

# 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.**

## SBA – What it does

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

## 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



# Financing Your Business

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



# Financing Your Business

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



# Financing Your Business

Key source of financing for small businesses that **may not qualify** for loans from traditional sources.

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



# Financing Your Business

## ALL SBA LOAN PROGRAMS HAVE 3 PLAYERS:

- Small Business Applicant
- Lender
- SBA

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

# Financing Your 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

# Financing Your Business

## 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 non-payment
- Borrower still obligated for full loan amount

# Financing Your Business

## 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

# Financing Your Business

- 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

# Financing Your Business

## 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

# Financing Your Business

## 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

# Financing Your Business

## 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”



# Financing Your Business

- 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

# Financing Your Business

## 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

# Financing Your Business

## 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-to-net worth ratio” for existing business)
- Sufficient Capital – are **total** funds enough to operate the business on a sound financial basis?

# Financing Your Business

- 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***

# Financing Your Business

## 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

# Financing Your Business

## 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 loan amount - \$350,000

# Financing Your Business

## 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

# Financing Your Business

## SBA Express

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



# Financing Your Business

## 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

# Financing Your Business

## 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

# Financing Your Business

✓ Can be used for new project (construction or purchase)

**OR**

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

# Financing Your Business

- 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: **fixed rate** on SBA 504 loan share, typically below market rate

# Financing Your Business

## 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

SMALL BUSINESS  
PLANNER



SERVICES



TOOLS



LOCAL  
RESOURCES



**SBA.GOV**

ONLINE  
BUSINESS  
CHAT

SBA  
NEWS

VOICE  
OF  
BUSINESS

SPOTLIGHT



Delivering  
SUGGESTIONS



# Financing Your Business

## Thank You!

Wayne Bell

271 W. 3<sup>rd</sup> Street N., Suite 2500

Wichita, KS 67202

[Wayne.bell@sba.gov](mailto:Wayne.bell@sba.gov)

(316) 269-6566