

BORROWER'S GUIDE

2nd Edition FY1996

U.S. Small Business Administration
Championing America's Entrepreneurs

- **Small Businesses:**
Discover New Possibilities Through SBA Financial Assistance Programs
Small business is big business: it account for more than half of the private work force in the country and more than half of all sales. Small business also has the highest potential for growth of any sector of our economy, creating roughly 60 percent of all new jobs. To fund that growth, small businesses need access to capital in the form of both long- and short-term loans or investment capital. Yet small firms often don't have the collateral or credit history to qualify for financing through normal lending channels. That's where the SBA comes in. We have loan programs and services to meet most of your business needs, as this brochure will show.
To find out how our programs and services can work for you, just give us a call. For the district office nearest you, consult the list at the end of this brochure, look in the telephone book under "U.S. Government," or call (800) 8-ASK-SBA.
SBA Financial Assistance:
The 7(a) Loan Guaranty Program can satisfy the requirements of almost any new or growing small business. In addition to general long- and short-term 7(a) loans, we offer a number of specialized loan and lender delivery programs:
 - CAPLines - Short-term lending for short-term needs;
 - Export Working Capital and International Trade Loans - Short- and long-term financing for exporters;
 - DELTA - Loans to fund defense conversion;
 - Prequalified Loans for Minorities and Women - Loan packaging support and the SBA's commitment before going to a lender;
 - LowDoc - A one-page application with fast turnaround;
 - FA\$TRAK - Increased lender authority to provide an SBA guaranty on small loans - no extra paperwork, no waiting for SBA approval; and * The Certified and Preferred Lenders Program - Faster service through licensed lenders.
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The 7(m) MicroLoan Program makes very small loans to small businesses. The 504 Certified Development Company Program enables lenders to make larger, long-term loans to small businesses through the use of SBA-guaranteed debentures. Under the Small Business Investment Company Program, venture capitalists licensed by the SBA make capital available to small businesses through investments or loans. The Surety Bond Program guarantees bonds for small contractors.

- **SBA Financial Assistance Programs**
- **The 7(a) Loan Guaranty Program**
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The 7(a) Loan Guaranty Program is the SBA's primary loan program. The SBA reduces risk to lenders by guaranteeing major portions of loans

made to small businesses. This enables the lenders to provide financing to small businesses when funding is otherwise unavailable on reasonable terms.

The eligibility requirements and credit criteria of the program are very broad in order to accommodate a wide range of financing needs.

When a small business applies to a lending institution for a loan, the lender reviews the application and decides if it merits a loan on its own or if it requires additional support in the form of an SBA guaranty. SBA backing on the loan is then requested by the lender. In guaranteeing the loan, the SBA assures the lender that, in the event the borrower does not repay the loan, the government will reimburse the lender for its loss. By providing this guaranty, the SBA helps tens of thousands of small businesses every year get financing they would not otherwise obtain. To qualify for an SBA guaranty, a small business must meet the 7(a) criteria, and the lender must certify that it could not provide funding on reasonable terms except with an SBA guaranty. The SBA can then guarantee as much as 80 percent on loans of up to \$100,000 and 75 percent on loans of more than \$100,000. In most cases, the maximum guaranty is \$750,000 (75 percent of \$1 million). Exceptions are the International Trade, DELTA and 504 loan programs, which have higher loan limits.

● **How It Works**

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You submit a loan application to a lender for initial review. If the lender approves the loan subject to an SBA guaranty, a copy of the application and a credit analysis are forwarded by the lender to the nearest SBA office. After SBA approval, the lending institution closes the loan and disburses the funds; you make monthly loan payments directly to the lender. As with any loan, you are responsible for repaying the full amount of the loan.

There are no balloon payments, prepayment penalties, application fees or points permitted with 7(a) loans. Repayment plans may be tailored to each individual business.

● **Use of Proceeds**

● **You can use a 7(a) loan to -**

- expand or renovate facilities;
- purchase machinery, equipment, fixtures and leasehold improvements;
- finance receivables and augment working capital;
- refinance existing debt (with compelling reason);
- finance seasonal lines of credit;

- construct commercial buildings; and/or
- purchase land or buildings.

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- **Terms, Interest Rates and Fees**

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The length of time for repayment depends on the use of the proceeds and the ability of your business to repay:

- usually five to 10 years for working capital, and
- up to 25 years for fixed assets such as the purchase or major renovation of real estate or purchase of equipment (not to exceed the useful life of the equipment).

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Both fixed and variable interest rates are available. Rates are pegged at no more than 2.25 percent over the lowest prime rate* for loans with maturities of less than seven years and up to 2.75 percent for seven years or longer. For loans under \$50,000, rates may be slightly higher. The SBA charges the lender a nominal fee to provide a guaranty, and the lender may pass this charge on to you. The fee is based on the maturity of the loan and the dollar amount that the SBA guarantees. On any loan with a maturity of one year or less, the fee is just 0.25 percent of the guaranteed portion of the loan. On loans with maturities of more than one year where the portion that the SBA guarantees is \$80,000 or less, the guaranty fee is 2 percent of the guaranteed portion. On loans with maturities of more than one year where the SBA's portion exceeds \$80,000, the guaranty fee is figured on an incremental scale, beginning at 3 percent.

- All references to the prime rate refer to the lowest prime rate as published in the Wall Street Journal on the day the application is received by the SBA.

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- **Collateral**

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You must pledge sufficient assets, to the extent that they are reasonably available, to adequately secure the loan. Personal guaranties are required from all the principal owners of the business. Liens on personal assets of the principals also may be required. However, in most cases a

loan will not be declined where insufficient collateral is the only unfavorable factor.

- **Eligibility**

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Your business generally must be operated for profit and fall within the size standards set by the SBA. The SBA determines if the business qualifies as a small business based on the average number of employees during the preceding 12 months or on sales averaged over the previous three years. Loans cannot be made to businesses engaged in speculation or investment.

- **Maximum Size Standards**

- Manufacturing - from 500 to 1,500 employees
- Wholesaling - 100 employees
- Services - from \$2.5 million to \$21.5 million in annual receipts
- Retailing - from \$5 million to \$21 million
- General construction - from \$13.5 million to \$17 million
- Special trade construction - average annual receipts not to exceed
 - \$7 million
 - Agriculture - from \$0.5 million to \$9 million

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- **What You Need to Take to the Lender**

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Documentation requirements may vary; contact your lender for the information you must supply. Common requirements include the following:

- Purpose of the loan
- History of the business
- Financial statements for three years (existing businesses)
- Schedule of term debts (existing businesses)
- Aging of accounts receivable and payable (existing businesses)
- Projected opening day balance sheet (new businesses)
- Lease details
- Amount of investment in the business by the owner(s)
- Projections of income, expenses and cash flow

- Signed personal financial statements
- Personal r, sum, (s)

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- **What the SBA Looks For**

- Good character
- Management expertise and commitment necessary for success
- Sufficient funds, including the SBA-guaranteed loan, to operate the business on a sound financial basis (for new businesses, this includes the resources to withstand start-up expenses and the initial operating phase)
- Feasible business plan
- Adequate equity or investment in the business
- Sufficient collateral
- Ability to repay the loan on time from the projected operating cash flow

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Specialized Programs Under 7(a)

In addition to the standard loan guaranty, the SBA has targeted programs under 7(a) that are designed to meet specialized needs. Unless otherwise indicated, they are governed by the same rules, regulations, interest rates, fees, etc. as the regular 7(a) loan guaranty.

- **Financing For Specific Needs**

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The SBA has programs to help meet your specific financing needs.

- **CAPLines Program**

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CAPLines is the program under which the SBA helps small businesses meet their short-term and cyclical working-capital needs. A CAPLines loan can be for any dollar amount (except for the Small Asset-Based Line), and the SBA will guarantee 75 percent up to \$750,000 (80 percent on loans of \$100,000 or less).

There are five short-term working-capital loan programs for small businesses under CAPLines:

Seasonal Line: This line advances funds against anticipated inventory

and accounts receivables for peak seasons and seasonal sales fluctuations. It can be revolving or nonrevolving.

Contract Line: This line finances the direct labor and material costs associated with performing assignable contract(s). It can be revolving or nonrevolving.

Builders Line: If you are a small general contractor or builder constructing or renovating commercial or residential buildings, this line can finance your direct labor and material costs. The building project serves as the collateral, and loans can be revolving or nonrevolving.

Standard Asset-Based Line: This is an asset-based revolving line of credit that provides financing for cyclical, growth, recurring and/or short-term needs. Repayment comes from converting short-term assets into cash, which is remitted to the lender. Businesses continually draw, based on existing assets, and repay as their cash cycle dictates. This line generally is used by businesses that provide credit to other businesses. Because these loans require continual servicing and monitoring of collateral, additional fees may be charged by the lender.

Small Asset-Based Line: This is an asset-based revolving line of credit of up to \$200,000. It operates like a standard asset-based line except that some of the stricter servicing requirements are waived, providing the business can consistently show repayment ability from cash flow for the full amount.

- **Use of Proceeds**

- **CAPLines may be used to -**

- finance seasonal working-capital needs;
- finance direct costs needed to perform construction, service and supply contracts;
- finance direct costs associated with commercial and residential building construction without a firm commitment for purchase;
- finance operating capital by obtaining advances against existing inventory and accounts receivable; or
- consolidate short-term debt.

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- **Terms, Interest Rates and Fees**

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Each of the five lines of credit has a maturity of up to five years, but, because each is tailored to your individual needs, a shorter initial maturity may be established. You may use CAPLines funds as needed through-out

the term of the loan to purchase assets, as long as sufficient time is allowed to convert the assets into cash by maturity. Interest rates are negotiated with your lender, up to 2.25 percent over the prime rate. The guaranty fee is the same as for any standard 7(a) loan. The SBA places no servicing-fee restrictions on the lender for the Standard Asset-Based Line but requires full disclosure to ensure that fees are reasonable. On all other CAPLines, the servicing fee is restricted to 2 percent based on the average outstanding balance.

- **Collateral**

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The primary collateral will be the short-term assets financed by the loan.

- **The International Trade Loan Program**

- **The International Trade Loan Program helps small businesses that are -**

- engaged in international trade,
- preparing to engage in international trade, or
- adversely affected by competition from imports.

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The SBA can guarantee as much as \$1.25 million in combined working-capital and fixed-asset loans. The working-capital portion of the loan may be made according to the provisions of the Export Working Capital Program (see below) or other SBA working-capital programs.

- **Use of Proceeds**

- **Proceeds may be used for-**

- working capital; and/or
- purchasing land and buildings, building new facilities; renovating, improving or expanding existing facilities; purchasing or reconditioning machinery, equipment and fixtures; and making other improvements that will be used within the United States to produce goods or services for export.

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Proceeds may not be used to repay existing debt.

- **Terms, Interest Rates and Fees**

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Loans for facilities or equipment can have maturities of up to 25 years. The working capital portion of a loan under Export Working Capital Program provisions has a maximum maturity of three years. Rates and fees are the same as for the general 7(a) loan.

- **Collateral**

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The lender must take a first-lien position (or first mortgage) on items financed under an international trade loan. Only collateral located in the United States, its territories and possessions is acceptable as collateral under this program. Additional collateral may be required, including personal guaranties, subordinate liens or items that are not financed by the loan proceeds.

- **The Export Working Capital Program**

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The Export Working Capital Program was developed in response to the needs of exporters seeking short-term working capital. The SBA guarantees 90 percent of the principal and interest, up to \$750,000. The EWCP uses a one-page application form and streamlined documentation, and turnaround is usually within 10 days. You may also apply for a letter of prequalification from the SBA. You may have other current SBA guaranties, as long as the SBA's exposure does not exceed \$750,000 for all of your loans. When an EWCP loan is combined with an international trade loan, the SBA's exposure can go up to \$1.25 million.

- **Terms, Interest Rates and Fees**

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Typically, EWCP loan maturities either match a single transaction cycle or support a line of credit, generally with a term of 12 months. Unlike other 7(a) programs, interest rates and fees are negotiated between you and your lender. The SBA charges the lender a nominal guaranty fee, which may be passed on to you.

- **Targeted Assistance**

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Several SBA programs provide targeted financial and technical assistance.

- **DELTA**

- **Defense Loan and Technical Assistance Program**

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If you own a defense-dependent small firm adversely affected by defense cuts, DELTA can help you diversify into the commercial market. The DELTA Program provides both financial and technical assistance. A joint effort of the SBA and the Department of Defense, it offers about \$1 billion in gross lending authority.

The SBA processes, guarantees and services DELTA loans through the regulations, forms and operating criteria of the 7(a) Program and the 504 Certified Development Company Program.

- **Maximum Loan Amount**

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The maximum gross loan amount under 7(a) is \$1.25 million for a DELTA loan. The maximum guaranty under 504 is \$1 million. If both types of loans are used or if there is an existing SBA loan, the combined total may not exceed \$1.25 million.

- **Collateral**

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DELTA loans may not be typical 7(a) or 504 loans and may require special handling because of complicated credit analyses. While you may have significant collateral, you may not be able to show the ability to repay based on past operations because of your firm's state of transition. New revisions to the law allow the SBA to resolve reasonable doubts in your favor.

- **Eligibility**

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If seeking a DELTA loan, you will be required to certify that your company meets DELTA eligibility standards as well as 7(a) criteria.

- **To be eligible, your business must-**

- meet SBA size standards; and
- have derived at least 25 percent of total company revenues during the preceding fiscal year from DoD contracts, defense-related contracts with the Department of Energy, or subcontracts in support of defense-related prime contracts.

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- **In addition, your business must-**

- be adversely impacted by reductions in defense spending and use the loan to retain jobs of defense workers; or
- be located in an adversely impacted community and create new economic activity and jobs; or
- modernize or expand your plant so it can diversify operations while remaining in the national technical and industrial base.

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- **Technical Assistance**

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You may also require technical assistance to make the transition to the commercial market. This will be provided through small business development centers, the Service Corps of Retired Executives, other federal agencies, and other technical and management assistance providers.

- Minority Prequalification Loan Program and
- Women's Prequalification Loan Program

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If you are a woman or minority who owns or wants to start a business, these programs can help. Intermediaries assist you in developing a viable loan application package and securing a loan. On approval the SBA provides a letter of prequalification you can take to a lender. The women's program uses only nonprofit organizations as intermediaries; the minority program uses for-profit intermediaries as well.

Once your loan package is assembled, the intermediary submits it to the SBA for expedited consideration; a decision usually is made within three days. If your application is approved, the SBA issues a letter of

prequalification stating the agency's intent to guarantee the loan. The intermediary will then help you locate a lender offering the most competitive rates.

The maximum amount for loans under the women's program is \$250,000; under the minority program, it is generally the same, although some district offices set other limits. With both programs, the SBA will guarantee up to 75 percent (80 percent on loans of \$100,000 or less). Intermediaries may charge a reasonable fee for loan packaging. These programs are available through a number of SBA district offices nationwide. To find out if these programs are available in your area, contact your nearest SBA district office.

- **Eligibility**

- Businesses at least 51 percent owned, operated and managed by people of ethnic or racial minorities, or by women
- Businesses with average annual sales for the preceding three years that do not exceed \$5 million
- Businesses that employ fewer than 100, including affiliates
- Businesses that are not engaged in speculation or investment

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- **Loan Repayment Guide**

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(monthly payment plus interest-based on \$1,000)

- Divide the loan amount by \$1,000
- Using the chart below, find the interest rate on your loan in the first column, then go across the row to the column denoting the term of your loan to find the factor. Example: a seven-year loan at 8.75% has a factor of 15.96.
- Multiply the amount from step 1 by the factor in step 2.
- The result is your monthly payment. Make sure you consult with your lender for the actual terms.

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- **LOAN TERM**

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- Interest
- Rate 1 yrs 2 yrs 3 yrs 4 yrs 5 yrs 6 yrs

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8.00%	86.99	45.23	31.34	24.41	20.28	17.53
8.25%	87.10	45.34	31.45	24.53	20.40	17.66
8.50%	87.22	45.46	31.57	24.65	20.52	17.78
8.75%	87.34	45.57	31.68	24.77	20.64	17.90
9.00%	87.45	45.68	31.80	24.88	20.76	18.03
9.25%	87.57	45.80	31.92	25.00	20.88	18.15
9.50%	87.68	45.91	32.03	25.12	21.00	18.27
9.75%	87.80	46.03	32.15	25.24	21.12	18.40
10.00%	87.92	46.15	32.27	25.36	21.25	18.53
10.25%	88.03	46.26	32.38	25.48	21.37	18.65
10.50%	88.15	46.38	32.50	25.60	21.49	18.78
10.75%	88.27	46.49	32.62	25.72	21.62	18.91
11.00%	88.38	46.61	32.74	25.85	21.74	19.03
11.25%	88.50	46.72	32.86	25.97	21.87	19.16
11.50%	88.62	46.84	32.98	26.09	21.99	19.29
11.75%	88.73	46.96	33.10	26.21	22.12	19.42
12.00%	88.85	47.07	33.21	26.33	22.24	19.55
12.25%	88.97	47.19	33.33	26.46	22.37	19.68
12.50%	89.08	47.31	33.45	26.58	22.50	19.81
12.75%	89.20	47.42	33.57	26.70	22.63	19.94
13.00%	89.32	47.54	33.69	26.83	22.75	20.07
13.25%	89.43	47.66	33.81	26.95	22.88	20.21
13.50%	89.55	47.78	33.94	27.08	23.01	20.34
13.75%	89.67	47.90	34.06	27.20	23.14	20.47
14.00%	89.79	48.01	34.18	27.33	23.27	20.61
14.25%	89.90	48.13	34.30	27.45	23.40	20.74
14.50%	90.02	48.25	34.42	27.58	23.53	20.87
14.75%	90.14	48.37	34.54	27.70	23.66	21.01
15.00%	90.26	48.49	34.67	27.83	23.79	21.14
15.25%	90.38	48.61	34.79	27.96	23.92	21.28
15.50%	90.49	48.72	34.91	28.08	24.05	21.42
15.75%	90.61	48.84	35.03	28.21	24.19	21.55
16.00%	90.73	48.96	35.16	28.34	24.32	21.69

LOAN TERM

- **Interest**

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Rate 7 yrs 8 yrs 9 yrs 10 yrs 15 yrs 20 yrs 25 yrs

8.00%	15.59	14.14	13.02	12.13	9.56	8.36	7.72
8.25%	15.71	14.26	13.15	12.27	9.70	8.52	7.88
8.50%	15.84	14.39	13.28	12.40	9.85	8.68	8.05
8.75%	15.96	14.52	13.41	12.53	9.99	8.84	8.22
9.00%	16.09	14.65	13.54	12.67	10.14	9.00	8.39
9.25%	16.22	14.78	13.68	12.80	10.29	9.16	8.56
9.50%	16.34	14.91	13.81	12.94	10.44	9.32	8.74
9.75%	16.47	15.04	13.94	13.08	10.59	9.49	8.91
10.00%	16.60	15.17	14.08	13.22	10.75	9.65	9.09
10.25%	16.73	15.31	14.21	13.35	10.90	9.82	9.26
10.50%	16.86	15.44	14.35	13.49	11.05	9.98	9.44
10.75%	16.99	15.57	14.49	13.63	11.21	10.15	9.62
11.00%	17.12	15.71	14.63	13.77	11.37	10.32	9.80
11.25%	17.25	15.84	14.76	13.92	11.52	10.49	9.98
11.50%	17.39	15.98	14.90	14.06	11.68	10.66	10.16
11.75%	17.52	16.12	15.04	14.20	11.84	10.84	10.35
12.00%	17.65	16.25	15.18	14.35	12.00	11.01	10.53
12.25%	17.79	16.39	15.33	14.49	12.16	11.19	10.72
12.50%	17.92	16.53	15.47	14.64	12.33	11.36	10.90
12.75%	18.06	16.67	15.61	14.78	12.49	11.54	11.09
13.00%	18.19	16.81	15.75	14.93	12.65	11.72	11.28
13.25%	18.33	16.95	15.90	15.08	12.82	11.89	11.47
13.50%	18.46	17.09	16.04	15.23	12.98	12.07	11.66
13.75%	18.60	17.23	16.19	15.38	13.15	12.25	11.85
14.00%	18.74	17.37	16.33	15.53	13.32	12.44	12.04
14.25%	18.88	17.51	16.48	15.68	13.49	12.62	12.23
14.50%	19.02	17.66	16.63	15.83	13.66	12.80	12.42
14.75%	19.16	17.80	16.78	15.98	13.83	12.98	12.61
15.00%	19.30	17.95	16.92	16.13	14.00	13.17	12.81
15.25%	19.44	18.09	17.07	16.29	14.17	13.35	13.00
15.50%	19.58	18.24	17.22	16.44	14.34	13.54	13.20
15.75%	19.72	18.38	17.37	16.60	14.51	13.73	13.39
16.00%	19.86	18.53	17.53	16.75	14.69	13.91	13.59

- **Streamlined Applications and Approvals**

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There are several options available to lenders that help streamline

delivery of the SBA's guaranty.

- **LowDoc**

- **Low Documentation Loan Program**

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LowDoc is one of the SBA's most popular programs. Once you have met your lender's requirements for credit, LowDoc offers a simple, one-page SBA application form and rapid turnaround on approvals for loans of up to \$100,000 (for loans over \$50,000, you must also provide a copy of U.S. Income Tax Schedule C or the front page of the corporate or partnership returns for the past three years). The SBA will guarantee up to 80 percent of the loan amount. Completed applications are processed quickly by the SBA, usually within two or three days. Proceeds may not be used to repay certain types of existing debt.

- **Eligibility**

- Businesses with average annual sales for the past three years not exceeding \$5 million and with 100 or fewer employees, including affiliates, or
- Business start-ups

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- **FA\$TRAK**

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FA\$TRAK makes capital available to businesses seeking loans of up to \$100,000 without requiring the lender to use the SBA process. Lenders use their existing documentation and procedures to make and service loans. The SBA guarantees up to 50 percent of a FA\$TRAK loan. Your local SBA office can provide you with a list of FA\$TRAK lenders.

- **Terms**

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Like most 7(a) loans, maturities are usually five to seven years for working capital and up to 25 years for real estate or equipment. For revolving credits, you may take up to five years after the first disbursement to repay the loan.

- **Certified and Preferred Lenders Program**

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The most active and expert lenders qualify for SBA's Certified and Preferred Lenders Program. Participants are delegated partial or full authority to approve loans, which results in faster service.

Certified lenders are those that have been heavily involved in regular SBA loan-guaranty processing and have met certain other criteria. They receive a partial delegation of authority and are given a three-day turnaround on their applications (they may also use regular processing). Certified lenders account for 10 percent of all SBA business loan guaranties.

Preferred lenders are chosen from among the SBA's best lenders and enjoy full delegation of lending authority. This authority must be renewed at least every two years, and the lender's portfolio is examined by the SBA periodically. Preferred loans account for 18 percent of SBA loans. A list of participants in the Certified and Preferred Lenders Program may be obtained from your local SBA office.

- **The 7(m) MicroLoan Program**

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The MicroLoan Program provides small loans ranging from under \$100 to \$25,000. Under this program, the SBA makes funds available to nonprofit intermediaries; these, in turn, make the loans. The average loan size is \$10,000. Completed applications usually are processed by the intermediary in less than one week. This is a pilot program available at a limited number of locations.

- **Use of Proceeds**

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Microloans may be used to finance machinery, equipment, fixtures and leasehold improvements. They may also be used to finance receivables and for working capital. They may not be used to pay existing debts.

- **Terms, Interest Rates and Fees**

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Depending on the earnings of your business, you may take up to six years to repay a microloan. Rates are pegged at no more than 4 percent over the prime rate. There is no guaranty fee.

- **Collateral**

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Each nonprofit lending organization will have its own requirements, but must take as collateral any assets purchased with the microloan. In most cases, the personal guaranties of the business owners are also required.

- **Eligibility**

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Virtually all types of for-profit businesses that meet SBA eligibility requirements qualify.

- **The 504 Certified Development Company Program**

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The 504 Certified Development Company Program enables growing businesses to secure long-term, fixed-rate financing for major fixed assets, such as land and buildings. A certified development company 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. There are about 290 CDCs nationwide.

The program is designed to enable small businesses to create and retain jobs; the CDC's portfolio must create or retain one job for every \$35,000 of debenture proceeds provided by the SBA.

- **Typically, a 504 project includes-**

- a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost,
- a second loan secured with a junior lien from the CDC (a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the project cost, and
- a contribution of at least 10 percent equity by the borrower.

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The maximum SBA debenture generally is \$750,000 (up to \$1 million in some cases).

- **Use of Proceeds**

- **Proceeds from 504 loans must be used for fixed-asset projects such as-**

- purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping;
- construction, modernizing, renovating or converting existing facilities; and
- purchasing machinery and equipment.

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The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt, or most refinancing.

- **Terms, Interest Rates and Fees**

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Interest rates on 504 loans are based on the current market rate for five-year and 10-year U.S. Treasury issues plus an increment above the Treasury rate, based on market conditions. Only maturities of 10 and 20 years are available. Fees total approximately 3 percent of the debenture and may be financed with the loan.

- **Collateral**

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Generally the project assets being financed are used as collateral. Personal guaranties of the principal owners are also required.

- **Eligibility**

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To be eligible, the business generally must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, a business qualifies as small if it does not have a tangible net worth in excess of \$6 million and does not have an average net income in excess of \$2 million after taxes for the preceding two years, or if it meets standard 7(a) criteria. Loans cannot be made to businesses engaged in speculation or investment.

- **When Business Problems Arise**

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When a small business encounters difficulties, the SBA is ready to help

with expert business counseling and assistance. In the event that a borrower is unable to meet the obligations of an SBA loan, the SBA works closely with the lender and/or borrower to negotiate a feasible solution. Only if a loan workout is not possible will the SBA work to liquidate the loan.

- **Small Business Investment Company Program**

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There are a variety of alternatives to bank financing for small businesses, especially business start-ups. The Small Business Investment Company Program fills the gap between the availability of venture capital and the needs of small businesses that are either starting or growing. Licensed and regulated by the SBA, SBICs are privately owned and managed investment firms that make capital available to small businesses through investments or loans. They use their own funds plus funds obtained at favorable rates with SBA guaranties and/or by selling their preferred stock to the SBA.

SBICs are for-profit firms whose incentive is to share in the success of a small business. In addition to equity capital and long-term loans, SBICs provide debt-equity investments and management assistance.

The SBIC Program provides funding to all types of manufacturing and service industries. Some investment companies specialize in certain fields, while others seek out small businesses with new products or services because of the strong growth potential. Most, however, consider a wide variety of investment opportunities.

- **Surety Bond Program**

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By law, prime contractors to the federal government must post surety bonds on federal construction projects valued at \$100,000 or more. Many state, county, city and private-sector projects require bonding as well. The SBA can guarantee bid, performance and payment bonds for contracts up to \$1.25 million for small businesses that cannot obtain bonds through regular commercial channels. Bonds may be obtained in two ways:

- Prior Approval - Contractors apply through a surety bonding agent.
- The guaranty goes to the surety.
- Preferred Sureties - Preferred sureties are authorized by the SBA to issue, monitor and service bonds without prior SBA approval.

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- **Business Counseling and Training**

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The SBA provides a variety of business counseling and training services to current and prospective small business owners.

- **The Service Corps of Retired Executives-**

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The collective experience of SCORE counselors spans the full range of American enterprise. SCORE volunteers provide free management and technical expertise and are available at SBA district offices, business information centers and some small business development centers.

- **Small Business Development Centers-**

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SBDCs offer a broad spectrum of business information and guidance, as well as assistance in preparing loan applications. The program is a cooperative effort of the private sector; the educational community; and federal, state and local governments.

- **Business Information Centers-**

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BICs provide the latest in high-tech hardware, software and telecommunications to help small businesses get started and grow strong. Supported by local SBA offices, BICs also offer expert counseling by SCORE volunteers.

- **One-Stop Capital Shops-**

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OSCSs are the SBA's contribution to the Empowerment Zones/Enterprise Communities Program, an interagency initiative that provides resources to economically distressed communities. The shops provide a full range of SBA lending and technical-assistance programs.

- **SBA Online, the SBA's Internet Home Page and the U.S. Business Advisor-**

- An electronic bulletin board, SBA Online offers current business information around the clock. Via the Internet, the SBA Home Page offers a wealth of information on starting and building a small business. The U.S. Business Advisor is currently being developed with users to provide interactive access to all federal business information and services.

- **Quick Reference to SBA Loan Programs**

- PROGRAM: 7(a) Loan Guaranty Program, the SBA's primary loan program
Maximum Amount Guaranteed: \$750,000 in most cases
Percent of Guarantee (Max.): 75% (80% if total loan is \$100,000 or less)
Use of Proceeds: Expansion or renovation; construction of new facility; purchase land or buildings; purchase equipment, fixtures, leasehold improvements; working capital; refinance debt for compelling reasons; seasonal line of credit; inventory acquisition
Maturity: Depends on ability to repay; generally working capital is 5-10 years; machinery/equipment, real estate, construction, up to 25 years (not to exceed life of equipment)
Maximum Interest Rates: Negotiable with lender: loans under 7 years, max.
Prime + 2.25%; 7 years or more, max. 2.75% over prime; under \$50,000, rates may be slightly higher
Guaranty and Other Fees: Paid by lender (usually passed onto borrower). Based on maturity, amount of SBA exposure: 1 year or less, 0.25%; over 1 year, SBA share \$80,000 or less, 2%; over 1 year, SBA share more than \$80,000, figured on incremental scale
Eligibility: Must be operated for profit; meet SBA size standards; show good character, management expertise and commitment, and always show ability to repay; may not be involved in speculation or investment

PROGRAM: CAPLines, Short-term and RLCs; Seasonal, Contract, Builders,

- **Standard Asset-Based, Small Asset-Based**

- Maximum Amount Guaranteed: \$750,000 (except Small Asset-Based); Small

Asset-Based \$200,000 (total loan amount)

Percent of Guarantee (Max.): 75%, see 7(a)

Use of Proceeds: Finance seasonal working-capital needs; costs to perform; construction costs; advances against existing inventory and receivables; consolidation of short-term debts possible

- Maturity: Up to 5 years
- Maximum Interest Rates: 2.25%
- Guaranty and Other Fees: See 7(a); Under Standard Asset-Based, no

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restrictions on servicing fees Eligibility: Existing businesses, see 7(a)

PROGRAM: International Trade Loan Program, Short- and long-term financing Maximum Amount Guaranteed: \$1.25 million Percent of Guarantee (Max.): 75%, see 7(a)

Use of Proceeds: Working capital; improvements in U.S. for producing goods

or services; may not be used to repay existing debt

- Maturity: Up to 25 years
- Maximum Interest Rates: See 7(a)
- Guaranty and Other Fees: See 7(a)
- Eligibility: Small businesses engaged or preparing to engage in inter-

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national trade or adversely affected by competition from imports; see 7(a) for other qualifications

PROGRAM: Export Working Capital Program, 1-page application, fast turnaround; may apply for prequalification letter

Maximum Amount Guaranteed: \$750,000 (may be combined with International Trade Loan)

Percent of Guarantee (Max.): 90%, see 7(a)

Use of Proceeds: Short-term working-capital loans to finance export transactions

Maturity: Matches single transaction cycle or generally 1 year for line of credit

- **Maximum Interest Rates: No cap**

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Guaranty and Other Fees: See 7(a); no restrictions on servicing fees

Eligibility: Small business exporters who need short-term working capital; see 7(a) for other qualifications

PROGRAM: DELTA, Defense Loan and Technical Assistance Program, provides financial and technical assistance to help defense-dependent firms diversify into commercial market; effort of SBA and DoD
Maximum Amount Guaranteed: 7(a) or combined with 504: \$1.25 million (total loan amount).

- **504: \$1 million SBA share (up to 40% of project)**

- Percent of Guarantee (Max.): Depends on whether done under 7(a) or 504; see both

- **Use of Proceeds: Defense conversion; see 7(a), 504**

- Maturity: See 7(a), 504
- Maximum Interest Rates: See 7(a), 504
- Guaranty and Other Fees: See 7(a), 504
- Eligibility: Defense-dependent small firms adversely affected by defense
- cuts; see 7(a), 504 for qualifications (program authority will expire 9/30/98)

- **PROGRAM: Minority Prequalification Loan Program and**

- Women's Prequalification Loan Program, Help to prepare application and secure loan; SBA prequalification letter; pilot programs, limited sites
Maximum Amount Guaranteed: Minority Prequalification Loan Program \$250,000 generally (total loan amount); Women's Prequalification Loan Program \$250,000 (total loan amount)
Percent of Guarantee (Max.): 75%, see 7(a)
Use of Proceeds: See 7(a)
Maturity: See 7(a)
Maximum Interest Rates: See 7(a)

Guaranty and Other Fees: See 7(a); plus minority program may use for-profit intermediaries; women's program uses nonprofits only; both may charge fees

Eligibility: Must be at least 51% owned and operated by racial/ethnic minority or women; \$5 million or less annual sales for past 3 years; employ 100 or fewer, focus on credit history, ability to repay, probability of success

PROGRAM: LowDoc, One-page SBA application to obtain guaranty, quick turnaround after applicant meets lender requirements Maximum Amount Guaranteed: \$100,000 (total loan amount)

- **Percent of Guarantee (Max.): 80%**

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Use of Proceeds: Same as 7(a) except may not be used to repay certain types of existing debt Maturity: See 7(a)

Maximum Interest Rates: See 7(a)

Guaranty and Other Fees: See 7(a)

Eligibility: Start-ups and businesses with \$5 million or less annual sales for past 3 years; employ 100 or fewer; program relies on applicant's character and credit history

PROGRAM: FA\$TRAK, Lender approves loan, no additional paperwork for SBA;

pilot program, limited sites

Maximum Amount Guaranteed: \$100,000 (total loan amount)

- **Percent of Guarantee (Max.): 50%**

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Use of Proceeds: Same as 7(a); limitations on real estate and construction;

may be used for term loans or revolving credits

Maturity: Term loan same as 7(a); no more than 5 years on revolving line of credit

Maximum Interest Rates: See 7(a)

Guaranty and Other Fees: See 7(a)

Eligibility: See 7(a)

PROGRAM: 7(m) MicroLoan Program, Loans made through non-profit lending

organizations; technical assistance also provided; pilot program,

limited sites

Maximum Amount Guaranteed: \$25,000 (total loan amount)

- **Percent of Guarantee (Max.): NA**

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Use of Proceeds: Purchase equipment, machinery, fixtures, leasehold improvements; finance increased receivables; working capital; may not be used to repay existing debt

Maturity: Shortest term possible, not to exceed 6 years Maximum Interest

Rates: Negotiable with intermediary Guaranty and Other Fees: No

guaranty fee Eligibility: Same as 7(a)

PROGRAM: 504 Certified Development Company Program, Long-term, fixed-asset

loans through nonprofit development companies; must create or retain 1 job per \$35,000 of debenture proceeds

Maximum Amount Guaranteed: Limit on SBA portion of project is \$750,000 to

- **\$1 million**

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Percent of Guarantee (Max.): 40% of project (100% SBA-backed debenture);

private lender unlimited

Use of Proceeds: Purchase of major fixed assets such as land, buildings, improvements, long-term equipment, construction, renovation

Maturity: 10 or 20 years only

Maximum Interest Rates: Based on current market rate for 5- and 10-year Treasury issues, plus an increment above Treasury rate

Guaranty and Other Fees: Fees related to debenture, approx. 3%

Eligibility: For-profit businesses that do not exceed \$6 million in tangible net worth and did not have average net income over \$2 million for past 2 years

- **SBA Customer-Service Standards**

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As one of the first initiatives of this administration, President Clinton and Vice President Gore challenged us to "reinvent" the SBA, to create an agency that not only works better, but is smaller and costs less. The best possible customer service is a key element of reinventing government, and we at the SBA are committed to providing quality service at all our service delivery points and to all our customers - small businesses,

lenders and resource partners, among others. We are establishing "benchmarks" from the best of the business community and applying these standards to our programs, monitoring our success and eliciting regular feedback from our customers on our performance.

Specifically, we are committed to the following customer-service principles:

1. We will provide prompt, courteous and accurate responses to requests for information received by telephone, in writing or in person.
2. We will continue to look for cost-effective and user-friendly ways to make information easily accessible to the small business community.
3. We will continue to streamline and reinvent processes to make conducting business with the SBA easier for both our resource partners and small business owners.
4. We will provide the small business owner with specialized technical assistance through a variety of programs in a variety of locations.
5. We will continue to work to relieve the regulatory burden on small business.
6. We will continue to facilitate and strengthen working relationships between small contractors and federal procuring agencies.

● **Some Facts About The SBA And Small Business**

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Did You Know The SBA ...

- Has a portfolio guaranteeing over \$27 billion in loans to 185,000 small businesses that otherwise would not have had such access to capital?
- Guaranteed over 60,000 loans totaling \$9.9 billion to America's small businesses in fiscal year 1995?
- Last year extended management and technical assistance to nearly one million small businesses through its 950 Small Business Development Centers and 13,000 Service Corps of Retired Executives volunteers?
- Provided more than 45,000 loans totaling \$1.2 billion to disaster victims for residential, personal property, as well as business losses in fiscal year 1995?
- Has 7,000 private sector lenders as partners providing their capital to small business?
- Has increased its venture capital program with more private capital in the past two years than in the previous 15 years combined?

- Provides loan guaranties and technical assistance to small business exporters through U.S. Export Assistance Centers in 15 cities?
- Can respond to written small business questions through the U.S. Business Advisor on the Internet (<http://www.business.gov>)?

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Did You Know That America's 22 Million Small Businesses ...

- Employ more than 50 percent of the private workforce,
- Generate more than half of the nation's Gross Domestic Product, and
- Are the principal source of new jobs?

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• **For More Information**

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The SBA has offices located throughout the United States. For the one nearest you, look under "U.S. Government" in your telephone directory, or call the SBA Answer Desk at (800) 8-ASK-SBA. To send a fax to the SBA, dial (202) 205-7064. For the hearing impaired, the TDD number is (704) 344-6640.

To access the agency's electronic public information services, you may call the following:

SBA Online:

electronic bulletin board - modem and computer required

• **(800) 697-4636 (limited access)**

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(900) 463-4636 (full access)

(202) 401-9600 (D.C. metro area)

Internet:

using uniform resource locators (URLs)

SBA Home Page:

<http://www.sba.gov> SBA gopher:

<gopher://gopher.sba.gov> File transfer protocol:

<ftp://ftp.sba.gov> Telnet:

- <telnet://sbaonline.sba.gov>
- U.S. Business Advisor
- <http://www.business.gov>

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You also may request a free copy of The Resource Directory for Small Business Management, a listing of for-sale publications and videotapes, from your local SBA office or the SBA Answer Desk.

- **Other Sources**

- State economic development agencies
- Chambers of commerce
- Local colleges and universities
- Libraries
- Manufacturers and suppliers of small business products and services
- Small business or industry trade associations

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All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.

SBA field offices listed alphabetically by state & city:

AK Anchorage

AL Birmingham

AR Little Rock

AZ Phoenix

Tucson

CA Fresno

Glendale

Sacramento

San Diego

San Francisco

Santa Ana

CO Denver

CT Hartford

DC Washington, D.C.

DE Wilmington

FL Coral Gables

Jacksonville

GA Atlanta

HI Honolulu

IA Cedar Rapids

Des Moines

ID Boise

IL Chicago

Springfield

IN Indianapolis
KS Wichita
KY Louisville
LA New Orleans
MA Boston
Springfield
MD Baltimore
ME Augusta
MI Detroit
Marquette
MN Minneapolis
MO Kansas City
St. Louis
Springfield
MS Gulfport
Jackson
MT Helena
NC Charlotte
ND Fargo
NE Omaha
NH Concord
NJ Newark
NM Albuquerque
NV Las Vegas
NY Buffalo
Elmira
Melville
New York City
Rochester
Syracuse
OH Cincinnati
Cleveland
Columbus
OK Oklahoma City
OR Portland
PA Harrisburg
King of Prussia
Pittsburgh
Wilkes-Barre
PR Hato Rey
RI Providence
SC Columbia
SD Sioux Falls
TN Nashville
TX Corpus Christi

El Paso
Fort Worth
Harlingen
Houston
Lubbock
San Antonio
UT Salt Lake City
VA Richmond
VT Montpelier
WA Seattle
Spokane
WI Madison
Milwaukee
WV Charleston
Clarksburg
WY Casper

In addition to the above listing of SBA field offices, there are over 900 small business development center locations and nearly 400 SCORE offices to help you start and/or strengthen your business.

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