Federal Program Update

SBA

April 26, 2012
10:30-12:00pm
SBA Programs

- Microloan Program
- Community Advantage
- Intermediary Lending Pilot Program
- 7(a)
- 504
SBA Microloan Program

- Provides small short-term loans up to a maximum of $50,000 to small business concerns and certain types of non-profit childcare centers.

- SBA makes loans of up to $750,000 to approved intermediary lenders which are nonprofit community based organizations (including tribal governmental entities) with at least 1 year of experience in making/servicing loans under $50,000 and 1 year experience in providing business management training and technical assistance to its micro-borrowers.

- Created to assist women, low income, minority and veteran entrepreneurs and others in obtaining small amounts of capital.
SBA microloan to micro borrower

• Loan maximum $50,000. Multi-party financing can be $150,000, but microloan max is 1/3 total
• For working capital, inventory, F & F, M & E
• No refinance
• No real estate financing
• Maximum term is 6 years
• Interest rates are fixed, with a max spread of 7.75%-8.5% over cost of funds
• Intermediaries usually require collateral as well as personal guarantee of business owner
SBA Loans to Microloan Program Intermediaries

- Term: 10 years
- Maximum individual loan size:
  - $750,000 for 1st year participants
  - $1,250,000 for subsequent years (as of 5/1/12)
- Maximum principal balance: $5,000,000
- Interest rate: base rate is the 5 year Treasury Bill Rate
  - 2% buy down if lifetime avg. microloan is ≤ $10,000
  - 1.25% buy down if lifetime avg. microloan is > $10,000
Other Requirements for SBA Microloan Intermediaries

1. SBA dedicated Microloan Revolving Fund (MRF)
2. SBA dedicated Loan Loss Reserve Fund (LLRF)
3. Technical Assistance account (which may be general operating account for Grant Funds)
4. Each SBA loan to intermediary must have its own MRF & LLRF
5. Matching funds – mandatory 15% of any loan disbursement from SBA (non-federal, non-borrowed funds only)
SBA Microloan Intermediaries Must Provide TA

- SBA provides grants to intermediaries to defray cost
- TA Services are delivered in a manner suitable for the market of the intermediary. TA can include business topics such as:
  - Business formation
  - Pro forma financial/breakeven/planning/analysis
  - Marketing of Small Business
  - Bookkeeping and Accounting
  - Basic Tax, Licensing and legal requirements
  - Personnel and Labor Issues
SBA Grant Awards For Technical Assistance

- Up to 25% of intermediary’s outstanding SBA debt
- 5% Bonus for Intermediaries with an SBA portfolio averaging $10,000 or less
- First year may be subject to a waiting period due to SBA budget cycle
- May request an advance at the beginning of participation, then all payments are made via reimbursement
- TA grants are non-competitive, based on amount eligible
Grant Funds Can Be Used to:

- Provide Technical Assistance
- Direct expenses that are:
  - Allowable
  - Allocable
  - Reasonable

Exception: Indirect costs of up to 25% can be used for overhead and admin costs with an approved indirect cost rate agreement from SBA.
Grant Limitations

- Cannot be used for loan administration costs
- At least 75% for post-loan TA.
- No more than 25% used for counseling and training prospective borrowers (can refer them to SBDC, WBC, SCORE or other providers)
- No more than 25% used to contract with third parties who will provide TA
Grant Match Requirements

• For each grant dollar SBA contributes, the Intermediary must contribute 25 cents of non-federal non-borrowed funds.

• Community Development Block Grant (CDBG) funds are considered to be non-federal funds.

• In-kind match is also acceptable.
To Apply

• Online application soon to be released
• For now, contact SBA Office of Microenterprise Development:
  • Jody.Raskind@sba.gov  202-205-7076
  • Jamie.davenport@sba.gov  202-205-7516

Q & A
Intermediary Lending Pilot (ILP) Program

Intermediaries apply for funding from SBA

SBA selects 20 intermediaries

Intermediaries fund loans

ELIGIBILITY
- Broad eligibility parameters:
  - Non-profit status
  - One year of making and servicing commercial loans of up to $200,000
  - Experience assisting businesses with difficulty accessing credit

TERMS
- Below-market terms:
  - 1% interest rate
  - 20-year term
  - No collateral or fees
  - Deferral of all payments for two years

Selection Process
- SBA competitively selects a diverse set of intermediaries
- Criteria include:
  - Capitalization
  - Quality and experience of staff
  - Geographic diversity
  - Reach into underserved communities
  - Loan-making experience

NOTES
FY2012 Application Deadline: May 25, 2012

- All 7(a)-eligible businesses, except passive businesses
- Eligible uses of proceeds include working capital, real estate, etc.
- Intermediaries must continue to re-lend SBA funding
Community Advantage History

- Pilot program launched in February of 2011
- Pilot ends March 15, 2014 but may be extended or made permanent
- After initial launch, desirable modifications were identified
- Participant Guide revised in December of 2011, with Federal Register Notice published February 8, 2012
Who is eligible?

To be eligible, organizations must be one of the following:

✓ SBA Microloan Program Intermediary
✓ SBA Certified Development Company (504 Lender)
✓ Non-Federally Regulated Community Development Financial Institution (CDFI) certified by U.S. Treasury
### 7(a) Loan Program: Key Differences

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum loan size</td>
<td>• $250,000</td>
</tr>
<tr>
<td>Maximum interest rate</td>
<td>• Prime + 6%</td>
</tr>
<tr>
<td>LLRF requirement</td>
<td>• 15% cash reserve on unguaranteed portion of loan</td>
</tr>
<tr>
<td></td>
<td>• <strong>Under review</strong></td>
</tr>
<tr>
<td>Markets served</td>
<td>• 60% of the number of CA loans must be in underserved markets</td>
</tr>
<tr>
<td>Management and technical</td>
<td>• Encouraged when appropriate but not required</td>
</tr>
<tr>
<td>assistance</td>
<td></td>
</tr>
</tbody>
</table>
Definition of Underserved Markets

- Low-to-Moderate Income community
- Businesses where more than 50% of full-time workforce is low-income or resides in LMI census tracts
- Empowerment Zones and Enterprise Communities
- New businesses (in business for no more than 2 years)
- Businesses eligible for Patriot Express
Additional Differences between CA and Microloan

• Can do larger loans ($250K)
• Can do longer terms (WC & M&E-10 yrs., RE-25 yrs.)
• Can refinance
• Can finance real estate
• Can sell the loan
• Borrower can have maximum CA loans outstanding of $250,000 which does not include SBA microloans
## Key Program Features

| Percent of Guaranty                          | • 85% guaranty for loans of $150,000 or less  
|                                           | • 75% guaranty for loans greater than $150,000 |
| Maturity                                   | • Maximum of 10 years for working capital    
|                                           | • Maximum of 10 years or useful life for equipment |
|                                           | • Maximum of 25 years for real estate        |
| Guaranty Fees                              | • 0.25% for maturities ≤ 12 months           
|                                           | • For maturities > 12 months                 
|                                           | • 2.0% for gross CA loan ≤ $150,000          
|                                           | • 3.0% for gross CA loan > $150,000          
|                                           | • 0.55% on-going guaranty fee paid by lender |
Key Differences from Microloan Program

- The 7(a) program provides a **guaranty** for a portion of a small business loan, and is **not a direct loan** from SBA.
- At least initially, a **lender must submit a small business loan to SBA for approval** before closing the loan.
- The lender is responsible for following the rules and procedures outlined in 13 CFR as well as all SOPs.
- The lender’s primary points of contact are the centers (loan origination, servicing & liquidation) as well as SBA’s local district offices.
Online Resources

- Community Advantage specific information *(general information, link to Participant Guide & list of approved lenders)*
  - [www.sba.gov/advantage](http://www.sba.gov/advantage)

- General 7(a) lender information *(forms, SOPs, links to centers)*
  - [www.sba.gov/for-lenders](http://www.sba.gov/for-lenders)
How are CA Lenders funding loans?

- *Existing funds or current income stream*
- *Warehouse lines of credit from commercial banks*
  - Bank of America
  - JPMorgan Chase
  - Wells Fargo
  - Other local lenders
- *Sale of loans on secondary market*
Secondary Market Sales

- Lender sells guaranteed portion of loan through broker dealer
- Lender receives premium for sale
- Lender retains unguaranteed portion of loan
- Lender continues to service the loan for an ongoing fee (usually 1%). Lender transmits the pro-rata share of principal & interest to Colson, the fiscal transfer agent
Key Benefits of Secondary Market Sales

- **Premium Income**

- **Proceeds from sale permit lender to make additional loans**

  **Caveat:** *It is difficult to modify a loan after it is sold into the secondary market. SBA is working to develop a set of investors that would be willing to meet the needs of mission lenders.*
Lender Application Process


2. Complete SBA Form 2301 Part E, which can be found on www.sba.gov/for-lenders page of SBA website, and required attachments.

3. Send application package to local SBA District Office.

4. District Office will forward to Director, Office of Credit Risk Management for evaluation and final decision.

Brand Promise: A decision will be made no later than 45 days after OCRM receives a complete application.
Profile of Approved Applicants

Approved applicant organizations have:

- Staff with significant relevant lending experience
- Either in-house M&TA capability or established relationship with outside provider

Approved applicant organizations have the following financial characteristics:

- Unrestricted or temporarily restricted net assets of more than $350,000
- Ability to fund CA loans through cash, income, or a balance sheet that would permit additional borrowing
- Audit reports with no material weaknesses
Profile of Approved Applicants

Approved applications include:

- Well developed business plan
- Well documented description of service delivery area
- Clearly explained plan for outreach efforts to target market
- Sufficient, clear & well documented loan policies and procedures

Approved applicants also must be in compliance with current SBA programs.
Community Advantage Program Changes

- **Maximum interest rate raised to Prime + 6% from Prime + 4%**
- **CA Lenders may use Lender Service Providers**
- **Oversight strategy revised**
  - Lenders do not automatically receive examination or review after first year
  - SBA will evaluate CA Lender’s level of activity, performance metrics & risk rating to determine oversight tool to employ
  - In general, for CA Lenders with CA balance ≤ $3 million, annual oversight cost will be $150 per $1 million outstanding
Additional Anticipated Program Changes

- Fidelity bond requirement
- Reserve requirements for secondary market access

In addition, SBA has provided additional training in E-Tran to district office staff to allow them to assist CA Lenders. E-Tran is a web-based program required for submission of CA Loans.
Community Advantage Program Changes

Please Note! Other positive program changes are currently being considered

Community Advantage is a pilot program!
SBA welcomes suggestions for improvement

Contact:
Andrea Giles andrea.giles@sba.gov (202) 205-6301
Andrea Peoples andrea.peoples@sba.gov (202) 205-6549
SBA 7(a) and 504 Loans

• 7a loan guarantee programs (banks, credit unions)
  – Loans up to $5 million dollars
  – SBA guarantees 50% to 90% of lender loan
  – Various lender programs, loan guarantee programs, access methods
  – Max interest rates: Base rate + 2.25% for terms < 7 years, base rate + 2.75% for terms of 7 years or more

• 504 loan guarantee program (Certified Dev. Co.)
  – Max $5.5 million, 504 loan is 40% of total project behind bank’s 50% first lien. SBA loan is 100% guaranteed.
  – Purpose: specifically for fixed assets, major projects, purchases, and expansions
  – 10% equity is helpful to borrower
Eligible businesses that are “Small”, including affiliates

Rule of Thumb size criteria

Manufacturer 500 employees
Wholesaler 100 employees
Retailer 6.5 million in revenue

NAICS code specific restrictions
and an Alternative Standard

$15 million tangible net worth and
$5 million net after tax income
• Business is not engaged in real estate development, investments, speculative activities
• Use of proceeds is not for reimbursement of owner’s injections
• Funds are not otherwise available on reasonable terms
• Owners must be of “good character”, must personally guarantee
• Personal Resources of owners cannot be excessive
  “Personal Resources Test” is applied against “liquid” assets
• US Citizenship, or Legally Permanent Resident status of owners is required, with certain allowances
• Cash flow, or repayment ability, is demonstrated
• We do not deny credit for lack of collateral alone - we do require adequate collateral to be taken if it is available,
Lender Programs

7a: SBA reviews the credit and eligibility of applicant
PLP: SBA delegates the credit decision to lender

- Allows electronic submission and speed of decision

Express:

- SBA delegates credit decision to lender, and allows lender to determine eligibility which is reviewed by SBA after the fact
- Allows a trade off - speed/simplicity for the lender in return for a reduction in the guarantee provided by SBA

Loan Programs - Matrix in Attendee Packets
Welcome, Lenders!
Lenders play a vital role in helping SBA achieve its mission in helping small businesses start and grow across the United States. The SBA Lender Toolkit and additional information provide lenders with the resources they need to issue SBA loans today! Note: You can access the previous design until May 1, 2011.

SBA Lender Toolkit

Find

Find your Lender Relations Specialist:
Select District Office

Find a Center:
Type of Loan

Download

Loan Package Tool
Quickly access loan packages containing all forms related to a selected loan type.
Select a Loan Package

Weekly Lending Report
Popular Forms
- 10 Tab Express Purchase Demand Kit
- Lender's Application for Guaranty or Participation
- 7(a) Risk Based Lender Review

Submit

Submit This File
Submit loan packages for Guaranty

E-Tran
Submit 7(a) loan applications online.

100 Most Active SBA 7(a) Lenders
(by loan volume from 10/1/2010 to 12/31/2010)
- Wells Fargo Bank, National Association $476,967,900
- Live Oak Banking Company $261,325,000
- JPMorgan Chase Bank, National Association $229,073,800
- U.S. Bank National Association $213,316,500
- First Financial Bank $163,811,200

More
SBA Loan Programs

- 7(a) Loan Programs
- Rural Business Investment Program (RBIP)
- Small Business Investment Company (SBIC) program
- New Markets Venture Capital Companies
- CDC/504 Loan Program
- Microloan Program
- Disaster Loan Program
- Loan Program Quick Reference Guide

Working with the SBA

- Become an SBA Lender
- How to Participate in the FFIEC
- How to Participate in the CLP
- Other Partnerships with SBA
- Become an Express Lender
- Franchise Findings

Forms, Notices, and SOPs

- Forms, Notices, and SOPs
- Standard Operating Procedures (SOPs)
- Submit a Loan Application or Package
- Send This File
- E-Train "F"

Find an LRS

Search SBA Lenders

Find a Center

- Commercial Loan Service Center (CLSC) - AR
- Commercial Loan Service Center (CLSC) - CA
- National Guaranty Purchase Center (NGPC)
- Sacramento Loan Processing Center (SLPC)
- Standard 7(a) Loan Guaranty Processing Center (LGPC) - CA
- Standard 7(a) Loan Guaranty Processing Center (LGPC) - KY
- IRS Contact Information
- National Disaster Loan Resolution Center (NDLRC)

Lender Reporting

- Instructions for 1302 Lender Reporting
- 1302 Reporting Status Codes
- 1302 Resources

Lender and Loan Data

- 100 Most Active SBA 7(a) Lenders
- Additional Data Resources

Lender E-Payments

Lender Portal

- Lender Portal Login
- Lender Portal Data
- Lender Portal Data Field Definitions
- A comparison of Projected and Actual Purchase Rates

FAQs
Reasons to seek a guarantee

- Longer maturities are needed and loan is outside standard lender policies
- Collateral may be inadequate to meet normal underwriting criteria
- Start-ups, or certain industries
- Business leverage issues
- Lender’s legal or policy limit
- Minimize lender’s risk
Loan Purpose, Use of Proceeds

- Purchase a business, fund a start up
- Acquire new equipment or technology
- Purchase, construct, expand, or improve/renovate real estate
- Provide working capital - for fluctuating needs (LOC), short term or “permanent” basis
- Refinance existing business debt (w/restrictions)
- Fund the costs of a specific contract
- Finance inventory on a revolving basis domestic and foreign exports
Local District Office support

- SBA District offices provide in-person training for lenders
- Regular webinars are conducted for lenders on pertinent topics, issues and programs
- Archived webinars are available for viewing post event