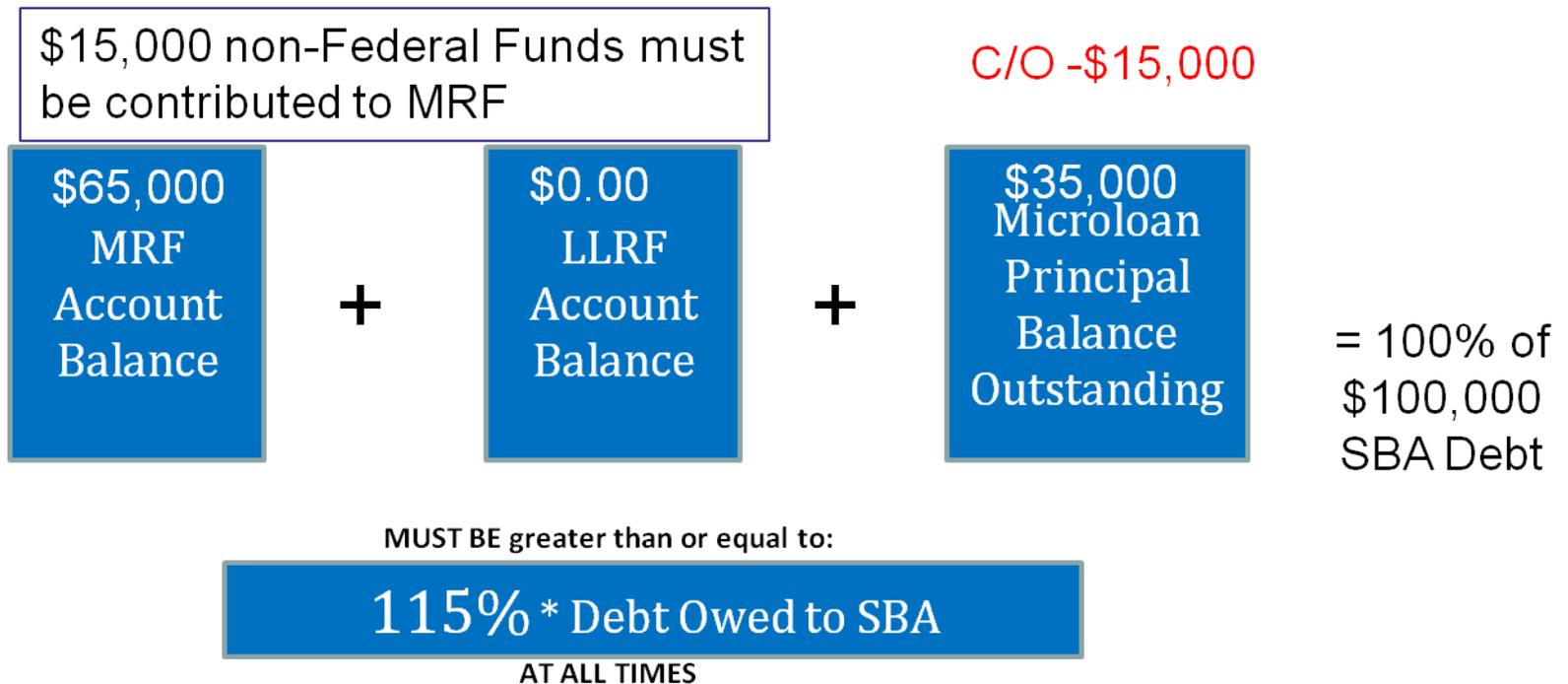
- If the collateral coverage falls below 115% of the amount owed to SBA, the Intermediary will contribute non-borrowed, non-federal funds to the MRF and/or LLRF to meet the collateral requirement.



Collateral Requirement

When a microloan is charged off. EXAMPLE:

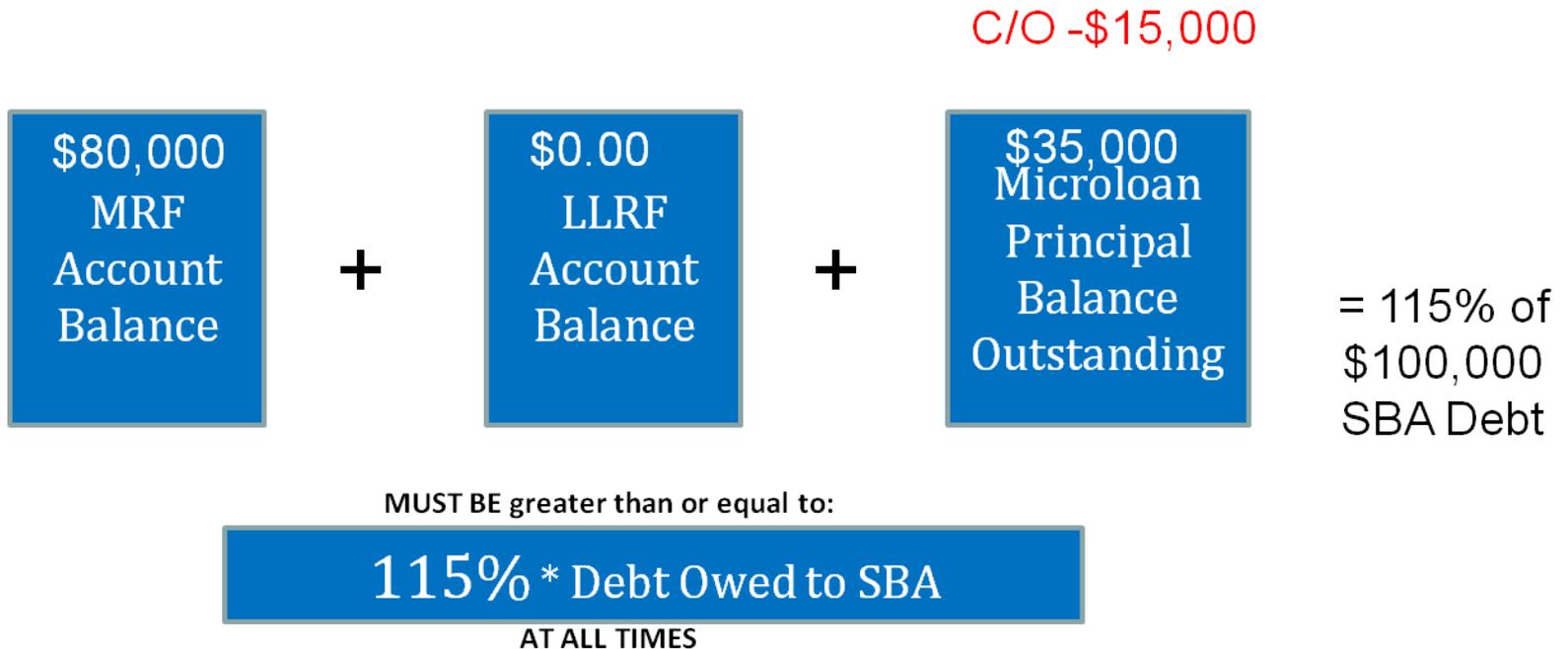
- If the collateral coverage falls below 115% of the amount owed to SBA, the Intermediary will contribute non-borrowed, non-federal funds to the MRF and/or LLRF to meet the collateral requirement.



Collateral Requirement

When a microloan is charged off. EXAMPLE:

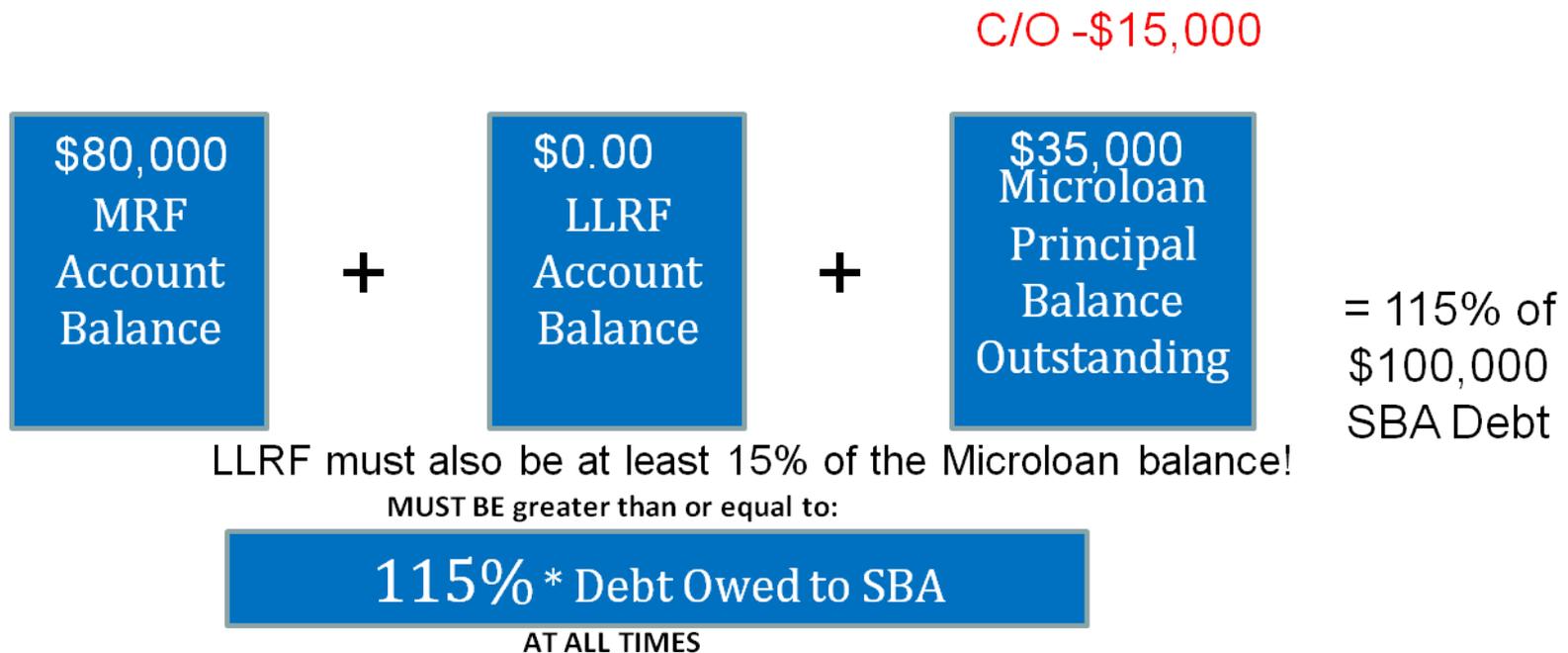
- If the collateral coverage falls below 115% of the amount owed to SBA, the Intermediary will contribute non-borrowed, non-federal funds to the MRF and/or LLRF to meet the collateral requirement.



Collateral Requirement

When a microloan is charged off. EXAMPLE:

- Funds must be deposited to ensure both collateral coverage AND, the appropriate LLRF amount. (usually 15%... in approved cases 10%)



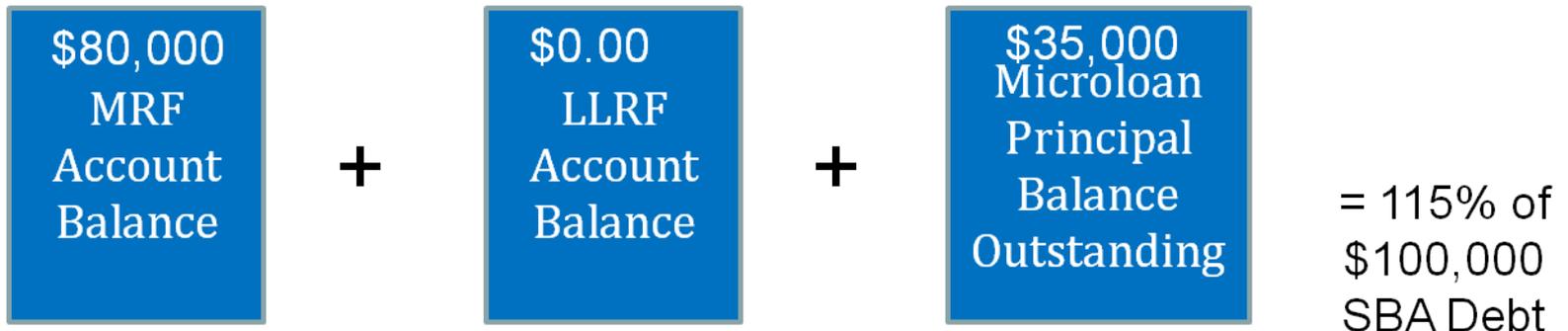
Collateral Requirement

When a microloan is charged off. EXAMPLE:

- Funds must be deposited to ensure both collateral coverage AND, the appropriate LLRF amount.

15% of \$35,000 Microloan Balance = \$5,250 goes into LLRF

C/O -\$15,000



LLRF must also be at least 15% of the Microloan balance!

MUST BE greater than or equal to:

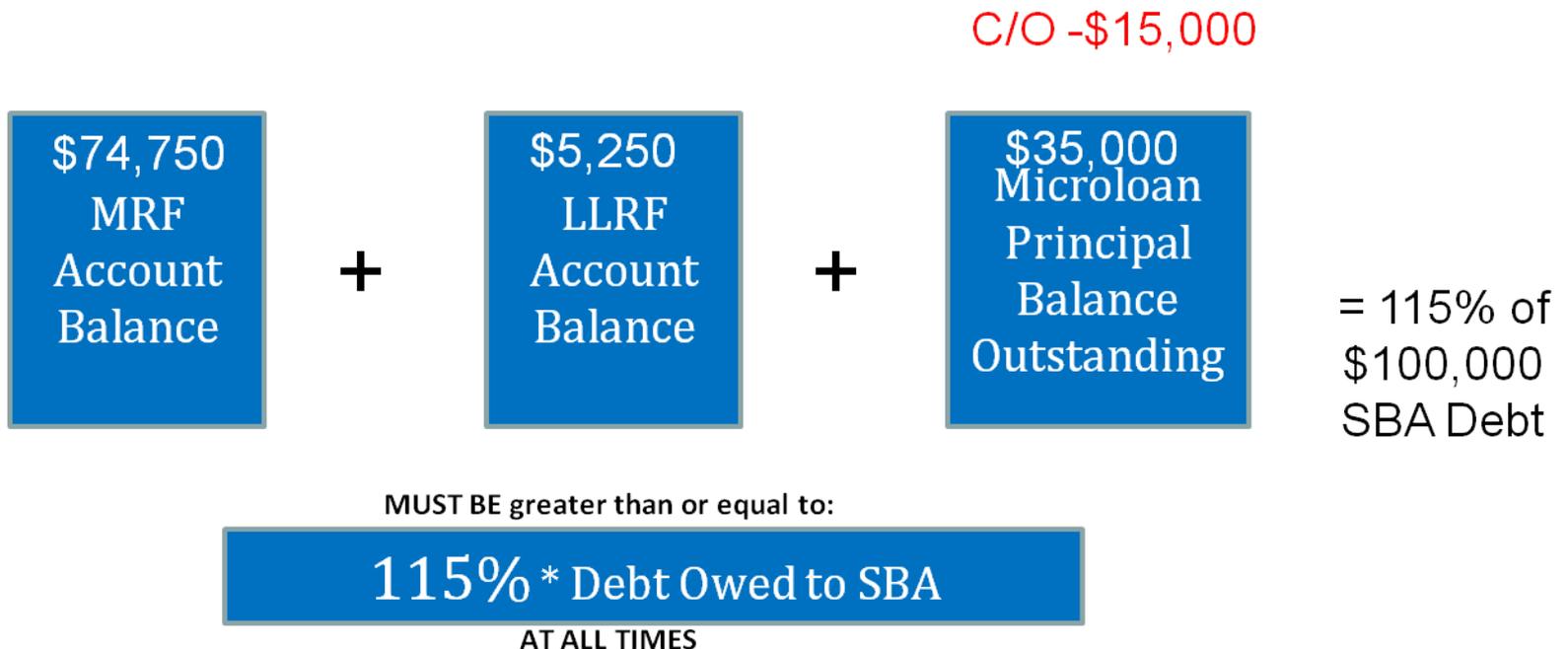
115% * Debt Owed to SBA

AT ALL TIMES

Collateral Requirement

When a microloan is charged off. EXAMPLE:

- The charged off loan becomes the full property of the microlender. Any recoveries go to the microlender.



Collateral Requirement

When a microloan is charged off. EXAMPLE:

- The charged off loan becomes the full property of the microlender. Any recoveries go to the microlender.

COMPLETE!

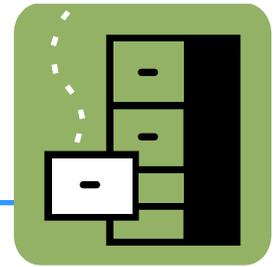


MUST BE greater than or equal to:

115% * Debt Owed to SBA

AT ALL TIMES

Microloan Documentation Reminder



- Any change(s) to original microloan payment schedule is to be fully documented in the file
- Documentation should be able to satisfy auditors that the action taken is prudent and is likely to allow the borrower to fully repay the loan in a reasonable period of time

Intermediary Loans to Micro Borrowers

Costs/Fees (and Contributions)

Microloan Fees and Allowable Charges

Costs



Microborrowers may be asked to pay:

- Reasonable out-of-pocket, direct costs for closing the loan, such as UCC filing or credit report costs

Microloan Fees and Allowable Charges Cont'd

Contributions



Microborrowers may be asked to pay:

- Annual contribution (not a fee) of up to \$100 (this may not be rolled into the loan)

Microloan Fees and Allowable charges Cont'd

Fees



Microborrowers may be asked to pay:

- Late fees on microloans (usually not more than 5% of the payment due)

NO GENERAL FEES ARE PERMITTED

Lastly...

Additional Options

Multi-Party Financing

- SBA microloan funds may be leveraged to outside funds in a maximum 1:2 ratio (SBA to outside funds).
- The maximum ratio is standard regardless of the microloan amount.
- The maximum multi-party financing may not exceed \$150,000.





Questions?

