FINANCING OPTIONS: WHAT YOU, AS A LOAN APPLICANT, SHOULD KNOW:

WORKBOOK

Training Module - 4

WORKSHOP OBJECTIVES:

BY THE END OF THIS WORKSHOP YOU SHOULD BE ABLE TO UNDERSTAND:

- INTRODUCTION TO THE SBA
- CREDIT ISSUES SUCH AS:
  - Equity Investment
  - Earnings Requirements
  - Working Capital Needs
  - Collateral Adequacy
  - Resource Management
- THE LOAN PROGRAMS AVAILABLE TO A SMALL BUSINESS:

  Programs Meeting Various Credit Needs of the Business:

  - The 7(a) Programs, Including:
    - Basic Long Term 7(a) Loan Programs
    - Specialized Long Term 7(a) Loan Programs
    - Specialized Short Term 7(a) Loan Programs (CapLines and the Export Working Capital Loan Program)
  - The Certified Development Company (504) Program
  - Microloan Program
- THE LOAN PROGRAMS AVAILABLE TO A LENDER:

  Programs Providing Various Methods to Obtain SBA's Guaranty:

- The Standard 7(a) Guaranty (method of processing)
- The Certified Lenders Program (CLP)
- The Preferred Lenders Program (PLP)
- The Low Documentation Program (LowDoc)
- The Use Of Internal Documents Program (FA$trak)

- THE ELIGIBILITY CRITERIA FOR A BUSINESS LOAN:

  Applicant Qualifications:

  - Size Standards
  - Type of Business Standards
  - Use of Proceeds Issues
  - Character and Credit Issues

  Lender Qualifications

  - Lender Experience
  - Lender Designation
  - Lender Purpose

- THE APPLICATION PROCESS - BASED UPON:

  - The Intended Use of the Loan Proceeds
  - The Credit and Character History of the Applicant
  - The Experience of the Lender
  - The Responsibilities of the Lender

INTRODUCTION

The U.S. Small Business Administration (SBA) is an independent agency of the Federal Government. It is charged with providing four primary areas of assistance to American Small Business: Advocacy, Management, Procurement, and Financial Assistance. Financing comes through SBA's Investment or Business Loan Programs. This module is designed to familiarize you with the Business Loan Programs of the SBA.

SBA's ability to provide business loans is initially dependent upon the availability of annual appropriations from the U.S. Congress. These appropriations establish the amount of loans SBA can provide. When the appropriations exist, the SBA provides its business loans to eligible and creditworthy small business by making or guarantying loans structured in conformance with Congressional guidelines and Agency rules and regulations.

Repeat: SBA administers the eligibility and credit requirements based on the dictates established and

regulated by Congress. The requirements and practices can change as the Government alters its fiscal policy and priorities to meet current economic conditions. Therefore, past policy cannot always be relied upon when seeking assistance in today's market.

As previously stated, the SBA can make or guaranty a business loan.

To make a loan means the actual loan funds come from the Government itself. This process has historically been known as SBA's Direct Loan Program. However, Congress has not appropriated funds for SBA's direct loan programs for business since October 1995. Moreover, no new funding is anticipated in the years immediately ahead. Therefore, SBA's direct assistance programs for business are not available now and will not be available
soon.

Appropriations ARE available for the Agency to provide guarantees on loans structured under SBA requirements.

With a guaranty loan, the actual funds are provided by independent lenders who receive the full faith and credit backing of the Federal Government on a portion of the loan they make to small business. The guaranty which SBA provides these institutions transfers the risk of borrower non-payment -- up to the amount of the guaranty -- from the lender to SBA. Therefore, when a business applies for an SBA Loan, they are actually applying for a commercial loan, structured according to SBA requirements, which receives an SBA guaranty.

In a variation of this concept, community development organizations can get the Government's full backing on their loan to finance a portion of the overall financing needs of an
applicant small business.

CREDIT FACTORS A POTENTIAL BORROWER SHOULD KNOW

To determine if you can qualify for SBA's financial assistance, you should first understand some basic credit factors that apply to all loan requests. Every application needs positive credit merits to be approved. These are the same credit factors a lender will review and analyze before deciding whether to internally approve your loan application, seek a guaranty from SBA to support their loan to you, or decline your application all together.

1. EQUITY INVESTMENT

   Business loan applicants must have a reasonable amount invested in their business. This ensures that, when combined with borrowed funds, the business can operate on a sound
   basis. There will be a careful examination of the debt-to-worth ratio of the applicant to understand how much money the lender is being asked to lend (debt) in relation to how much the owner(s) have invested (worth). Owners invest either assets that are applicable to the operation of the business and/or cash which can be used to acquire such assets. The value of

invested assets should be substantiated by invoices or appraisals for start-up businesses, or current financial statements for existing businesses.

Strong equity with a manageable debt level provide financial resiliency to help a firm weather periods of operational adversity. Minimal or non-existent equity makes a business susceptible to miscalculation and thereby increases the risk of default on -- failing to repay -- borrowed funds. Strong equity ensures the owner(s) remains committed to the business. Sufficient equity is particularly important for new business. Weak equity makes a lender more hesitant to provide any financial assistance. However, low (not non-existent) equity in relation to existing and projected debt -- the loan -- can be overcome with a strong showing in all the other credit factors.

Determining whether a company's level of debt is appropriate in relation to its equity requires analysis of the company's expected earnings and the viability and variability of these earnings. The stronger the support for projected profits, the greater the likelihood the loan will be approved. Applications with high debt, low equity, and unsupported projections are prime candidates for loan denial.

2. EARNINGS REQUIREMENTS

Financial obligations are paid with cash, not profits. When cash outflow exceeds cash inflow for an extended period of time, a business cannot continue to operate. As a result, cash management is extremely important. In order to adequately support a company's operation, cash must be at the right place, at the right time and in the right amount.

A company must be able to meet all its debt payments, not just its loan payments, as they come due. Applicants are generally required to provide a report on when their income will become cash and when their expenses must be paid. This report is usually in the form of a cash flow projection, broken down on a monthly basis, and covering the first annual period after the loan is received.

When the projections are for either a new business or an existing business with a significant (20% plus) difference in performance, the applicant should write down all assumptions which went into the estimations of both revenues and expenses and provide these assumptions as part of the application.

All SBA loans must be able to reasonably demonstrate the "ability to repay" the intended obligation from the business operation. For an existing business wanting to buy a building where the mortgage payment will not exceed historical rent, the process is relatively easy. In this case, the funds used to pay the rent can now be used to pay the mortgage. However, for a new or expanding business with anticipated revenues and expenses exceeding past performance, the necessity for the lender to understand all the assumptions on how these revenues will be generated is paramount to loan approval.

3. WORKING CAPITAL

Working capital is defined as the excess of current assets over current liabilities.

Current assets are the most liquid and most easily convertible to cash, of all assets. Current liabilities are obligations due within one year. Therefore, working capital measures what is available to pay a company's current debts. It also represents the cushion or margin of protection a company can give their short term creditors.

Working capital is essential for a company to meet its continuous operational needs. Its adequacy influences the firm's ability to meet its trade and short-term debt obligations, as well as to remain financially viable.

4. COLLATERAL

To the extent that worthwhile assets are available, adequate collateral is required as security on all SBA loans. However, SBA will generally not decline a loan where inadequacy of collateral is the only unfavorable factor.

Collateral can consist of both assets which are usable in the business and personal assets which remain outside the business. Borrowers can assume that all assets financed with borrowed funds will collateralize the loan. Depending upon how much equity was contributed towards the acquisition of these assets, the lender also is likely to require other business assets as collateral.

For all SBA loans, personal guarantees are required of every 20 percent or greater owner, plus others individuals who hold key management positions. Whether or not a guarantee will be secured by personal assets is based on the value of the assets already pledged and the value of the assets personally owned compared to the amount borrowed.

In the event real estate is to be used as collateral, borrowers should be aware that banks and other regulated lenders are now required by law to obtain third-party valuation on real estate related transactions of $50,000 or more.

Certified appraisals are required for loans of $100,000 or more. SBA may require professional appraisals of both business and personal assets, plus any necessary survey, and/or feasibility study.

Owner-occupied residences generally become collateral when:

1) The lender requires the residence as collateral;

2) The equity in the residence is substantial and other credit factors are weak;

3) Such collateral is necessary to assure that the principal(s) remain committed to the success of the venture for which the loan is being made;

4) The applicant operates the business out of the residence or other buildings located on

the same parcel of land.

5. RESOURCE MANAGEMENT

The ability of individuals to manage the resources of their business, sometimes referred to as "character," is a prime consideration when determining whether or not a loan will be made. Managerial capacity is an important factor involving education, experience and motivation. A proven positive ability to manage resources is also a large consideration.

Mathematical calculations on the historical and projected financial statements form ratios which provide insight into how resources have been managed in the past. It is important to understand that no single ratio provides all this insight, but the use of several ratios in conjunction with one another can provides an overall picture of management performance. Some key ratios all lenders review are: debt to worth, working capital, the rate at which income is received after it is earned, the rate at which debt is paid after becoming due, and the rate at which the service or product moves from the business to the customer.

SBA LOAN PROGRAMS AVAILABLE TO AN APPLICANT

SBA is Congressionally-mandated to assist the nation's small businesses in meeting their financing needs.

This is accomplished primarily through the 7(a); Certified Development Company (504); 7(m) (Microloan); and Small Business Investment Company (SBIC) lending programs.

Since the SBIC program involves lenders who provide equity capital in exchange for equity securities -- meaning the recipients give up some ownership, but not necessarily control,
in exchange for the funds -- discussion of this program is omitted from this module. Information on the SBIC program can be found in [LINK TO SBIC HOME PAGE].

The other three lending programs do not require ownership divestiture and constitute the SBA's business loan programs. Each of these is discussed here and each is designed to provide small business with the funds it needs for a particular financing need.

The 7(A) PROGRAM is the most flexible as it can provide financing for a variety of general purposes, such as to acquire or start up a business, or to meet very specific financing needs such as contract or export financing.

The CERTIFIED DEVELOPMENT COMPANY OR 504 PROGRAM was established to finance a portion of a business' fixed asset acquisition with a fixed interest rate loan in combination with third party financing and equity.

The MICROLOAN PROGRAM provides very small loans to eligible businesses needing limited amounts of borrowed funds. The SBA provides its funds to a micro lender who, in

turn, makes the actual loan to the business.

These programs constitute the selections which an applicant should know because they represent the choices available to the actual small business applicant.

THE BASIC 7(A) LOAN PROGRAM

7(a) loans are the most basic and most used of SBA's business loan programs. The name comes from section 7(a) of the Small Business Act, which authorizes the Agency to provide business loans to American small businesses. More than 91 percent of all business loans and 86 percent of all loan dollars provided by SBA during the Government's 1997 fiscal year were approved under the 7(a) program. In order to get a 7(a) loan, the applicant must first be eligible, then have sufficient credit merits (previously discussed), and then have a lender willing to participate with SBA in the loan making and administration process. The actual money comes from the lender, but the structure of the loan comes from SBA.

7(a) loans are only available on a guaranty basis. This means they are provided by lenders who choose to structure their own loans by SBA's requirements and who apply and receive a guaranty from SBA on a portion of this loan. The SBA does not fully guaranty 7(a) loans. The lender and SBA share the risk that a borrower will not be able to repay the loan in full. The guaranty is assurance against payment default. It does not cover imprudent decisions by the lender or misrepresentation by the borrower.

All 7(a) loans are provided by lenders, called "participants" because they participate with SBA in the 7(a) program. Not all lenders choose to participate, but most American banks do. There are also some non-bank lenders who participate with SBA in the 7(a) program which expands the availability of lenders making loans under SBA guidelines.

All 7(a) loans which SBA guarantees must meet 7(a) criteria. The business gets a loan from its lender with a 7(a) structure, and the lender gets an SBA guaranty on a portion or percentage of this loan. Hence, the primary business loan assistance program available to small business from the SBA is called the 7(a) guaranty loan program.

Under the guaranty concept, commercial lenders make and administer the loans. The business applies to a lender for financing. The lender decides if they will make the loan internally or if the application has some weaknesses which, in their opinion, requires an SBA guaranty if the loan is to be made. The guaranty which SBA provides is only available to the lender. It assures the lender that in the event the borrower does not repay their obligation and a payment default occurs, the Government will reimburse the lender for its loss, up to the percentage of SBA's guaranty. Under this program, the borrower remains obligated for the full amount due.

Lenders generally seek an SBA guaranty after they have evaluated the credit merits of the application and determined that additional support, in the form of an SBA guaranty, is needed. Through its guaranty, SBA is able to assist tens of thousands of businesses each year obtain financing that would otherwise not be available.

A key concept of the 7(a) guaranty loan program is that the loan actually comes from a commercial lender, not the Government. If the lender is not willing to provide the loan, even if they may be able to get an SBA guaranty, the Agency can not force the lender to change its mind. Neither can SBA make the loan by itself because the Agency does not have any money to lend. Therefore, it is paramount that all applicants approach the lender for a loan positively, and that they know the lender's criteria and requirements as well as those of the SBA. In order
to obtain positive consideration for an SBA-supported loan, the applicant must be both eligible and creditworthy.

7(A) LOAN ELIGIBILITY CRITERIA

All applicants must be eligible to be considered for a 7(a) loan.

The eligibility requirements are designed to be as broad as possible in order that this lending program can accommodate the most diverse variety of small business financing needs. Some criteria are applicable to all businesses -- such as being able to meet SBA size standards, be for-profit, not already have the internal resources (business or personal) to provide the
financing, and be able to demonstrate repayment.

Other eligibility criteria are apply only to those businesses seeking a particular variation of the 7(a) loan program, which is designed to meet a special credit need -- such as for an
applicant involved in exporting, seeking financing for a contract or seasonal need, or borrowing against their existing inventory and receivables.

Eligibility factors for 7(a) loans include: size, type of business, use of proceeds, and the availability of funds from other sources.

SIZE:

SBA defines a small business as one that is independently owned and operated, not dominant in its field, which also meets the employment or sales standards developed by the Small Business Administration based on the Standard Industrial Classification (SIC) Code for the applicant business. In general, the following criteria are used by SBA to determine if a concern qualifies as a small business:

(1) WHOLESALE - not more than 100 employees;

(2) RETAIL or SERVICE - Average (3 year) annual sales or receipts of not more than $5.0 to $21.0 million, depending on business type;

(3) MANUFACTURING - Basically not more than 500 employees, but in some cases up to 1,500 employees;

(4) CONSTRUCTION - Average (3 year) annual sales or receipts of not more than $7.0

to $17.5 million, depending on the specific business type.

If your business does not fit one of these criteria, contact your local SBA office for a specific ruling on your business, as there are numerous exceptions to the basic size policy outlines above. A listing of local SBA offices can be found in [LINK TO LOCAL SBA OFFICES SITE].

TYPE OF BUSINESS:

SBA can provide financial assistance to most small businesses. However, the Agency cannot make loans to a business engaged in any of the following types of activities:

(1) Financing real property to be held for sale or investment;

(2) Non-Profit Organizations;

(3) Gambling, Speculation, Lending or Investment;

(4) Monopolies and businesses engaged in pyramid sales plans.

(5) Illegal business activities or those which violate the Constitution;

PURPOSE OF LOAN:

7(a) loan proceeds may be used to establish a new business or to assist in the operation, acquisition or expansion of an existing business. 7(a) loans may be made for one or more of the following business purposes (non-exclusive):

(1) To purchase land or buildings, to cover new construction as well as expansion or conversion of existing facilities;

(2) To acquire equipment, machinery, furniture, fixtures, supplies, or materials;

(3) For long term working capital including the payment of accounts payable and/or for the purchase of inventory;

(4) To refinance existing business indebtedness which is not already structured with reasonable terms and conditions;

(5) For short term working capital needs including: seasonal financing, contract performance, construction financing, export production, and for financing against existing inventory and receivable under special conditions; or

(6) To purchase an entire existing business.

There are certain purposes for which SBA loan proceeds can not be used. Ineligible purposes include:

(1) To refinance existing debt where the lender is in a position to sustain a loss and SBA would assume that loss through refinancing;

(2) To effect a partial change of business ownership or a change that will not benefit the business;

(3) To permit the reimbursements of funds owed to any owner. This includes any equity injection, or injection of capital for the purposes of business continuance until the loan supported by SBA is disbursed;

(4) To repay delinquent state or federal withholding taxes or other funds that should be held in trust or escrow; and

(5) For a non-sound business purpose.

AVAILABILITY OF FUNDS FROM OTHER SOURCES:

The Federal Government also does not want to be involved with extending credit to businesses where the financial strength of the individual owners or the company itself is sufficient to provide all or part of the financing without taxpayer support.

The utilization of both the business and personal financial resources are reviewed as part of the eligibility criteria and, if found excessive, will be required to be used in lieu of part or all of the requested loan proceeds.

CHARACTER CONSIDERATIONS:

SBA must determine if the principals of each applicant firm have historically shown the willingness and ability to pay their debts and whether they abide by the laws of their community. The Agency must know if there are any factors which impact on these issue. Therefore, a "Statement of Personal History" is obtained from each principal.

OTHER ASPECTS OF THE BASIC 7(a) LOAN PROGRAM

In addition to credit and eligibility criteria, an applicant should be aware of the general types of terms and conditions they can expect if SBA is involved in the financial assistance. The specific terms of SBA loans are negotiated between an applicant and the participating financial institution, subject to the requirements of SBA.

In general, the following provisions apply to all SBA 7(a) loans. The special loan programs are enumerated later and, where necessary, special provisions are pointed out.

MATURITY:

The actual approved maturity varies according to the prudent economic life of the assets being financed and the applicant's ability to repay -- subject to the following maximums:

PURPOSE	LOAN LIFE
For working capital	Maturity up to 7-10 years
For machinery & equipment	Maturity up to 10-25 years
For building construction or purchase	Maturity up to 25 years

Maturity is a function of a business's ability to repay. All loans supported by the SBA shall be repaid over the shortest possible time period, without causing undue hardship to the cash flow of the business.

When loan proceeds will be used for a combination of purposes, the maximum maturity can be a weighted average of those maturities, which results in level payments. Or, it can be the sum of equal monthly installments on the allowable maturities for each purpose, which results in unequal payments, with a higher requirement for repayment during the initial term of the loan.

INTEREST RATES:

Interest rates are negotiated with the lender. They are tied to the prime rate and may be fixed or variable. However these rates cannot exceed SBA maximums of up to 2.25 percent over prime for loans of less than seven years, and up to 2.75 over prime for loans of seven years or longer. Loans of $50,000 or less may be subject to slightly higher rates in order to induce lenders to make these smaller loans.

The interest rate for guaranteed loans reflect prevailing market rates and can either be fixed over the life of the loan or can fluctuate with the market. Most 7(a) loans are amortized with a variable rate structure.

PERCENTAGE OF GUARANTY:

As previously stated, the SBA provides its guaranty on only a portion of the total financing provided by the lender, not the entire amount. This is done to both stretch the limited resources of the SBA so it can reach more small businesses and to make sure the lender maintains a certain amount of risk on every loan. As a result, there is a lender share and an SBA share of each loan. The SBA share is also known as the guaranteed portion.

The maximum amount of SBA's share may not exceed $750,000 to any one business, including its affiliates. By law, there are several specific exceptions:

- The Pollution Control Loan Program, which has an SBA share limitation of $1,000,000;

- The International Trade Loan Program, which has an SBA share limitation of $1,000,000 unless this type of loan is accompanied by an Export Revolving Line of Credit loan where the combined limit is increased to $1,250,000; and

- The DELTA Loan Program, which has a total dollar limit of $1,250,000.

The maximum amount of SBA's guaranty may not exceed 75 percent regardless of the total dollar amount of the loan to any one business, including its affiliates. By law, there are several specific exceptions:

- SBA may guaranty up to 80 percent of any loan for $100,000 or less, unless the applicant has other loans guaranteed by SBA which in combination with the proposed loan exceed $100,000 in total.

- SBA can guaranty a loan under the DELTA program for 80 percent.

- SBA can guaranty a loan under the Export Working Capital Loan Program up to 90 percent.

Therefore, for all loans except as referenced above, the maximum loan amount with the maximum percentage of guaranty would be $1.0 million with a 75 percent guaranty. In this case the SBA share would be $750,000.

There is no prohibition against SBA making loans over $1.0 million, but in these cases, the percentage of guaranty would be less than the maximum. As an example, SBA could provide a 50 percent guaranty on a loan for $1.5 million.

GUARANTY FEE:

When a guaranty loan is approved, the participating lender must pay SBA a guaranty fee. This fee can, and almost always is, passed on to the borrower at disbursement. The borrower can pay this fee from the working capital loan proceeds of the loan. This fee is based on the maturity of the loan and the amount of the SBA share.

For loans with a maturity of 12 months or less, the fee is 1/4 of 1.0 percent of the guaranteed portion of the loan.

For loans with a maturity exceeding 12 months, the fee is:

3.0 percent on the first $250,000 SBA share;
3.5 percent on the next $250,000 of SBA's share; and
3.875 percent on the final portion of SBA share.

Example: On a loan for the total amount of $600,000 with a 75 percent guaranty, the guaranteed portion would equal $450,000. The guaranty fee would be $7,500 ($250,000 X 0.03) plus $7,000 ($200,000 X 0.035) for a total of $14,500.

SPECIAL 7(a) LOANS:

The SBA has available a variety of specialized 7(a) loan programs which are designed to meet a particular type of credit need for the small business borrower. Each special purpose loans has particular conditions, in addition to (or in lieu of) those required for a basic 7(a) loan. These alternative rules are established to ensure that the particular need is prudently provided and administered.

ENERGY CONSERVATION LOANS

SBA may make or guarantee loans to assist a small business to design, engineer, manufacture, distribute, market, install, or service energy devices or techniques designed to conserve the Nation's energy resources. Eligible energy conservation devices or techniques include: solar thermal equipment; photovoltaic cells and related equipment; a product or service which increases the energy efficiency of existing equipment, methods of operation or systems which use fossil fuels, and which is on the Energy Conservation Measures list of the Secretary of Energy; equipment producing energy from wood, biological waste, grain or other biomass energy sources; equipment for cogeneration of energy, direct heating or production of energy from industrial waste; hydroelectric power equipment; wind energy conversion equipment; and engineering, architectural, consulting, or other professional services necessary or appropriate to accomplish the other conservation devices.

Loan proceeds may be used to acquire land necessary for imminent plant construction, buildings, machinery, equipment, furniture, fixtures, facilities, supplies, and material needed to accomplish any of the eligible program purposes, and for research and development of an existing or a new product or service; or for working capital.

In addition to regular credit evaluation criteria, SBA shall weigh the greater risk associated with energy projects. SBA shall consider such factors as quality of the product or service, technical qualifications of the applicant's management, sales projections, and financial status.

This program is not designed for the end user, which is a way of saying these loans are not for the business that wants to acquire and use the energy measure itself. This program is for the person who builds, installs, or services these energy measures. The end user can finance their energy measures by using the basic 7(a) program.

POLLUTION CONTROL LOAN PROGRAM

This program is available to the end user for the purpose of planning, designing or installing a "pollution control facility." This term is rather loosely defined to include most real or personal property which will reduce pollution. The program has a maximum SBA exposure of $1 million less any outstanding balance due SBA on other loans.

Businesses that wants to build, installs, or services a pollution control facility can use the basic 7(a) program to accomplish their desired purpose.

NOTE: There is nothing different in this program from the basic 7(a) loan other than the maximum amount of SBA's exposure and the fixed-asset-only use of proceeds.

DEFENSE ECONOMIC TRANSITION ASSISTANCE (DELTA)

One of SBA's newest programs is Defense Economic Transition Assistance which helps eligible small business contractors transition from defense to civilian markets.

A small business is eligible if it has been harmed by the closure (or substantial reduction) of a Department of Defense (DoD) installation, or the termination (or substantial reduction) of a Department of Defense Program on which the small business was a prime contractor, subcontractor, or supplier at any tier. In addition a business can be deemed eligible if it is located in community that has been harmed by these same actions.

The DELTA program provides financial and technical assistance to defense-dependent small businesses which have been adversely affected by defense reductions. The goal of the program is to assist these businesses to diversify into the commercial market while remaining part of the defense industrial base. Complete information on eligibility and other rules is available from each SBA district office.

U.S. COMMUNITY ADJUSTMENT AND INVESTMENT PROGRAM (CAIP)

A loan program designed to provide financing for businesses negatively impacted by unfair trade practices resulting from the North American Free Trade Agreement (NAFTA). Eligible recipients must be located in, or relocating to, a specific geographic area designated by the U.S. Treasury and the North American Development Bank. A listing of these areas can be found in [LINK TO THE LIST YOU DO NOT WANT TO PUT UP WITHOUT GOING THROUGH THE CLEARANCE PROCESS -- CAN WE CONSIDER IT PART OF THIS DOCUMENT WHICH IS BEING REPLACED?]

The CAIP program has a jobs criteria. To be eligible, all applicants must provide a written estimate of the number of jobs to be created or preserved within 24 months of the loan's disbursement. This number must not be less than the amount of the SBA share on the proposed loan divided by $70,000.

The guaranty of a CAIP loan is available to lenders through either the Business & Industrial loan program of the U.S. Department of Agriculture or the 7(a) loan program of SBA depending on whether the applicant business is located in a rural or urban area. SBA processes the applications on behalf of urban applicants and USDA processes the applications on behalf of rural applicants. Rural is defined as any area outside of a city and its immediate urbanized or urbanizing area with a population of 50,000 or more. SBA can process applications from businesses located in rural areas if requested by the lender. The requirement for payment of a guaranty fee is waived for this program. Except as referenced above, standard 7(a) criteria apply for all CAIP loans.

GUARANTEED LOANS TO QUALIFIED EMPLOYEE TRUSTS

SBA can guaranty financing to eligible employee trusts in order to allow them to re-lend these funds to an employer concern or to permit the employees to buy the employer concern. Eligible employee trusts are those which meet SBA's size and policy requirements and which are part of a plan sponsored by their employer concern and qualified under either the Internal Revenue Code (as an Employee Stock Ownership Plan (ESOP)), or the Department of Labor (under the Employee Retirement Income Security Act (ERISA)).

Loan proceeds may be used by the employee trust for:

- Growth and development loans, whereby the trust relends loan proceeds to the employer by purchasing qualifying employer securities (not necessarily voting stock), or

- Change of ownership loans, whereby employees acquire controlling interest in the employer concern.

Collateral will include the assets of the employer concern.

INTERNATIONAL TRADE LOAN PROGRAM

The International Trade Loan Program is available to assist small businesses engaged or preparing to engage in international trade and small businesses adversely affected by competition from imports.

To be considered for a loan, an applicant must establish that:

- The loan proceeds will significantly expand an existing export market or develop new export markets; or

- The applicant business is adversely affected by import competition; and upgrading facilities or equipment will improve the applicant's competitive position.

The borrower may use loan proceeds to acquire, construct, renovate, modernize, improve, or expand facilities and equipment to be used in the United States to produce goods or services involved in international trade (fixed asset portion) or for working capital which can be used to develop/penetrate foreign markets (non-fixed asset portion).

SBA's maximum guaranty on these loans is $1,000,000 less any outstanding SBA guaranty. Loan maturity will be consistent with the borrower's ability to repay and will generally adhere to the limits of 7 years for working capital and 25 years for real estate.

EXPORT WORKING CAPITAL PROGRAM (EWCP)

Under the EWCP, SBA guarantees short-term working capital loans made by participating lenders to exporters. Loan maturities may be for up to three years with annual renewals. Proceeds can be used only to finance export transactions. Loans can be for single or multiple export transactions. An export transaction is the production and payment associated with a sale of goods or services to a foreign buyer.

In addition to the eligibility criteria applicable to all 7(a) loans, an applicant must be in business for one full year at the time of application, but not necessarily in the exporting business. SBA may waive this requirement if the applicant has sufficient export trade experience or other managerial experience.

Loan proceeds may be used: to acquire inventory; to pay the manufacturing costs of goods for export; to purchase goods or services for export; to support standby letters of credit; for pre-shipment working capital; and for post-shipment foreign accounts receivable financing.

A borrower must give SBA a first security interest sufficient to cover 100 percent of the EWCP loan amount (such as insured accounts receivable or letters of credit). Collateral must be located in the United States, its territories or possessions.

EWCP applicants must submit cash flow projections to support the need for the loan and the ability to repay. After the loan is made, the loan recipient must submit continual progress reports. SBA does not limit the amount of extraordinary servicing fees under the EWCP. SBA does not prescribe the interest rates for the EWCP, but will monitor these rates for reasonableness.

COMBINATION INTERNATIONAL TRADE AND EWCP LOANS

Borrowers needing both fixed assets and revolving working capital for exporting, can get both an IT and an EWCP loan. When done, the maximum SBA share can be no higher than $1.25 million providing the fixed asset portion is no more than $1.0 million and the non-fixed portion is not more than $750,000.

CAPLines LOANS

The name CAPLines signifies the umbrella under which the Agency has placed all of its short term, revolving and non-revolving working capital loan or line of credit programs except those dedicated entirely to exporting. SBA regulations governing the 7(a) Loan program govern business loans made under CAPLines and SBA can guarantee up to $750,000 to any one business. CAPLines proceeds can be used to finance the cyclical, recurring, or other identifiable short-term operating capital needs of small businesses. Proceeds can be used to create current assets or used to provide financing against the current assets that already exist. There are five different sub-programs under the overall umbrella. Each is designed to address various short term credit situations which small businesses may need financed. Each sub-program has its own unique requirements. There are also universal requirements applying to all loans processed under the umbrella such a five-year maximum maturity and not being available for start-up businesses.

BUILDER'S CAPLines

SBA may make or guarantee loans to finance small general contractors to construct or rehabilitate residential or commercial property for resale. This program provides an exception under specified conditions to the general rule against financing investment property. "Construct" and "rehabilitate" mean only work done on-site to the structure, utility connections, and landscaping.

A construction contractor or home-builder with a history of profitable construction or rehabilitation on comparable type and size projects may apply. An applicant may subcontract the work. Subcontracts in excess of $25,000 may require 100 percent payment and performance bonds.

Special documentation includes: A mortgage lender indicating that permanent mortgage money is available to qualified purchasers for such property; A real estate broker indicating that a market exists for the proposed building and that it will be compatible with its neighborhood; and an architect, appraiser or engineer agreeing to make inspections and certifications to support interim disbursements.

A borrower must use the loan proceeds solely to acquire, construct or substantially rehabilitate an individual residential or commercial building for sale. "Substantial" means rehabilitation expenses of more than one-third of the purchase price or fair market value at the time of the application. A borrower may use up to 20 percent of the proceeds to acquire land, and up to 5 percent for community improvements such as curbs and sidewalks.

SEASONAL CAPLines

Seasonal CAPLines provide the short-term working capital needs of eligible small businesses by financing the seasonal increases in the trading assets (receivables and inventory), the liquidation of which repays the loan at the end of each season. Loans may be made on a revolving or non-revolving basis but in either case, a cleanup period of not less than thirty (30) days shall occur. The borrower must agree that funds advanced will not be used for any purpose other than labor and the seasonal build-up of inventory and receivables.

Applicants must have been in operation for the 12 calendar months preceding the date of application and must have a definite, established pattern of seasonal activity and otherwise meet SBA eligibility and size requirements. Only one seasonal line of credit may be outstanding at any one time. The maximum duration of a seasonal line of credit's cycle may not exceed 11 months.

The Seasonal CAPLines provides the additional working capital a business needs to accommodate seasonal upswing in business. It provides funds for the buildup of inventory, increase in receivables and, in some cases, increase in labor costs associated with an identifiable seasonal upswing. Funds are not provided to maintain activity during the slow periods of the cycle, but are provided in anticipation of cash to be received at the conclusion of an identifiable

seasonal cycle.

CONTRACT CAPLines

Contract CAPLines are used to guaranty the financing required to cover the estimated direct short-term working capital needs in order to perform on assignable contract(s). Prior to the initial disbursement, the borrower must have already been awarded the contract, the proceeds of the contract must be assigned directly to the lender as collateral because it will be the primary source of repayment, and there must be a third party acknowledgement of the assignment at the lenders before disbursement.

The applicant should be able to demonstrate an ability to profitably operate based on the prior completion of similar contracts. The contractor must possess the overall ability to bid, accurately project costs, and perform the specific type of work required by the contract(s). Management must have the resources and technical expertise to complete the contract on time and at a profit. The ability of management to know its costs, price its services, understand the timing of its cash needs, and make a profit determines if the loan is approved.

This program is established to finance the labor and material costs on specific contract(s). The business must provide a specific service or product under an assignable contract. This form of loan shall not be used to finance existing receivables or inventory.

In addition to the standard application documents and forms, applicants for the Contract sub-program must submit cash flow projections for the specific contract(s) under consideration (for the full contract period) and a one year, month-by-month cash flow for all work the borrower will be performing, including the contract(s) being financed.

STANDARD ASSET BASED CAPLines

The Standard Asset Based CAPLines provides a guaranty to lenders providing asset based lending (ABL) under SBA requirements. Only selected lenders participate in this program with SBA. Recipients uses the value of their existing inventory and accounts receivable to borrow against, so they have sufficient cash to acquire new current assets while they wait for the existing current assets to be converted to cash. Proceeds received from the collection of accounts receivable and cash from inventory sales are used to repay the loan. These loans are revolving in nature meaning the business continually borrows to obtain replacement assets and repays as the cash becomes available. The business uses its existing short term assets, which will become cash in the future, to obtain working capital in the present.

These loans are secured by the inventory and receivables which were financed with loan proceeds. This program is available to small businesses which are unable to obtain revolving lines of credit without guaranty support and who show the ability to comply with the servicing requirements that are imposed to prudently assure the revolving nature of these loans is maintained. Draws against and repayment of principal back to the line must be made throughout the term of the loan in relation to the borrower's cash cycle. This cycle is the time from borrowing, plus the time needed to obtain and sell the inventory, generate a receivable,

and get paid. No provisions exist to permit the payment of only interest past the conclusion of one cash cycle following initial disbursement.

The borrower also provides a listing of its current inventory and receivables to the lender each month. The value of the assets listed becomes the basis for the amount lent, which is also known as a borrowing base.

Lenders shall make both initial and periodic examinations of the borrower's current assets which serve as collateral and forms the borrowing base, along with the continual monitoring of financial data and control of the proceeds generated by the business from having the use of the Standard Asset Based proceeds.

All cash (or near cash) collected from the customers of the borrower that resulted from the sale of inventory or the collection of receivables shall be placed in an account under the lender's control and used as a means of paying down the borrower's indebtedness.

The Asset Based programs of CAPLines are distinctly different from the Seasonal, Contract, and Builders programs because under the ABL concept, lending is based on what exists rather than what will be developed.

SMALL ASSET BASED CAPLines

This specialized 7(a) program is a simplified version of the Standard Asset Based CAPLines available for more creditworthy small businesses needing smaller lines of credit. The maximum loan amount shall not exceed $200,000. Multiple small asset based lines are not authorized.

Recipients of Small Asset Based loans must demonstrate capabilities to meet higher credit standards than under the Standard Asset Based program by showing repayment ability from cash flow based on the requested loan amount being amortized over not more than 7 years. A borrowing base review is also required monthly and only current asset supported lines of credit may be accepted for processing.

Following is a Summary Chart of the Special Loan Programs which fall under the 7(A) umbrella. If the term "Standard" is used, it means the criteria for these programs are no different than for the basic 7(a) program which has been described above.

PROGRAM	MATURITY	ELIGIBILITY	SPECIAL FEATURES
Pollution Control	Standard	Standard plus loan proceeds available for a pollution	SBA share up to $1,000,000

		control facility.	
Energy Conservation	Standard	Standard plus loan proceeds available for energy conservation measures.	Program for the provider, not the end user.
Defense Economic Transition Assistance (DELTA)	Standard	Standard plus to assist businesses' transition defense to civilian work or help those adversely impacted by base closures or defense cutbacks.	Total Loan limit of $1,250,000
U.S. Community Adjustment and Investment Program (CAIP)	Standard	Standard plus limited to businesses negatively impacted by the North American Free Trade Agreement (NAFTA) who create or preserve jobs.	Guaranty Fee paid by by the SBA, not lender and borrower. Urban applications processed by SBA. Rural applications processed by USDA.
Qualified Employee Trust or Stock Ownership Program	Standard	Standard plus proceeds to permit the employees to buy the employer concern.	Applicants must comply with either U.S. Treasury ESOP or Dept. of Labor ERISA rules.
International Trade	Standard	Standard plus business negatively impacted by importing or involved with exporting. A program to get fixed assets for export production.	SBA share up to $1,000,000, unless combined with EWCP, then up to $1,250,000
Export Revolving Line of Credit (EWCP)	Up to 36 months	Standard plus proceeds used to finance export transaction(s).	Proceeds from the completion of the export transaction will collateralize the loan.
Seasonal CAPLines	Up to 60 months	Standard plus proceeds to finance the short term seasonal working capital needs of borrower	30 day clean up (zero balance) requirement.

Contract CAPLines	Up to 60 months	Standard plus proceeds used to finance the direct labor and material coast need to perform on contract(s)	Contract must be assignable. Can revolve for multiple contracts and/or large dollar contract financing.
Builders CAPLInes	Up to 60 months	Standard plus limited to contractors engaged in the building trades. Designed for speculation. Must be sold to third party.	Used for either new construction or rehabilitation of existing structure.
Standard Asset-Based CAPLines	Up to 60 months	Standard plus not applicable to startup firms. Funds collected from receivable payment must be used to pay down loan.	Lending against existing inventory and receivables. Monitoring and examination requirements on lender.
Small Asset-Based CAPLines	Up to 60 months	Simplified version of Standard Asset Based. Recipients must show standard repayment. Funds collected from receivable payment must be used to pay down loan.	Lending against existing inventory and receivables. No monitoring and examination requirements on lender.

7(a) LOAN PROGRAMS AVAILABLE TO THE LENDER

SBA's 7(a) programs are designed to deliver the greatest amount of money to the most small businesses with the least amount of actual taxpayer expense. To accomplish this, the SBA currently offers to guaranty loans made by non-Government lenders rather than provide the loan funds itself. The money come from the lenders. Taxpayer funds are used only in the event of borrower default. This reduces the risk to the lender, but not to the borrower, since the borrower remains obligated for their full debt, even if they default.

Banks, savings and loan institutions, credit unions, and other specialized lenders participate with SBA to provide small business loans that are structured under 7(a) guidelines. The lender then applies to SBA for a guaranty of their proposed loan and the SBA makes its decision to provide these lenders with a guaranty.

SBA offers its participants -- the lenders -- a variety of methods for applying for a guaranty on their proposed loans. The differences between these methods are related to the levels of authority and responsibility the lender and SBA have in making the decisions associated with processing, closing, and administering each loan.

SBA gives lenders authority to take on more of the responsibilities associated with loan making and administration, based on the lenders' historical experience and performance with SBA. The better a lender has conducted its analysis and performed the administrative functions in the past, the more likely SBA will not have to re-analyze or check these factors in the future.

Every guaranteed 7(a) loan has certain common procedures. The applicant completes the application forms required by the lender. Sometimes applicants by-pass this step by completing a standard SBA application before visiting the lender. This way they avoid having to duplicate document completion, but this process is valid only if the lender chooses to make the loan with an SBA guaranty. Lender applications are fairly standard. Basically, they are designed to gather sufficient information to determine: Where has the business been, Where it is now, and Where is it going once the assets to be acquired with the loan proceeds are combined with the existing assets of the business. The process also requires that the individuals who own and manage the
business to report their experiences and the status of their personal financial condition.

Once the application is completed and submitted to the lender, it will be reviewed for its credit and management merits. The lender makes accurate calculations and analysis of the financial ratios of the business, assesses the collateral and equity, prepares a proforma balance sheet -- a depiction of how the business will look after it receives the loan proceeds --, visits the
applicant's place of business, orders and reviews credit reports on both the business and its owners, checks to be sure all necessary exhibits are supplied, and determines whether the applicant can repay the loan.

The results of these reviews and analysis are included in the lenders' own internal loan report, and becomes part of the overall documentation and loan file.

Once the lender's analysis is concluded, they will make one of three decisions:

A) Approve the loan entirely by themselves (internal bank loan);

B) Approve the loan subject to a Federal Guaranty in which case it can be sent to SBA who may also review the application and lender's analysis before making its own determination; or

C) Decline the loan both internally and/or even with the participation of SBA.

When a lender chooses the SBA guaranty option, they must certify that they would only make the loan if SBA provides its guaranty. A lender also has to understand SBA's requirements and policies because they do not want to forward applications to SBA that will not meet Agency's standards or want to jeopardize the protection of the guaranty with incorrect administration.

When a lender's loan is guaranteed by SBA, certain conditions for guaranty are imposed on the lending institution. Some of these conditions are related to how the lender must close and administer the account. Other conditions pertain to the business or its owner(s) and are imposed on the borrower. The borrower agrees to these requirements as a condition for obtaining the loan.

LENDER CHOICES

SBA can process a lender's request for guaranty using a variety of methods. This is simply because not all lenders or loans are the same. Some lenders are very experienced in making SBA loans while others come to SBA infrequently. Some loans involve uncommon structures or unique purposes for the money while other loans are very straight-forward or for small amounts. To accommodate the variety of lenders and loans, the SBA has designed no less than five ways to process and deliver its guaranty to a lender. The lender chooses the method, providing they are qualified to use the method chosen.

The most frequently used methods by which a lender applies for a guaranty include Regular, Certified, Preferred, Low Documentation (Low Doc), and FA$trak. There are also other methods for particular loan programs like the Export Working Capital Program.

REGULAR, CERTIFIED AND PREFERRED LENDERS

THE REGULAR DELIVERY PROGRAM

Lenders who are approved by the SBA to receive a guaranty on the loan(s) they make to small business under the requirements of the 7(a) loan program. In the regular delivery program, the lender submits a completed loan application to the appropriate local SBA office. This is the office which covers the territory where the applicant business is located.

SBA has over 65 local offices with at least one in every state. Under this method, the SBA completely analyzes the application and gives the lender its decision regarding whether it will issue a guaranty. SBA allows three working days to make sure all the documents needed for a determination are present and properly signed and ten days to conduct its analysis. If approved, SBA issues a loan authorization which details the terms and conditions of this approval.

The processing of guaranteed loan applications under the regular method, to a certain extent, duplicates the work already performed by the participating lenders. This process is generally used for lenders who do not seek a guaranty frequently or where the particular type of loan requested is sufficiently complex, involves negative character issues, or is for one of SBA's special credit needs programs which do not allow for more expedient processing. Generally all post-approval actions recommended by lenders also require the concurrence by SBA.

EXPEDITIOUS PROCESSING AND DELIVERY

SBA has other methods of processing requests for guarantees from lenders which eliminate

some of the duplication of analysis and paperwork. These methods include the Certified Lenders Program (CLP) and the Preferred Lenders Program (PLP). These programs are designed to provide faster response on requests for guaranty by relying more heavily upon the lender's experience in making and servicing SBA loans. The PLP method is particularly fast because it allows the lender wider latitude in structuring, servicing and liquidating their loans. Both these programs require less SBA staff time than the regular method, which allows SBA to better utilize its limited resources while improving service and handling a greater volume of loan applications.

THE CERTIFIED LENDER'S PROGRAM

The Certified Lenders Program (CLP) is designed to provide expeditious service on loan applications received from lenders who have successful SBA lending track records and a thorough understanding of SBA policies and procedures. CLP lenders are expected to perform a complete analysis of the application and, in return, SBA promises a fast loan decision. SBA reviews the lender's credit analysis rather than conducts a second analysis. SBA still makes the final credit and eligibility decision but, by completing a credit review instead of an independently conducting analysis, SBA strives for three-day (working days) turn around in arriving at its decision.

The key aspect of CLP is the greater utilization of the credit knowledge of the lender's loan officers to shorten SBA's loan processing time. SBA still makes an independent determination as to whether the applicant can repay the loan from the profits of the business, but under CLP, the lenders work is reviewed rather than completely double checked.

THE PREFERRED LENDER'S PROGRAM

The Preferred Lenders Program (PLP) is another step in SBA's process of "streamlining" the procedures necessary to provide financial assistance to the small business community by maximizing the use of qualified, private lenders in the Agency's financial assistance delivery system. Under PLP, SBA delegates loan approval, closing, and most servicing and liquidation authority and responsibility to these carefully selected lenders. SBA still has to check eligibility under this program.

Each PLP lender is given full authority and responsibility for handling almost all aspects of the guaranteed business loan program, including determining the loan applicant's eligibility and creditworthiness, closing the loan, servicing the loan and, if necessary, liquidating the loan. PLP participants have full authority to approve SBA-guaranteed loans without first sending application packages to SBA.

PLP lenders are nominated based on their historical record with the Agency and selected from the best-performing CLPs. They must have demonstrated a proficiency in processing and servicing SBA-guaranteed loans. The credit criteria for PLP loans in the same as that for the CLP and/or the Regular 7(a) program. In the event of payment default by the borrower and the need for enforced collections, the PLP lender agrees to liquidate all business assets before asking SBA to honor its guaranty and reimburse the lender for the deficiency owing.

THE LOW-DOC DELIVERY METHOD

The Low Documentation or Low-Doc Program is SBA's quick and easy program for providing a guaranty on small business loans of $150,000 or less. SBA will guaranty up to 80 percent of the loan if it is for $100,000 or less (in combination with any other SBA loans). After the lender has decided to use Low Doc procedures, meaning they have already analyzed a complete application using their own internal documents and procedures, they have the applicant complete the front of a one-page SBA application while they completes the back. For loans of more than $50,000 the applicant must includes a copy of their Federal Tax Return Schedule C or the front page of their corporate or partnership return for the past three years. Personal financial statements are required for all guarantors.

There is also a alternative size standard for the businesses whose application is processed from the lender under Low-Doc procedures. The standard size standard can be used or the applicant concern can be deemed size eligible if its average annual sales for the preceding three years do not exceed $5 million and the business employs 100 or less persons, including affiliates.

Application which can not be processed under LowDoc procedures include those submitted from businesses which are owned by persons with a criminal past or blemished personal credit history, as well as for a business seeking to use the loan proceeds for any purpose other than what is offered under the basic 7(a) program.

FA$TRAK

A method of loan processing and delivery of the guaranty for a few selected lenders who are willing to obtain only a 50 percent guaranty in exchange for the ability to use their own application and documentation forms.

Loans processed under FA$trak procedures are limited to $100,000 loans. The lender agrees to fully liquidate all assets before requesting SBA to honor its guaranty.

PRE-QUALIFICATION

SBA is presently experimenting with alternative methods of providing its guaranty on loans made by lenders for applicants who are part of an under served market. Under served clients currently include minority owned and women-owned businesses. The pre-qualification process allows the application documents to be evaluated by SBA before they are submitted to a lender.

Under pre-qualification procedures, the under served applicant takes their application documents to a pre-qualification intermediary. Their job is to work with the applicant to make sure the business plan is complete and that the application is both eligible and has credit merit. If the intermediary is satisfied that the application has a chance for approval, they will send it to the SBA for processing. To find out whether there is a pre-qualification intermediary operating in your area, contact your local SBA office.

SBA conducts a thorough analysis of the case, using the same time frame and degree of analysis that it uses when processing requests under the regular method of delivery process. If SBA decides the application is eligible and has sufficient credit merit to warrant approval, it will issue a commitment letter on behalf of the applicant, that informs the reader of SBA's willingness to guaranty a loan made by a lender under certain terms and conditions. The applicant then takes the letter and their application documents to a lender for their decision.

RECAP OF PROGRAMS FOR LENDERS

The following is a Summary Chart of the various Methods of Delivery SBA has to offer Lenders when seeking a 7(a) Guaranty on the loan they propose to make to a small business. These methods of delivery have been described above.

METHOD OF DELIVERY	REQUIRED BANK DOCUMENTS	REQUIRED SBA DOCUMENTS	PROCESSING TIME
REGULAR	Standard Bank Application Package	Standard SBA Application Package (See Below)	3 Days For Screening, 10 Days For Processing
CERTIFIED	Standard Bank Application Package	Standard SBA Application Package plus Lender's Draft Authorization	3 Day Screening and Processing
PREFERRED	Standard Bank Application Package	SBA Form 4I and PLP Eligibility Checklist	1 Day Processing
LOW-DOC	Standard Bank Application Package	Special Low-Doc Application - Provided by Lender	3 Day Screening and Processing
FA$Trak	Bank Application Package	FA$Trak Application and Eligibility Checklist	1 Day Processing

APPLICATION PROCEDURES

SBA loans are guaranteed loans. The actual funds come from SBA participants (lenders). They make the decisions on whether to apply to SBA for a guaranty on their loan. Therefore, the keys to successfully achieve a business loan is to be adequately prepared before applying and to work with the lender during their processing.

The basic loan application includes a written statement describing the business -- including the process by which it generates income, a brief history on how it started and got to the point where it now seeks the financing, the purpose of the requested loan proceeds, and an explanation of how the loan will be repaid. This latter portion generally requires the most
thought and time as it involves preparing and justifying assumptions about the income and expenses of the business as if the loan funds have been received.

Applications also include historical and current financial statements. If the loan request is to be considered by SBA, these statements must be current, that is, within 90 days of application. Since most business loan applications are not requested right after the close of a businesses fiscal year, there is a need for updating a balance sheet, profit and loss or income statement, and a reconciliation of the net worth. This usually necessitates the generation of an additional set of
financial statements.

SBA recognizes that the loan application process can appear involved and even complicated to persons unfamiliar with the process. This does not mean that applicants need to hire outside agents to obtain a loan. However, the services of an accountant will most likely be required for applicants not familiar with the requirements of tax authorities and general accounting. The
process can and has been taken on by most business owners. Remember, the understanding of finance and financing is one of the owner's principal duties.

To assist persons in preparing their application, the SBA offers a variety of management assistance services such as the Small Business Development Centers (SBDC) network and the Service Corp of Retired Executives (SCORE). These organization will work with the applicant to help them become familiar with the loan application process, understand the importance of the business plan, and assist in the preparation of the application and supportive documents. However, completing the actual plan and documents is the responsibility of the applicant.

A listing of the SCORE Chapters in your area can be found in [LINK TO SCORE LIST]. A listing of the Small Business Development Center serving your area can be found in [LINK TO SBDC LIST].

Once the application is ready, the applicant should take all available financial and other business information to a financial institution. The SBA recommends that you start with the bank that
has your checking account, and that you work with the individuals at these institutions who have the experience of making loans by using SBA's Guaranty loan programs.

Applicants should always request that their lender make the loan directly. If the lender is unable or unwilling to make the loan by themselves, the applicant can and should request that the lender consider making their loan in conjunction with an SBA guaranty. If the lender agrees, the applicant will then be asked to complete a second application for forwarding to the SBA by the lender. If the lender is not

willing to participate, the applicant should find out why and learn what they can do to improve their application. The applicant should do all they can while working with the lender to obtain favorable consideration. SBA no longer has any direct loan funds, so the historical requirement that and applicant needs to be turned down by the banks before being able to apply to SBA for a direct loan is no longer applicable.

ALTERNATIVE LOAN PROGRAMS AVAILABLE TO THE APPLICANT

In addition to the 7(a) programs, the SBA has other business loan programs to address other types of financing which small business may need. These programs include the Certified Development Company Loan Program, which provides funds for the acquisition of generally high cost fixed assets, and the Microloan Demonstration Loan Program, which provides funds for a multitude of purposes in very small amounts. Applicants for financial assistance should
be familiar with these programs, in addition to the 7(a) programs, since they may satisfy the applicant's financing need.

CERTIFIED DEVELOPMENT COMPANY (CDC) (504) PROGRAM

The CDC program is an economic development loan program designed to assist in the development and expansion of small firms and the creation of jobs. This program provides government-backed financing for a portion of the fixed asset needs of small businesses with a fixed interest rate loan, which generally results in a lower over all debt service requirement for the borrower. Another portion of the fixed asset needs are financed by independent lenders, with a final portion coming from the borrower's contribution.

The actual 504 loan is provided by a Certified Development Company (CDC) assigned to operate within a specific geographic territory. The loans are long-term, low down payment, reasonably priced fixed-rate loans which are provided to healthy and expanding businesses.

Loan proceeds may be used for plant acquisition, construction, conversion or expansion; for the rehabilitation of commercial structures; and for the purchase and installation of machinery and equipment with a useful life of 10 years or more. In addition, certain "soft costs" can be paid with loan proceeds, including interim interest costs, professional fees for items such as appraisals, surveying, accounting, engineering and architectural services. However, this program does not provide funds for general working capital needs so these funds come from either the business itself or from another loan.

The 504 loan finances only a portion of a project, which is defined as the funds needed to acquire, construct, convert, or expand a plant, plus site improvements and land acquisition. The
CDC's share of the project amount cannot exceed $750,000 or 40 percent of the total project cost, whichever is less. A private or a non-federal governmental financial institution provides a non-government-backed first position loan of at least 50 percent of the project.

An example of a typical project would be the acquisition of a building costing $800,000 from which the

business will operate. Under the 504 concept, a commercial lender would finance $400,000 and secure this loan with a first position mortgage. The CDC would provide up to $320,000 in financing, and the borrower would contribute no less than $80,000.

Businesses which are ineligible for 504 loans include those engaged in gambling, lending or investment, or which are nonprofit concerns. In addition, applicants purchasing existing commercial real estate must occupy a minimum of 51 percent of the building's total square footage, while applicants constructing commercial real estate must occupy at least two-thirds of the total square footage initially and 100 percent within 10 years.

This program has two size standards. To be eligible, the small businesses size can either be one that has a net worth that does not exceed $6 million and average annual net profits after taxes
over the past two years that does not exceed $2.0 million, or be able to qualify under the size standards for 7(a) applicants.

The 504 program is an economic development financing program designed to stimulate private sector investment in long-term fixed assets which will increase productivity, create new jobs,
and increase the local tax base. The financing is provided by at least two lenders. This program is administered through SBA-Certified Development Companies and requires at least a 10 percent contribution from either the CDC or the borrower. A higher contribution is required by law for start-up businesses or when a unique- or single-purpose building will serve as the primary collateral. Additional borrower contributions can also be required as a matter of
credit.

The 504 loan program also has a jobs requirement. The applicant must show that they will either create or retain at least one job for every $35,000 of debenture proceeds. The debenture proceeds constitute only a portion of the total financing involved in a 504 project. In the example above for the $800,000 building with the 504 loan for $320,000 (debenture amount), the applicant firm must be able to show that they will create or retain at least 10 jobs. The actual math is 9.14 jobs but if the applicant could only show that they will create or retain 9 jobs, the debenture could be for no more than $315,000.

The maturity for any 504 loan is either 10 or 20 years, and is determined by the useful life of the assets being acquired. The maturity of the third party loan can be no less than 7 or 10 years, depending on whether the 504 loan maturity is 10 or 20 years.

The CDC obtains the money it lends through the sale of a debenture (debt instrument) to investors in the private capital markets. This debenture is fully guaranteed by the SBA. The
actual interest rate on a 504 loan is not known until the loan closes. However, this rate reflects the prevailing market rate at the time the debenture is sold and is generally more favorable
than the rate on the first position loan from the third party lender.

The principle benefits of obtaining a 504 loan for the small business applicant is that the 504 portion of the total financing is amortized at a fixed rate and, therefore, always constant, and
the business can leverage SBA assistance when they need financing in excess of $1,000,000.

With the maximum amount of a 504 loan equal to $750,000 and its portion being 40 percent of the

total required financing, the complete financing can be as high as $1,875,000 to take full advantage of the program. However, this is not the limit on project financing because there is no requirement that SBA must finance 40 percent. The actual project could be for a larger amount with the 504 portion then becoming less than 40 percent.

To find out more about the 504 program and whether it is right for you, contact the Certified Development Company serving your area. A listing of these lenders can be found in [LINK TO CDC LIST].

MICROLOAN DEMONSTRATION PROGRAM

The Microloan Demonstration Program is designed to provide very small loans (microloans) to small business clients who have had difficulty obtaining straight-forward conventional financing for small amounts. These loans are provided exclusively by approved intermediaries. Under this program, SBA makes or guarantees loans to the intermediaries, which use the money to make microloans to eligible borrowers. Through this program, the SBA helps fill the very small loan financing gap created by the absence of traditional lenders providing smaller sized conventional loans.

Intermediaries can also provide their clients with marketing, management and technical assistance. To help finance this type of assistance, SBA provides grants to the intermediaries and other qualified nonprofit entities. These grants are available only to the intermediaries. There are no grants for the actual businesses. Microloans are available only to borrower who can demonstrates that they are unable to obtain credit elsewhere at comparable interest rates and that they have a good prospects for repayment.

The average size of a microloan is about $10,000 and the average size of a intermediary loans is $400,000. The maximum size of a microloan can be $25,000. The microborrowers repay their loans to the intermediary who, in turn, uses these collections to repay their own loan to the bank or SBA.

The small business borrower can use the proceeds of a microloan for working capital, and/or inventory, supplies, furniture, fixtures, machinery and equipment. A microloan cannot be used for a down-payment or the purchase of real estate.

A small business wishing to apply for a microloan must apply directly to the participating microlender intermediary in its local area. Intermediaries are responsible for making, closing, servicing and collecting the microloans. To be eligible to apply for a microloan, individuals or small business concerns must:

1. Meet SBA size standards and type of business eligibility criteria;

2. Be qualified according to the policies and procedures of the intermediary;

3. Agree to use the proceeds of the microloan exclusively for working capital, and/or inventory, supplies, furniture, fixtures, machinery and equipment;

4. Agree not to use the proceeds of the microloan for any down payment or the purchase of real

estate.

Microloans are not low interest loans. The actual interest rates are fixed and will vary from intermediary to intermediary. The average range of interest rates for microloans is between 10 and 13 percent. The maximum maturity of a microloan is six years.

Intermediaries may not charge fees, points or other amounts to the small business clients applying for a microloan, other than actual costs associated with closing the loan.

Intermediaries will collateralize the microloans, usually acquiring a security interest in the asset financed by the microloan proceeds plus they will require the personal guarantees
of the principal owners of the small business.

Microloans are only available to businesses located in the geographic territory where the intermediaries operate. At present they do not operate in every area of the country, but expansion is continually occurring.

To find out if there is a intermediary operating in your area who can consider your microloan request, use the following listing of Micro Lender Intermediaries found in [LINK TO MICROLENDER LIST]

The SBA's Standard Application Package Includes:

FOR THE BUSINESS

SBA Form 4	Application for Business Loan
SBA Form 4	Schedule of Collateral
SBA Form 912	Statement of Personal History
SBA Form 1261	Statements Required by Law and Executive Orders
SBA Form 641	Request for Counseling
SBA Form 1624	Certification Regrading Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions (Lender Keeps)
Acceptable Form	Personal Financial Statement
Acceptable Form	Cash Flow Projection
Acceptable Form	Past Three Year Financial Statements
Acceptable Form	Financial Statements Current to Within 90 Days of Application
Start Up Applicants	Monthly Cash Flow Projection

FOR THE LENDER

SBA Form 4I	Lenders Application for Guaranty (With Attached Analysis)
SBA Form 159	Compensation for Service in Connection with Application and Loan