### **Small Business Administration**

### Financing the SBA Way

Wayne Bell
District Director
Wichita District Office

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### **Agency History**

#### SBA – What it is

- Federal Agency
- Created in 1953
- Purpose To help potential and current small business owners start, grow and succeed.



### **Services**

#### SBA – What it does

- Counseling & Training
- Assistance with Government Contracting
- Advocacy
- Financing



#### **Resource Partners**

#### **A Nationwide Network**

The SBA and its partners provide business counseling and training at locations across the country.

- SCORE
- Small Business Development Centers
- Women's Business Centers
- SBA District Offices



# **Business Development**

#### **Reaching the Underserved**

SBA strives to reach those underserved

by our programs including:

- Women
- Veterans
- Native Americans
- Young entrepreneurs
- HUBZone
- Small Disadvantage Business



- Key reasons for loan denial
  - Poor credit
  - No proven market (start small)
  - Lack of Collateral
  - Lack of owner investment
  - Lack of business experience



- 5 C's of Lending
  - Cash investment
  - Capacity to repay
  - Credit/Character
  - Collateral





Key source of financing for small businesses that <u>may</u> <u>not qualify</u> for loans from traditional sources.

- 7(a) Program
- Microloan Program
- 504 Program
- Export Working Capital



#### **ALL SBA LOAN PROGRAMS HAVE 3 PLAYERS:**

- Small Business Applicant
- Lender
- SBA

SBA does <u>not</u> provide direct loans or grants to start or grow a small business



#### 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
- "Lenders" banks, credit unions or non-bank lenders



#### 7(a) LOAN PROGRAM

#### SBA's Guaranty:

- 85% on loans of \$150,000 and less; 75% on loans over \$150,000
- Reduces lender's risk of borrower nonpayment
- Borrower still obligated for full loan amount



#### 7(a) LOAN PROGRAM

#### **Interest Rates & Fees:**

- Lender sets interest rate (within SBA maximums allowed)
- Can be fixed or variable rate
- Prime + 2.25% for loans under 7 years
- Prime + 2.75% for loans of 7 years or more



- Rates can be higher for smaller loans
- Guaranty Fee
  - Paid by borrower
  - Tiered structure based upon loan amount
  - Ranges from 2% to 3.5%+ of the guaranteed portion of the loan



#### 7(a) LOAN PROGRAM

#### Use of Loan Funds:

- New start-up, change of ownership or existing business
- Acquire land, building, equipment & fixtures
- Inventory
- Working Capital
- Refinance of Existing Debt



#### 7(a) LOAN PROGRAM

Maximum loan maturities

- Up to 25 years for real estate
- Up to 10 years for machinery & equipment
- Generally, 7 10 years for working capital, inventory



#### 7(a) LOAN PROGRAM

#### How It Works:

- Prepare business plan/loan proposal
- Submit to lender for review
- Lender decides to make loan themselves, make loan with an SBA guaranty, or decline
- If with SBA guaranty, lender chooses "delivery method"



- Applicant, lender, or packager prepare required
   SBA paperwork
- Lender submits request for guaranty to SBA
- SBA reviews, notifies lender of approval or decline
- If approved, loan closed by lender
- Borrower makes payments to lender



#### PRIMARY REASONS TO USE SBA

- New start-up
- Lack of collateral
- Longer term financing needed
- Equity/down payment is less than lender's internal policy



#### **WHAT LENDERS & SBA LOOK FOR**

- Ability to repay the loan from cash flow historical &/or projected
- Adequate equity invested in the business ("down payment" for start-up/change of ownership; "debt-tonet worth ratio" for existing business)
- Sufficient Capital are <u>total</u> funds enough to operate the business on a sound financial basis?



- Owners/Operators of good character (credit history)
- Management Experience
- Collateral secondary source of repayment
  - Market Values vs. Liquidation Value
  - SBA will not decline loan applications solely due to lack of collateral, but will secure to the maximum extent possible



### 7(a) LOAN PROGRAM

#### **Delivery Methods:**

#### Standard 7(a)

- Any lender can participate
- ✓ Full review of eligibility & credit by SBA
- √ 85% guaranty on loans of \$150,000 and less; 75% guaranty on loans > \$150,000
- ✓ SBA processing time 10 business days if complete
- ✓ Maximum loan amount \$5 million



#### **Small/Rural Lender Advantage**

- ✓ Designed for smaller-volume SBA lenders
- ✓ Abbreviated application
- ✓ Review of eligibility & credit by SBA
- ✓ SBA guaranty same as Standard 7(a)
- ✓ SBA processing time: 4-5 business days if complete
- ✓ Maximum Ioan amount \$350,000



#### **SBA Express & Patriot Express**

- ✓ Designated lenders must be approved to use programs
- ✓ Lenders use own forms, analysis and procedures
- ✓ Lender makes credit decision; no credit review by SBA
- ✓ One-page SBA application
- ✓ SBA processing time Immediate



#### **SBA Express**

- Maximum loan amount: \$350,000
- Maximum guaranty: 50%
- Use of funds: term loans and revolving lines of credit



#### **Patriot Express**

- Maximum loan amount: \$500,000
- Maximum guaranty: Same as Standard 7(a)
- Uses of funds: term loans and revolving lines of credit
- Available to members of military community, including veterans, reservists, National Guard and current & widowed spouses



#### **504 LOAN PROGRAM**

- ✓ Long term, fixed rate financing for land, buildings and equipment in **secondary position** behind another lender
- Provided by SBA Certified Development Companies



✓ Can be used for <u>new project</u> (construction or purchase)

OR

✓ Can be used to <u>refinance existing debt</u> used to acquire fixed assets (through Sept. 30, 2012)



- Typical project:
  - ✓ Outside lender loans 50%
  - √ 504 Loan provides 30 40%
  - ✓ Borrower contributes 10 20%
- Maximum amount (504 share): \$5 \$5.5 million
- Loan maturity: real estate 20 years, machinery & equipment 10 years
- Interest rate: <u>fixed rate</u> on SBA 504 loan share, typically below market rate



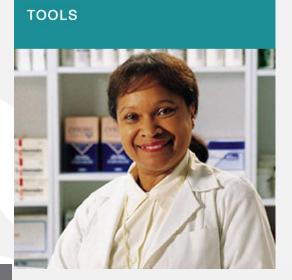
#### **Microloans**

- Provides small loans up to \$50,000
- SBA loans funds to nonprofit intermediaries; they make loans directly to small businesses
- Funds may be used for working capital, purchase of equipment, and inventory; may not be used for real estate
- Interest rate negotiated between borrower and intermediary
- Maximum term: 6 years

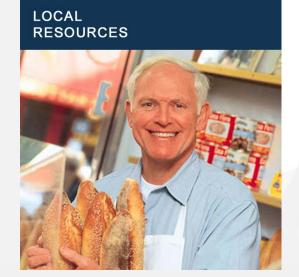


# Small Business Administration Wichita District Office









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Small Business Administration

### Thank You!

Wayne Bell
271 W. 3<sup>rd</sup> Street N., Suite 2500
Wichita, KS 67202
Wayne.bell@sba.gov

(316) 269-6566

