

SBA Finance Options

Fourth National Rural Grocery Summit

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SBA – What it is/What it does

- Federal government agency created in 1953
- Purpose – to help potential and existing small businesses start, grow & succeed
- The three “C’s”:
 - **COUNSELING**
 - **CONTRACTING**
 - **CAPITAL**



SBA Loan Programs

- Key source of financing for viable small businesses that cannot qualify for credit on reasonable terms from traditional sources
- Three Principal Players:
 - Small Business Applicant
 - A Lender
 - SBA

SBA does not provide direct loans or grants to start or grow a small business



SBA Loan Programs

- Loan programs:
 - 7(a) loan program
 - 504 loan program
- Benefits to borrowers:
 - Access to capital not otherwise available
 - Lower down payment
 - Longer repayment term; no balloon or demand notes
 - Reasonable interest rate
 - Term loans & revolving lines of credit available



7(a) Loan Program

- SBA's primary loan program
- Broad eligibility requirements
- Meets wide range of financing needs
- SBA guarantees loans made by private lenders, such as banks, credit unions or non-bank lenders
- SBA guaranty: 50 – 85%
 - Reduces lender's risk of borrower non-payment
 - Borrower still obligated for full loan amount



7(a) Loan Program

- Use of loan funds
 - New start-up, change of ownership or existing businesses
 - Acquire land, building, equipment, fixtures
 - Inventory
 - Working capital
 - Refinance of existing debt
- Maximum amount - \$5,000,000
- Interest rate set by lender w/in SBA maximums
 - Prime + 2.25% for loans < 7 yrs; prime + 2.75% for loans > 7 yrs; rates can be higher for smaller loans



7(a) Loan Program

- Maximum maturities
 - Up to 25 years for real estate
 - Up to 10 years or useful life for equipment
 - 7 – 10 years for working capital, inventory
- Fees
 - SBA charges one-time “guaranty fee” (2-3.75% of guaranteed portion of loan)
 - Tiered structured based upon loan amount
 - *NO FEE on loans of \$150,000 and less through 9/30/2014*



7(a) Loan Program

- Procedure
 - Prepare business plan or loan proposal
 - Submit to lender of your choice
 - Lender decides to: 1) make loan themselves; 2) make loan with SBA guaranty or 3) decline
 - Lender gathers necessary information from applicant and submits request for guaranty to SBA
 - If approved by SBA, lender responsible for closing loan, disbursing funds, collecting payments and servicing loan



7(a) Loan Program – SBA Express

- SBA guarantees 7(a) loans through several different delivery methods/sub-programs
- SBA Express (most popular)
 - Lender must be approved to use the program
 - SBA delegates credit decision entirely to the lender
 - Minimal SBA paperwork for applicant
 - Quicker response time
 - Lender receives 50% guaranty from SBA
 - Maximum loan amount - \$350,000



7(a) Loan Program – SBA Express

- “Veterans Initiative”
 - For businesses owned at least 51% by members of the military community and/or their spouses
 - NO GUARANTY FEE on loans of \$350,000 and less originated through SBA Express program
 - Initiative good through 9/30/2014

504 Loan Program

- Long-term, fully amortizing, *fixed rate, subordinate* financing for purchase, renovation or construction of *fixed assets* (land, building, machinery & equipment)
- Two-tiered project financing
 - Private lender
 - 50% of project cost; 1st lien on project assets (no SBA guaranty)
 - SBA 504 loan
 - Finances 30 – 40% of project cost; 2nd lien on project assets
- Small business applicant provides 10 – 20%



504 Loan Program

- Provided through Certified Development Companies (CDCs)
- Funded by monthly sale of 100% SBA-guaranteed debentures/bonds to investors on Wall Street
- Can be for new start-up, change of ownership, or existing business
- 504 & 7(a) can be used together to meet current & fixed asset financing needs
- Amount (504 share): \$125,000 to \$5 - \$5.5 million



504 Loan Program

- Interest Rate
 - Private lender loan: set by lender & must be w/in SBA maximum (currently 6%)
 - 504 loan: *low, fixed rate* based upon debenture rate in month loan is funded
- Maturity
 - Private lender loan: Must be at least 10 yrs for Real Estate; at least 7 yrs for Machinery & Equipment
 - 504 loan: 20 yrs for Real Estate; 10 yrs for Machinery & Equipment



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For more information on SBA's programs and services

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