

**SBA**  
**U.S. Small Business Administration**

**Lender's and Equity Investor's Guide**

**Dear Small Business Lender/Equity Investor:**

You are our valued partner in helping small businesses start, build and grow. And as we move into the 21st century, we both know that small businesses will continue to be at the forefront of our nation's economic growth.

To assist you in your economic development efforts, we are pleased to provide you with the U.S. Small Business Administration's *Lender's & Equity Investor's Guide*. It contains the latest information on our lending, equity investment and other services for small businesses. As you read through this booklet, please consider the many ways we can help you help small businesses succeed. If you already are an SBA participating lender or investor, you will notice that we have made many enhancements to our programs as we streamline for success. Our programs can help you acquire new customers, provide additional avenues of assistance to your clients, increase your profit margin, meet your requirements under the Community Reinvestment Act, and achieve higher yields through an active secondary market.

We can also arrange to meet with you in your office to explain how our programs can benefit you and your customers. Just give us a call. Our offices are listed on the inside back cover of this brochure, and their telephone numbers can be found under "U.S. Government" in your local telephone directory. You may also contact us by calling 1-800 U ASK SBA or by visiting our Web site: [www.sba.gov](http://www.sba.gov).

We look forward to a rewarding partnership with you for many years to come in our collaborative efforts to help small businesses succeed.

**SBA FINANCIAL ASSISTANCE PROGRAMS**

The SBA is Congressionally mandated to assist the nation's small businesses in meeting their financing needs. By helping you — our lending/investing partner — reduce your risk, the SBA's finance programs enhance your ability to provide both long- and short-term loans to small businesses. SBA-guaranteed financing helps you provide loans to customers who might not qualify for a business loan through your normal lending channels.

There are basically four types of SBA lending and equity investment programs available to borrowers: the 7(a) Loan Guaranty Program, the 7(m) MicroLoan Program, the 504 Certified Development Company Loan Program, and the Small Business Investment Company Program.

**THE 7(a) LOAN GUARANTY PROGRAM**

The 7(a) Loan Guaranty Program is the SBA's primary business loan program. It is also the most flexible, since the agency can guarantee financing under the program for a variety of general business purposes.

7(a) loans are provided by lenders who choose to structure their own loans by the SBA's requirements, and who apply for and receive a guaranty from the SBA on a portion of these loans. Under 7(a) the SBA

guarantees up to \$750,000 of a private-sector loan — as much as 80 percent on loans of \$100,000 or less and 75 percent on loans greater than \$100,000.

A borrower may have more than one SBA loan at a time, as long as the SBA portion does not exceed its guaranty cap of \$750,000. (The SBA's guaranty caps are higher under a few 7(a) lending programs: Pollution Control, International Trade, 504 and DELTA. They are described later in this brochure.)

A key concept of the 7(a) Loan Guaranty Program is that the loan comes from a commercial lender, and the guaranty comes from the SBA. A business applies to you, the lender, and you decide whether to make (or reject) the loan internally, or if the application needs to be bolstered with an SBA guaranty (see Lender Options, page 6). As the lender, you can also administer the approved loan.

Since the SBA's guaranty is available only to lenders, applicants need to know your criteria and requirements along with those of the SBA. To be considered for an SBA-guaranteed loan, the applicant must be both eligible and creditworthy.

*SBA LowDoc*, *SBA Express*, *Community Express* and the *SBA Loan Prequalification Program* (see pages 7-11) provide alternative application processes for eligible borrowers. The loans themselves, however, are 7(a) guaranty loans.

### **Use of Proceeds**

A start-up or existing business may use the proceeds of a 7(a) guaranteed loan to—

- expand or renovate facilities;
- purchase machinery, equipment, fixtures and leasehold improvements;
- finance receivables and augment working capital;
- refinance existing debt (for compelling credit reasons of benefit to the borrower);
- provide seasonal lines of credit;
- construct commercial buildings; and/or
- purchase land or buildings.

### **Terms, Interest Rates & Fees**

*Note: All references in the brochure to the prime rate refer to the lowest prime rate in effect on the day the SBA receives the loan application. This rate is printed in The Wall Street Journal on the next business day.*

The loan repayment schedule depends on both the use of the proceeds and the ability of the business to repay. The general terms are —

- 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 the purchase of equipment (not to exceed the useful life of the equipment).

Both fixed and variable interest rates are available. The maximum rate is 2.25 percent over the lowest prime rate for a loan with a maturity of less than seven years, and 2.75 percent over prime for a loan of seven years or longer. If the loan is under \$50,000, you may charge a slightly higher rate.

The SBA charges the lender a guaranty fee, which you may pass on to the borrower after you pay the fee and disburse the loan. On a loan with a maturity of one year or less, the fee is 0.25 percent of the guaranteed portion. On a loan with a maturity of more than one year where the SBA-guaranteed portion is \$80,000 or less, the guaranty fee is 2 percent of the guaranteed portion. Where the maturity is more than one year and the SBA's portion is higher than \$80,000, the guaranty fee is figured on an incremental scale from 3 percent to 3.875 percent of the guaranteed portion (up to 75 percent of the total loan). The

fee is 3 percent of the guaranteed portion up to \$250,000; 3.5 percent of the next \$250,000, and 3.875 percent of the remainder. For example:

<b>Total Loan Amount</b>		<b>Guaranty Rate</b>	<b>Max. Guaranty Amount</b>
\$800,000	x	75%	\$ 600,000
<b>Max. Guaranty Amount</b>		<b>Guaranty Fee Rate</b>	<b>Guaranty Fee</b>
1st			
\$250,000	x	3%	\$ 7,500
2nd			
\$250,000	x	3.5%	\$ 8,750
Remainder			
\$100,000	x	3.875%	\$ 3,875
<b>Total Guaranty Fee</b>			<b>\$ 20,125</b>

In addition to the guaranty fee charged to the lender at the time of disbursement, there is an ongoing annual fee of 0.5 percent of the guaranteed portion of the loan balance. This fee is collected monthly and may not be passed through to the borrower. As the lender, you are permitted to charge a late fee of up to 5 percent of the payment amount for payments more than 10 days overdue. With SBA approval, you may collect an extraordinary servicing fee of up to 2 percent of the outstanding balance in cases involving construction or lines of credit with accounts receivable or inventory as collateral.

For all 7(a) loans, the lender closes the loan and disburses the funds. The borrower generally makes monthly loan payments directly to the lender. Payment plans may be tailored to the needs of the individual business. This may include the reduction or deferment of payment to accommodate the business's ability to repay. Currently, balloon payments, prepayment penalties, application fees and points are *not* permitted.

### **Collateral**

Borrowers must pledge sufficient assets, to the extent that they are reasonably available, to adequately secure the loan. Personal guaranties are required from all principals owning 20 percent or more of the business. Liens on personal assets of the principals also may be required. No loan will be declined, however, for insufficient collateral alone.

### **Eligibility**

To be eligible, the business must be operated for profit and not exceed the SBA's size standards. Some types of businesses are not eligible, such as businesses engaged in lending, real estate development, pyramid schemes, gambling, illegal operations, speculation or investment. All loans must be used for sound business purposes.

### **Maximum Size Standards**

The SBA determines if the business meets the agency's size standards based either on the average number of employees for each pay period during the preceding 12 months or on sales averaged over the previous three years.

- Manufacturing — from 500 to 1,500 employees, depending on the industry
- Wholesaling — 100 employees
- Services — from \$2.5 million to \$21.5 million in annual receipts, depending on the service (e.g., Standard Industrial Classification code 8731 is from 500 to 1,500 employees)

- Retailing – from \$5 million to \$21 million, depending on the nature of the business
- General construction — from \$13.5 million to \$17 million
- Special trade construction — average annual receipts not to exceed \$7 million
- Agriculture — from \$500,000 to \$9 million

### **What the SBA Looks for**

- Good character
- Management expertise and commitment necessary for success
- Reasonable personal contribution and/or business equity, which along with the loan proceeds enable the borrower 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

### **LENDER OPTIONS**

The small business borrower submits a loan application to you for your review. You may approve the loan internally, approve it subject to an SBA guaranty, or decline the loan entirely. If you choose the SBA guaranty option, you must certify that you will only make the loan if the SBA provides the guaranty.

The SBA can process your request for a guaranty under a variety of methods. Your institution can choose the method, subject to its eligibility. Guaranty requests are processed most frequently using the Standard, Certified, Preferred, *SBA<sub>LowDoc</sub>* or *SBA<sub>Express</sub>* procedures.

#### **Standard Application Process**

As the lender, you submit a completed loan application, including your credit analysis, to the SBA field office that covers the territory where the applicant business is located. The SBA analyzes the entire application and generally makes its decision within 10 days of receiving all the necessary documentation.

#### **Certified Lenders Program**

The CLP provides more expeditious service on loan applications received from lenders who have successful SBA track records and a thorough understanding of SBA lending policies and procedures. CLP lenders receive a partial delegation of authority, which must be renewed at least every two years. Under this program, the SBA reviews the lender's credit analysis rather than conducting a complete second analysis. This reduces the SBA's targeted response time to three days. Certified lenders, who account for 7 percent of all SBA business loan guaranties, can submit applications under standard processing if they wish.

#### **Preferred Lenders Program**

The PLP maximizes the use of qualified, private lenders in the agency's financial assistance delivery system. Under this program, the SBA delegates loan approval, closing, and most servicing and liquidation authority and responsibility to carefully selected lenders. Such authority must be renewed at least every two years, and the SBA reviews the lender's portfolio periodically. The PLP is designed only for the

strongest credits, those for which the SBA can justify giving the lender the unilateral right to risk government funds. SBA loan approval is conducted at the SBA's PLP center in Sacramento, Calif. Turnaround usually takes less than one day. Preferred lenders receive the same 75 percent guaranty rate (80 percent on loans of \$100,000 or less) on PLP loans as on regular and certified SBA-backed loans. Preferred lenders may use certified or standard processing, if they wish. PLP loans currently account for approximately 33 percent of SBA loans.

### ***SBALowDoc***

*SBALowDoc* is the SBA's quick and easy program that provides a guaranty on small business loans of \$150,000 or less. Once a borrower completes your application and meets your requirements for credit, you may request an *SBALowDoc* guaranty for up to 80 percent of the loan amount (75 percent when the SBA's share exceeds \$80,000). Just have the applicant complete the front of a one-page SBA application, and you complete the back. At *SBALowDoc* centers, the agency will process completed applications within 36 hours. Proceeds may not be used to repay certain types of existing debt. The loan terms are five to 10 years for working capital and up to 25 years for fixed assets.

#### **Eligibility**

The following businesses are eligible for *SBALowDoc*:

- businesses (including affiliates) with average annual sales for the past three years not exceeding \$5 million and with 100 or fewer employees; and
- ( if they meet the size standards for their industries) farms; travel agents; real estate agents; engineering, architectural or surveying services; fishing, hunting or trapping entities; and dry cleaning plants; and
- business start-ups.

### ***SBAExpress***

*SBAExpress* provides selected lenders with a 50 percent guaranty on their loans in exchange for the ability to use primarily their own application and documentation forms. This method makes it easier and faster for lenders to provide small business loans of \$150,000 or less. The SBA provides a rapid response — within 36 hours of receiving your complete application package. You use your existing procedures to approve and service the loan. You also use your own procedures for loan liquidation.

#### **Terms**

Like most 7(a) loans, the maturity of an *SBAExpress* term loan is usually five to seven years for working capital and up to 25 years for real estate or equipment (subject to the useful economic life of the equipment). The termination date for revolving credits must be no later than five years after the first disbursement.

For more information on participating in *SBAExpress*, contact your SBA district office.

### ***CommunityExpress***

The *CommunityExpress* pilot program is designed to spur economic development and job creation in untapped rural and inner city communities by providing loans and technical assistance. Loan proceeds may be used for most business purposes, including start-up, expansion, equipment purchases, working capital, inventory or real estate acquisitions.

To be eligible for *CommunityExpress*, current or prospective small businesses must be part of the SBA's New Markets. These are defined as current and prospective small businesses owned by minorities,

women and veterans who are underrepresented in the population of business owners compared to their representation in the overall population, and businesses located or locating in Low and Moderate Income urban and rural areas.

While *CommunityExpress* is similar to *SBAExpress*, there are some differences.

- *CommunityExpress* focuses on predesignated geographic areas that primarily serve New Markets.
- The maximum loan amount under *CommunityExpress* is \$250,000.
- The SBA's guarantee is 80 percent for loans up to \$100,000 and 75 percent for loans between \$100,000 and \$250,000.
- *CommunityExpress* lenders, together with the National Community Reinvestment Coalition, provide hands-on technical training and support, both before and after loan closings, through community-based, nonprofit NCRC member organizations.

### **SBA Loan Prequalification**

With this program, the loan applicant comes to you pre-approved for an SBA loan guaranty. The SBA created this program to assist primarily New Markets with the small business loan-application process. New Markets include segments of the small business community that traditionally may have been underserved by the lending community. Eligible applicants under this program are veterans, exporters, rural business owners, women, minorities, and owners of businesses in selected industries and geographical areas. Local SBA district offices select their demographic markets for the program and select, train and monitor intermediaries.

The loan prequalification process works as follows: An SBA-designated intermediary assists the prospective borrower in developing a viable loan application package (the intermediary may charge a reasonable fee for this service). Once the package is completed, the intermediary submits it to the SBA for consideration. The agency usually makes a decision within three days.

If the application is approved, the SBA issues a letter of prequalification stating the agency's intent to guarantee the loan. The maximum loan amount is \$250,000. The SBA will guarantee up to 75 percent (80 percent on loans of \$100,000 or less). The intermediary helps the borrower locate a lender offering the most competitive rates and terms.

### **Eligibility Factors in Addition to the Basic 7(a) Program Requirements**

- Businesses must be at least 51 percent owned, operated and managed by members of one of the groups designated above as eligible to participate.
- Businesses, including their affiliated companies, must employ fewer than 100 workers.

The SBA Loan Prequalification Program replaces and expands upon the former women's and minority loan prequalification programs.

### **The Secondary Market Guaranteed Portion of the Loan**

About \$2.7 billion in new loans enter the secondary market each year, while another \$1 billion of previously sold loans are traded. If you hold business loans guaranteed by the SBA, you may profit by selling the guaranteed portions of the loans in this active secondary market. Selling the guaranteed portion of a loan improves your liquidity position. Banks, savings and loan associations, credit unions, pension funds and insurance companies are frequent buyers.

The SBA guaranteed portion can be sold in as little as two weeks. You and the buyer sign an agreement — SBA Form 1086, Secondary Participation Guaranty Agreement — describing the rights and

responsibilities of both parties. A Fiscal Transfer Agent reviews the documentation and arranges a settlement. On the settlement date, the buyer wires funds to the FTA, and the FTA issues a certificate to the buyer and wires the funds to you.

Profits from using the secondary market come from —

- the premium, if any, at the time of the sale;
- the float on the borrower's loan payment; and
- the servicing fee required to be retained during the life of the loan.

Variable-rate SBA guaranteed portions usually sell at a premium, which varies with market conditions. The payment flow from the borrower to the investor allows you to earn float income on the loan payment until it must be sent to the FTA. The FTA manages transactions among lenders, investors and borrowers by keeping track of payments made, distributing funds, and forwarding servicing requests and responses. You need make only one payment to the FTA to cover all the guaranteed portions you have sold.

### **Unguaranteed Portion of the Loan**

Securitization may be another option for you to explore. For SBA purposes, securitization is the pooling and sale of the unguaranteed portions of a lender's 7(a) loans, usually to a trust or special-purpose vehicle. These securities, backed by the unguaranteed portions of the loans, are issued to investors in either a private placement or public offering. Each investor generally receives an undivided ownership interest in the right to receive the principal and a part of the interest of the unguaranteed portion of the pooled loans.

### **SPECIAL PROGRAMS FOR THE BORROWER**

The SBA has programs to help meet the specific financing needs of your small business customer. In addition to the standard 7(a) loan guaranty, the SBA has programs under 7(a) designed to meet special needs. Unless otherwise indicated, these programs are governed by the same rules, regulations, interest rates, fees, and other guidelines as regular 7(a) loan guaranties.

#### ***CAPLines***

*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). The SBA will guarantee up to \$750,000 (80 percent on loans of \$100,000 or less; 75 percent on loans greater than \$100,000).

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

- **Seasonal Line:** This line advances funds against anticipated inventory and accounts receivable 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 construction, service or supply contracts. It can be revolving or nonrevolving.
- **Builders Line:** This line finances the direct labor and material costs for small general contractors and builders who are constructing or renovating commercial or residential buildings for resale. The building project serves as the collateral, and the loan can be revolving or nonrevolving.
- **Standard Asset-Based Line:** This is an asset-based revolving line of credit designed to assist businesses in need of a short-term line of credit that are also unable to meet credit standards associated with long-term credit. It provides financing for cyclical, growth, recurring and/or short-term needs.

Repayment comes from converting short-term assets such as inventory and accounts receivable into cash, which is remitted to the lender. Businesses can continually draw down, based on existing assets, and repay as their cash cycle dictates. This line generally is used by businesses that provide credit to other businesses. These loans require continual servicing and monitoring of collateral, for which the lender may charge additional fees.

- **Small Asset-Based Line:** This is an asset-based revolving line of credit up to \$200,000. It operates basically like a standard asset-based line. Some of the stricter servicing requirements are waived, however, if the business can consistently show repayment ability from its cash flow.

### **Terms, Interest Rates & Fees**

Each of the five lines of credit has a maturity of up to five years, but, because each is tailored to the needs of the applicant, a shorter initial maturity may be established. *CAPLines* funds may be used as needed throughout the term of the loan to purchase assets, as long as sufficient time is allowed to convert the assets into cash by maturity.

The interest rate to be charged on *CAPLines* is negotiated between you and the borrower, 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 you for the Standard Asset-Based Line but requires full disclosure to ensure that the fees are reasonable. On all other *CAPLines*, the additional fee is limited to 2 percent based on the average outstanding balance.

### **DELTA: Defense Loan & Technical Assistance Program**

The DELTA Program provides both financial and technical assistance to defense-dependent small firms either affected adversely by defense cuts or located in defense-impacted communities. It is designed to help these firms diversify into the commercial market.

DELTA is a joint effort of the SBA and the Department of Defense. The SBA processes, guarantees and services DELTA loans, which may be provided under the agency's 7(a) Loan Guaranty Program or 504 Certified Development Company Program (see page 19).

DELTA generally uses the forms, and follows the regulations and operating criteria of these two programs.

### **Eligibility**

To be eligible, a business must meet 7(a) or 504 criteria and have derived at least 25 percent of its total revenue during any one of the previous five operating years from DoD contracts, Department of Energy defense-related contracts, or subcontracts in support of defense prime contracts.

The business must also —

- use the loan to modernize or expand facilities in order to diversify operations while remaining in the national technical and industrial base, or
- be adversely impacted by reductions in defense spending and use the loan to retain the jobs of defense workers, or
- be located in an adversely impacted community and use the loan to create new economic activity or jobs in that community.

### **Maximum Loan & Guaranty Amounts**

The maximum gross loan amount for a DELTA loan under 7(a) is \$1.25 million. The maximum SBA guaranty under 7(a) or 504 is \$1 million.

### **Credit Analysis**

DELTA loans may require special handling because of complicated credit analyses. Even with significant capital, an applicant may be unable, due to the transitional state of the business, to demonstrate repayment ability based on past operations. Revisions to the law allow the SBA to resolve reasonable doubts in favor of the applicant.

### **Technical Assistance**

To make the transition to the commercial market, a DELTA client may also require technical assistance. This assistance is provided through the SBA's small business development centers, the Service Corps of Retired Executives, other federal agencies, and other technical and management assistance providers, including federal research laboratories. Such assistance further reduces your risk on a DELTA loan. A directory of technical assistance providers is available through the SBA home page: [www.sba.gov](http://www.sba.gov).

### **CAIP: Community Adjustment & Investment Program**

Established in response to changed trade patterns with Canada and Mexico resulting from the North American Free Trade Agreement, CAIP creates new, sustainable jobs and preserves existing jobs. The program is a partnership between the federal government (primarily the U.S. Department of the Treasury, the SBA and the U.S. Department of Agriculture) and the North American Development Bank.

### **Eligibility**

- Business applicants must be located in a CAIP-eligible community. Community eligibility is based upon an analysis of NAFTA-related job losses within the context of local unemployment rates.
- For federally funded programs, the applicants also must be able to demonstrate that within 24 months and as a result of the loan, they will create or preserve at least one job per \$70,000 of federally guaranteed funds (the SBA portion) they receive.

Under CAIP, credit is available primarily through loan guaranties provided either under the 7(a) Loan Guaranty Program or the USDA Business and Industry Loan Guarantee Program. The SBA's 7(a) Program typically provides a guaranty of 75 percent of the loan amount or \$750,000, whichever is lower. For eligible applicants, NADBank pays the borrower's loan guaranty fee or participates as a direct lender. If you would like more information, call the NADBank Los Angeles office at 562-908-2100, or visit the NADBank Web site at [www.nadbank-caip.org](http://www.nadbank-caip.org).

### **Export Working Capital**

The Export Working Capital Program was developed to help you meet the transactional financing needs of exporters seeking short-term working capital. The loan funds may be used to finance the manufacturing costs of goods for export, the purchase of goods or services, foreign accounts receivable and standby letters of credit (used for performance bonds, bid bonds or payment guaranties to foreign buyers). The SBA guarantees 90 percent of the amount, or \$750,000, whichever is lower. The EWCP uses streamlined documentation; turnaround is usually within 10 days. Borrowers may also apply to the SBA for a letter of preliminary commitment. The agency is currently working on an Internet-accessible EWCP application that will speed up the application process.

EWCP borrowers may have other SBA guaranties as long as the SBA's exposure for working-capital loans does not exceed \$750,000. When an EWCP loan is combined with an international trade loan (see page 18), the SBA's combined exposure can go up to \$1.25 million (with \$750,000 as the maximum for the working-capital portion).

### **Terms, Interest Rates & Fees**

The maturity of an EWCP loan typically matches a single transaction cycle or supports a line of credit, generally with a maximum term of 12 months. With annual reissuances, however, it is possible to have a loan maturity of up to three years. The guaranty fee is 0.25 percent of the guaranteed portion of the loan. The EWCP places greater authority and profitability in your hands by lifting the interest-rate and lender-fee caps that apply to the SBA's other business loans. You and the borrower negotiate interest rates and fees.

### **International Trade Loan**

The International Trade Loan Program guarantees loans to small businesses that are engaged in international trade, prepared to engage in international trade, or adversely affected by competition from imports.

Under this program, the SBA can guarantee as much as \$1.25 million in combined working-capital and facilities-and-equipment loans (including any other current SBA loan guaranties). The working-capital portion of the loan may be made according to the provisions of the Export Working Capital Program (see page 17) or any other SBA working-capital program.

To be eligible, a business must establish that the loan proceeds will significantly expand existing markets or develop new export markets, or that the business is adversely affected by import competition. For fixed-asset loans, a business must also establish that upgrading its facilities or equipment will improve its competitive position.

#### **Use of Proceeds**

Proceeds may be used for —

- 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 for producing goods or services; and/or
- working capital.

Proceeds may not be used to repay existing debt.

#### **Terms, Interest Rates & Fees**

A loan for facilities or equipment may have a maximum maturity of 25 years, while the working-capital portion of the loan has a maximum maturity of 10 years. The maximum maturity is blended proportionately between the working capital portion and fixed-asset uses.

#### **Collateral**

As the lender, you must take a first-lien (or first-mortgage) position on your and the SBA's behalf on items financed under this program. Only collateral located in the United States, its territories and possessions is acceptable. Additional collateral may be required, such as personal guaranties, subordinate liens or items that are not financed by the loan proceeds. Contact your local SBA office for more information.

### **Energy & Conservation Loan**

Under this program, financing is available for eligible small businesses engaged in the following: engineering, manufacturing, distributing, marketing, and installing or servicing products or services designed to conserve the nation's energy resources. An eligible business may use the loan to buy land for plant construction; convert or expand existing facilities; purchase machinery, equipment, furniture, fixtures, supplies and materials; or provide working capital for entry or expansion into eligible

conservation project areas. The loan may not be used for acquiring an energy business or for purchasing energy devices for the business's own use.

The maximum SBA guaranty for loans up to \$100,000 is 80 percent. For higher loans up to \$750,000, the maximum guaranty is 75 percent.

### **Pollution Control Loan**

This program assists businesses that are planning, designing or installing a "pollution control facility." This includes most real or personal property that will reduce pollution. Unlike the Energy Conservation Loan, the Pollution Control Loan is for the end-user of the pollution control facility. The program has a maximum SBA exposure of \$1 million, less any outstanding balance due the agency on other loans.

### **7(m) MICROLOAN**

The MicroLoan Program provides very small loans up to \$25,000 to small businesses through a network of locally based intermediary lenders. The intermediaries make the loans, and provide management and technical assistance to small businesses. The average loan size is \$10,000.

A small business in need of a MicroLoan must apply directly to the SBA's local intermediary lender. This program is not yet operational on a nationwide basis. Contact your closest SBA office to find out if it is available in your area.

#### **Use of Proceeds**

MicroLoans may be used to finance furniture, fixtures, equipment, inventory, materials and supplies. They may also be used to finance receivables and be used for working capital. They may not be used to purchase real estate.

#### **Terms & Interest Rates**

The maximum term for a MicroLoan is six years. Interest rates can be up to 8.5 percent over the intermediary's cost of borrowing from the SBA. There is no guaranty fee.

#### **Collateral**

Each nonprofit lending organization will have its own requirements regarding collateral and personal guaranties.

#### **Eligibility**

Virtually all types of for-profit businesses that meet the SBA's size and type-of-business standards for the 7(a) Loan Guaranty Program may apply for a MicroLoan.

### **504 CERTIFIED DEVELOPMENT COMPANY PROGRAM**

Through certified development companies, the 504 Certified Development Company Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. Approximately 270 CDCs nationwide work with the SBA and private-sector lenders in a public-private partnership to provide financing to small businesses.

CDCs are nonprofit corporations set up to contribute to the economic development of their communities. The 504 CDC Program is designed to enable small businesses to create and retain jobs; the CDC's portfolio must create or retain at least 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 a percentage of the total cost),
- a loan secured with a junior lien from a CDC (a 100 percent SBA-guaranteed debenture), covering up to 40 percent of the total cost, and
- a contribution of at least 10 percent equity from the borrower.

The SBA-guaranteed debentures are pooled monthly and sold to private investors. The maximum debenture is generally \$750,000 (and 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;
- constructing, modernizing, renovating or converting existing facilities; and
- purchasing machinery and equipment.

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

### **Terms, Interest Rates & Fees**

Interest rates on 504 loans are fixed at the time of the debenture sale. The interest rates approximate the current market rate for five-year and 10-year U.S. Treasury issues, plus a small increment. Maturities of 10 and 20 years are available.

Fees total approximately 3 percent of the debenture and may be financed with the loan. These include a CDC processing fee of 1.5 per-cent, a guaranty fee, a funding fee and an underwriting fee.

### **Collateral**

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

### **Eligibility**

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

## **LOAN LIQUIDATION**

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. If a loan workout is not possible, the SBA will work to liquidate the assets securing the loan.

In recent years the agency has placed a greater emphasis on liquidation improvement. This has resulted in increased dollar recoveries, streamlined procedures, and more timely completion of liquidation cases.

## **EQUITY INVESTMENT SMALL BUSINESS INVESTMENT COMPANY PROGRAM**

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 companies 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.

SBICs are for-profit firms whose incentive is to share in the success of small businesses. 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; others seek out small businesses with new products or services because of their strong growth potential. Most, however, consider a wide variety of investment opportunities.

Providing the same services as SBICs, specialized small business investment companies invest in socially or economically disadvantaged small firms; typically, however, they invest in firms during their growth stages and make smaller investments.

#### **ACE-NET: ANGEL CAPITAL ELECTRONIC NETWORK**

*ACE-Net* provides an Internet-based, secure listing service for entrepreneurs seeking equity financing of \$250,000 to \$5 million from accredited “angel” investors. Using *ACE-Net*, the angel can negotiate directly with listed companies to provide equity capital funding and advice for a stake in the entrepreneur’s corporation. *ACE-Net* is operated as a partnership between the SBA’s Office of Advocacy and a number of nonprofit organizations nationwide. It will ultimately be turned over to a private nonprofit organization.

#### **SURETY BONDS**

##### **SURETY BOND GUARANTEE PROGRAM**

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. The SBA issues guaranteed bonds in two ways:

- **Prior Approval Sureties** — The SBA must approve these sureties before issuing a guaranteed bond.
- **Preferred Sureties** — The SBA authorizes preferred sureties to issue, monitor and service bonds without prior SBA approval.

#### **BUSINESS EDUCATION & TRAINING**

The SBA offers a variety of education and training services to your customers — current and prospective small business owners. Many of these services are free of charge. Contact your local SBA office to find your closest counseling and training resources.

#### **SMALL BUSINESS DEVELOPMENT CENTERS**

SBDCs provide management assistance to current and prospective small business owners. SBDCs offer a broad spectrum of business information and guidance, along with 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**

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 (see page 27).

### **TRIBAL BUSINESS INFORMATION CENTERS**

There are currently 17 TBICs serving Native American reservation communities in California, Minnesota, Montana, North Carolina, North Dakota, South Dakota, and the Navajo Nation. TBICs are SBA resource partners that offer entrepreneurs access to state-of-the-art computer and software technology, one-to-one business counseling services and business management workshops.

### **WOMEN'S BUSINESS CENTERS**

The SBA has women's business centers in nearly every state, the District of Columbia and Puerto Rico. The centers provide women with long-term training and counseling in all aspects of owning or managing a business. Each center tailors its services to the needs of the local business community. To find the women's business center nearest you, contact your closest SBA field office.

There is also an interactive Online Women's Business Center — a public-private partnership among the SBA and several major U.S. corporations. The numerous features of the online center include information in nine languages, training, interactive mentoring, individual counseling, topic forums and newsgroups. You can access the center at [www.onlinewbc.org](http://www.onlinewbc.org).

### **U.S. EXPORT ASSISTANCE CENTERS**

USEACs combine in single locations the trade-promotion and export-finance resources of the SBA, the U.S. Department of Commerce and the Export-Import Bank of the United States. They also work closely with other federal, state and local international trade-assistance partners. USEACs deliver their services to small- and medium-sized businesses.

### **SERVICE CORPS OF RETIRED EXECUTIVES**

The collective experience of SCORE counselors spans the full range of business enterprise. The counselors provide free management and technical expertise at SBA district offices, business information centers and some small business development centers. SCORE's Web site is [www.score.org](http://www.score.org).

### **ONE STOP CAPITAL SHOPS**

OSCSs are the SBA's contribution to the federal 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 & THE U.S. BUSINESS ADVISOR**

SBA OnLine, the agency's electronic bulletin board, offers current business information around the clock. The SBA home page — [www.sba.gov](http://www.sba.gov) — contains a wealth of information regarding the agency's business education and training programs, as well as SBA publications on starting and building a small business. The U.S. Business Advisor — [www.business.gov](http://www.business.gov) — provides interactive access to all federal business information and services.

## QUICK REFERENCE TO SBA LOAN GUARANTY PROGRAMS

### 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:** Expand or renovate; construct a new facility; purchase land or buildings; purchase fixtures, equipment, leasehold improvements; working capital; refinance debt for compelling reasons; seasonal line of credit; inventory acquisition

**Maturity:** Depends on use of proceeds and ability to repay; 5-10 years for working capital; up to 25 years (not to exceed life of equipment) for machinery/equipment, real estate, construction

**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 1 or 2 percent higher

**Guaranty and other fees:** Guaranty fee paid by lender (usually passed to borrower).

Based on maturity and 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.

0.5% annual fee only to lender on remaining guaranteed portion

**Eligibility:** Must be operated for profit; meet SBA size standards; show good character, management expertise and commitment, and ability to repay; may not be involved in speculation, investment, or other types of businesses specified by the SBA

### **SBALowDOC**

One-page SBA application to obtain guaranty, quick turnaround after applicant meets lender requirements

**Maximum amount guaranteed:** \$150,000 (total loan amount)

**Percent of guarantee (max.):** 75 % on loans exceeding \$100,000, up to \$150,000 (80% if total loan is \$100,000 or less)

**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 and a few with smaller size standards; employ 100 or fewer; program relies on applicant's character and credit history

### **SBAEXPRESS**

Lenders have SBA-delegated authority to approve loans, primarily use their own paperwork; limited number of lenders

**Maximum amount guaranteed:** \$150,000 (total loan amount)

**Percent of guarantee (max.):** 50%

**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)

### **COMMUNITY-EXPRESS (PILOT)**

Lenders have SBA-delegated authority to approve loans, use their own paperwork; technical assistance for borrowers; limited number of lenders

**Maximum amount guaranteed:** \$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)

**Eligibility:** Small Businesses in predesignated geographic areas that primarily serve New Markets

#### **SBA LOAN PREQUALIFICATION PROGRAM**

Intermediaries assist with loan application; upon approval SBA issues prequalification letter; check district office for availability

**Maximum amount guaranteed:** \$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); intermediaries also may charge a fee

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

#### **CAPLINES**

Short-term and RLCs; Seasonal, Contract, Builders, Standard Asset-Based, Small Asset-Based

**Maximum amount guaranteed:** \$750,000 (Exception: For Small Asset-Based, maximum total loan amount is \$200,000)

**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:** Prime + 2.25%

**Guaranty and other fees:** See 7(a); under Standard Asset-Based, no restrictions on servicing fees

**Eligibility:** Existing businesses; see 7(a)

#### **DELTA, DEFENSE LOAN & 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 other qualifications

#### **CAIP, COMMUNITY ADJUSTMENT & INVESTMENT PROGRAM**

Creates jobs and sustains jobs at risk due to changed trade patterns with Canada and Mexico;  
U.S. Dept. of Treasury, SBA, U.S. Dept. of Agriculture, and NADBank

**Maximum amount guaranteed:** \$750,000

**Percent of guarantee (max.):** 75%; see 7(a)

**Use of proceeds:** Create or preserve one job for every \$70,000 of federally guaranteed funds received

**Maturity:** See 7(a)

**Maximum interest rates:** See 7(a)

**Guaranty and other fees:** See 7(a)

**Eligibility:** Existing businesses located in CAIP- eligible communities

#### **EXPORT WORKING CAPITAL PROGRAM**

Provides short-term working capital; borrower may apply for SBA preliminary commitment 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

**Guaranty and other fees:** See 7(a); no restrictions on servicing fees

**Eligibility:** Small business exporters; see 7(a) for other qualifications

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

#### **SMALL BUSINESS ENERGY & CONSERVATION LOAN**

For energy production or conservation activities

**Maximum amount guaranteed:** \$750,000 (total loan amount)

**Percent of guarantee (max.):** 75%; see 7(a)

**Use of proceeds:** Engineering, manufacturing, distributing, marketing, and installing or servicing products or services designed to conserve the nation's energy resources

**Maturity:** See 7(a)

**Maximum interest rates:** Prime + 2.75%

**Guaranty and other fees:** See 7(a)

**Eligibility:** Small businesses engaged in specified energy production or conservation activities

#### **POLLUTION CONTROL LOAN**

For activities connected with the installation of a pollution control facility

**Maximum amount guaranteed:** \$1 million

**Percent of guarantee (max.):** See 7(a)

**Use of proceeds:** Pollution control

**Maturity:** See 7(a)

**Maximum interest rates:** See 7(a)

**Guaranty and other fees:** See 7(a)

**Eligibility:** Businesses planning, designing or installing a pollution control facility

#### **7(m) MICROLOAN PROGRAM**

Loans made through nonprofit lending organizations; technical assistance also provided; numerous sites

**Maximum amount guaranteed:** \$25,000 (total loan amount)

**Percent of guarantee (max.):** NA

**Use of proceeds:** Purchase of furniture, fixtures, equipment, inventory, materials and supplies, receivables and working capital

**Maturity:** Shortest term possible, not to exceed 6 years

**Maximum interest rates:** 8.5% over the intermediary's cost to borrow from the SBA

**Guaranty and other fees:** No guaranty fee

**Eligibility:** Same as 7(a)

#### **504 CERTIFIED DEVELOPMENT COMPANY PROGRAM**

Long-term, fixed-asset loans through nonprofit certified development companies; must create or retain at least 1 job per \$35,000 of debenture proceeds

**Maximum amount guaranteed:** Limit on SBA portion of project is \$750,000 to \$1 million

**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 a small increment

**Guaranty and other fees:** Total fee approximately 3% of the debenture

**Eligibility:** For-profit businesses that have \$6 million or less in tangible net worth and an average net income of \$2 million or less for the past 2 years

#### **FOR MORE INFORMATION**

SBA offices are located in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For the office nearest you, look under "U.S. Government" in your telephone directory, or contact:

- SBA Answer Desk: 1-800 U ASK SBA
- Fax: 202-205-7064
- TDD: 704-344-6640
- Your rights to regulatory fairness: 1-888-REG-FAIR
- OnLine Electronic Bulletin Board (*modem and computer required*)
  - 1-800-697-4636 (*limited access*)
  - 1-900-463-4636 (*full access*)
  - 202-401-9600 (*Washington, D.C., metro area*)
- Internet
  - Home page:* [www.sba.gov](http://www.sba.gov)
  - Gopher:* [gopher.sba.gov](http://gopher.sba.gov)
  - Telnet:* [telnet.sba.gov](http://telnet.sba.gov)
  - U.S. Business Advisor:* [www.business.gov](http://www.business.gov)

### **SBA Affiliates**

Inquire at your local SBA office for the location nearest you.

- BICs — Business Information Centers
- TBICs — Tribal Business Information Centers
- OSCSs — One Stop Capital Shops
- SCORE — Service Corps of Retired Executives
- SBDCs — Small Business Development Centers
- USEACs — U.S. Export Assistance Centers
- WBCs — Women's Business Centers

### **SBA Publications**

- *The Facts About ... SBA Publications* — a listing of free SBA publications

### **SBA FIELD OFFICES**

#### **Listed alphabetically by state & city:**

AK	Anchorage
AL	Birmingham
AR	Little Rock
AZ	Phoenix
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
GU	Mongmong
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
	Philadelphia
	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

WI Spokane  
WI Madison  
WI Milwaukee  
WV Charleston  
WV Clarksburg  
WY Casper  
**Disaster Area Offices:**  
CA Sacramento  
GA Atlanta  
NY Niagara Falls  
TX Fort Worth

In addition to SBA field offices, there are approximately 1,000 small business development center locations and 389 SCORE chapters to help small businesses start and/or grow.

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*All program descriptions, including the dollar amounts and percentages, are accurate as of the time of printing. Legislative and administrative changes may occur that could affect these programs. SBA offices can provide up-to-date information.*

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

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