SBA GUARANTEED LENDING

A HAND BOOK FOR LENDERS

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CONTENTS

INTRODUCTION

The purpose of this Handbook is to provide an accurate source of information about SBA's guaranteed loan programs. It is intended to provide some degree of depth about issues, which we believe are of most concern to our participants. It is not intended to present the final word on all issues. The Loan Guaranty Processing Centers (LGPC's) are delegated full authority to approve or decline guaranteed loan requests and they follow Rules and Regulations found in 13 CFR and Standard Operating Procedures (SOP's) in analyzing and processing individual requests. Where contradictions arise between this document and the SOP's and Regulations, the SOP and Regulations shall prevail.

The United States Small Business Administration was established in 1953 to aid and protect the interests of small business concerns. One of the principal ways this mission is carried out is through the Guaranteed Loan Program that is intended to help provide financing to small businesses when that financing is not otherwise available on reasonable terms. Use of the Program helps reduce the risk being taken by the lender, while also permitting SBA to leverage its appropriated funds. It is not the aim of the program to guaranty loans to businesses that might be identified as high risk, nonbankable, or without a reasonable assurance of repayment ability. We do target specific groups in our outreach efforts from time to time to assure that all segments of our small business constituency are aware of our programs; however, both eligibility and credit standards are essentially uniform for all guaranteed loan programs.

FREQUENTLY ASKED QUESTIONS
AND SOME ANSWERS

Q I've heard it takes forever to get a loan through SBA. How long does it really take?

A Complete loan requests submitted under the Certified Lender Program are usually processed within 3 working days; regular 7(a) loans within a week. SBAExpress loans are processed in Sacramento, CA generally within 24 hours. The single most significant element in slowing down SBA's response time is the submission of incomplete loan packages.

Q Doesn't SBA only make loans to minority-owned businesses?

A SBA loans are granted to eligible small businesses without regard to the ethnic composition of the ownership.

Q Why should my bank make SBA loans?

A In short, it's good business. Small business borrowers often can benefit from maturities longer than those typically issued by lenders. A lender can develop new business by actively offering SBA loan terms. Higher yields can be achieved through the use of the Secondary Market. And active SBA involvement can help meet Community Reinvestment Act provisions.

Q Do you have to be turned down by two banks before you can get an SBA loan?

A No. Turn down letters were only required for direct loans, which are no longer available. Lenders requesting SBA's guaranty simply sign the guaranty application form that states that the subject financing is not otherwise available. No other letters or statements are required.

Q Isn't the paperwork on an SBA loan overwhelming?

A No. The information required of the applicant in support of the standard loan application is consistent with the practices of other prudent commercial lenders. The Small/Rural Lender Advantage limits the required data to a few pages. The simplified applications used in the Express loan program require only one-page of information from the business and its owners.

Q Why does SBA always tie-up everything the borrower owns as collateral?

A Like most lenders, SBA is interested in identifying a secondary means of repayment in the event that cash flow becomes inadequate to repay the debt. It is not SBA's policy to over-collateralize its loans, but rather to make prudent evaluations of collateral to cover worst case situations.

Q SBA's image as a "lender of last resort" carries with it a perception of weak creditworthiness that bank customers don't want associated with their businesses. How can I overcome this problem in getting my customer to accept SBA financing?

A It has been decades since SBA has been such a "lender", and we must all continue our efforts to educate the customer of this reality and to show the benefits to the borrower of financing long-term debt through SBA. The reduced level of monthly payments results in cash flow improvement and increased availability of working capital. We are basically offering reasonably priced long-term financing.

Q I've heard SBA doesn't make loans to start-ups. Is that correct?

A No. SBA loans can be used, along with adequate equity capital, to assist start-ups.

PROGRAM BENEFITS

SBA's guaranteed loan program benefits small businesses primarily by helping fund long and short-term loans. By participating with SBA, the Lender will be able to lend small businesses the capital required to begin or expand their operations on terms consistent with their cash needs. The guarantee program facilitates the leveraging of SBA's appropriated funds with private-sector capital, thereby enlarging the pool of funds available to small business. It is SBA's hope that this greater accessibility of capital will promote a healthy, expanding small business community and a vibrant, productive economy.

Benefits to the Lender of active participation in SBA's guarantee loan program include:

- Assist in developing new accounts. By offering loans that are consistent with both the useful lives of the assets being financed and the ability of the customer to repay, a lender can often attract customers who have been unable to find longer-termed loans from its competitors. By receiving a longer maturity, the borrower will experience less of a drain on its working capital, thereby becoming a stronger depositor and a healthier borrower.
- Lend in excess of legal lending limit. The SBA guaranteed portion of a loan generally is not included when calculating a lender's legal lending limit to individual or affiliated borrowers, thereby permitting larger loans than would otherwise be allowed.
- Improve liquidity. While this benefit accrues primarily to small banks, all lenders can report improved liquidity ratios, since the SBA-guaranteed portion of a long-term loan is saleable and, therefore, carried as a current asset on the Lender's books. Nor is the guaranteed portion reflected as a loan in calculating the loan to deposit ratio, thereby reducing this ratio, permitting the lender to make additional loans.
- Collateralize Treasury Tax and Loan Accounts and municipal deposits. Since SBA note rates often exceed the returns on other acceptable collateral instruments for these accounts (such as Treasury Bonds), profits can be enhanced by substituting the guaranteed portion of the note for the other collateral instrument.
- Help meet Community Reinvestment Act provisions. Active participation in the SBA guaranteed loan program will improve the local economy by fostering the growth of the businesses financed and the level of employment gained by that growth. Federal examiners will often see a lender's portfolio of SBA-backed loans as demonstrating its commitment to the community.
- Increase profits and value of capital stock. An active Secondary Market exists for SBA backed loans and taking part in it can generate substantial earnings. The Lender can sell an individual loan (guaranteed portion) or a group of loans directly to an investor. It can sell through a broker or it can sell to an organization that pools loans with similar characteristics for sale to institutional investors. The Lender negotiates the sale terms, generally receiving a premium at the time of sale and a servicing fee on the full outstanding balance during the term of the loan.

STEPS TO AN SBA GUARANTY

Step 1 Execute the Loan Guaranty Agreement (SBA Form 750) which specifies the rights and obligations of the lender and SBA. This is a one time document that serves as the basis for all future long-term guaranty loan requests submitted by the lender. (Form 750B covers all guaranty requests for short-term loans - maturities of 12 months or less.)

Step 2 Analyze the specific loan request, weighing the factors and appropriate maturity and deciding whether an SBA guaranty will be requested.

Step 3 Determine eligibility as to size, type, and use of proceeds, using the Pre-application Checklist provided as an attachment to the 7(a) Application Package. Any questions concerning eligibility should be resolved with the field office as early as possible in order to avoid processing delays at some future point in time.

Step 4 Give applicant an SBA loan package with instructions to return the complete package to the lender. The Nebraska Business Development Centers (NBDC) provides free loan packaging. NBDC centers are located in Omaha, Lincoln, Wayne, Kearney, North Platte, Chadron and Scottsbluff.

Step 5 Finalize loan terms and conditions through lender's approval process.

Step 6 Complete Lender's Application for Guaranty - SBA Form 4-I. A copy of the lender's credit memorandum should be used to supplement this form.

Step 7 Submit one complete package to the Loan Guaranty Processing Center – 262 Black Gold Boulevard, Hazard, Kentucky 41701 **OR** 6501 Sylvan Road, Suite 122, Citrus Heights, CA 95610, using the 7(a) Loan Application Checklist and the 7(a) Application Package. We recommend you also include the completed Eligibility Checklist with your application.

ELIGIBILITY

Pre-application Checklists, included with the 7(a) Application Package, may be used to screen for eligibility issues.

<u>TYPE OF BUSINESS:</u> Most all small retail, service, wholesale, manufacturing and construction businesses are eligible. The following businesses are **ineligible:**

- Non-profit businesses (for-profit subsidiaries **are** eligible).
- Financial businesses primarily engaged in the business of lending, such as banks, finance companies and factors (pawn shops, although engaged in lending, may qualify in some circumstances).
- Passive businesses owned by developers and landlords that do not actively use or occupy the assets acquired or improved with the loan proceeds (except Eligible Passive Companies*).
- Life insurance companies.
- Businesses located in a foreign country (businesses in the U.S. owned by non-U.S. citizens may qualify).
- Pyramid sale distribution plans.
- Businesses deriving more than one-third of gross annual revenue from legal gambling activities.
- Private clubs and businesses that limit the number of memberships for reasons other than capacity.
- Government-owned entities (except for businesses owned or controlled by a Native American tribe).
- Businesses principally engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting.
- Consumer and marketing cooperatives (producer cooperatives are eligible).
- Loan packagers earning more than one third of their gross annual revenue from packaging SBA loans.
- Businesses with an Associate who is incarcerated, on probation, on parole or has been indicted for a felony or a crime of moral turpitude.
- Businesses in which the lender (or Certified Development Company, if a 504 loan) or any of its Associates owns an equity interest.
- Businesses which (1) present live performances of a prurient sexual nature; or (2) derive directly or indirectly more than *de minimis* gross revenue through the sale of products or services, or the presentation or any depictions or displays of a prurient sexual nature.
- Businesses primarily engaged in political or lobbying activities.
- Speculative businesses (such as oil wildcatting).

* An Eligible Passive Company must use loan proceeds to acquire or lease, and/or improve real or personal property (including eligible refinancing) that it leases to an Operating Company for the conduct of the Operating Company's business. The following conditions apply: (1) The Operating Company must be an eligible small business and the use of proceeds must be an eligible use if the Operating Company were obtaining the financing directly; (2) The Eligible Passive Company (with the exception of a trust) and the Operating Company each must be small under the appropriate size standards; (3) The lease between the Eligible Passive Company and the Operating Company must be in writing, subordinate to the SBA financing and must have a remaining term equal to at least the term of the loan. Assignments of lessee and lessor's interests are required; (4) The Operating Company and the Eligible Passive Company must be co-borrowers; and (5) Each holder of an ownership interest constituting at least 20% of the Eligible Passive Company and the Operating Company must guarantee the loan.

<u>SIZE:</u> Generally, SBA's size standards (maximum) are:

Manufacturing - 500 employees, Wholesaling - 100 employees, Retailing and Services - $7.0 million in annual receipts, Construction - $14 million in annual receipts. Standards may be higher in certain NAICS's or geographic areas.

Currently, there is an alternative size standard that may be used instead of the above criteria and is effective from May 5, 2009 to Sept. 30, 2010. This alternative size standard is, "Including its affiliates, tangible net worth not in excess of $8.5 million, and average net income after Federal income taxes (excluding any carry-over losses) for the preceding two completed fiscal years not in excess of $3.0 million."

Size determinations must include the applicant business and all affiliates. In determining whether affiliation exists, consideration must be given to all appropriate factors, including common ownership, common management, and contractual relationships.

Concerns are affiliates of each other when either directly or indirectly:
- One concern controls or has the power to control the other, OR
- A third party controls or has the power to control both, OR
- An identity of interest exists among parties such that affiliation is implied.

LOAN PURPOSE

- Purchase inventory and materials
- Purchase furniture, fixtures, machinery, and equipment
- Purchase or construct business premises
- Construct leasehold improvements
- Purchase a business
- Repay existing trade payables and/or other debt*
- Provide working capital

* NOTE: Debt refinancing is eligible when

- Many loans can be refinanced through SBA. See Standard Operating Procedures (SOP) or contact local field office for more details.
- The refinance benefits the business by improving its cash flow (total principal and interest due in the next 12 months on debt to be refinanced must decrease by at least 20% based on terms of the new loan except on balloon notes and lines of credit (LOC'S) **AND**
- If it is the participating lender's debt that is being refinanced, must not have been more than 29 days past due at any time during the past 36 months. The lender must include a statement confirming that fact, supported by a copy of the transcript (payment history).

LOAN PROCESSING

MAXIMUM LOAN AND GUARANTY AMOUNT

An SBA guaranteed loan may not exceed $2,000,000. In addition, the guaranty is limited to $1,500,000 (including all other outstanding SBA loans to the borrower and its affiliates) with the following three exceptions:

- **International Trade Loans** - maximum guaranty of $1,250,000
- **SBAExpress Loans** - maximum loan of $350,000.
- **Community Express Loans** – maximum of $250,000
- **Patriot Express Loans** – maximum of $500,000
- **Small/Rural Lender Advantage** – maximum of $350,000
- **504 Loans** – maximum SBA share of $1,500,000; (exceptions) - $2,000,000 if project involves public policy goals, maximum SBA share of $4,000,000, if loan is to small manufacturer.

MAXIMUM GUARANTY PERCENTAGE

LOAN AMOUNT	MAXIMUM % GUARANTY
Standard 7(a), Community Express, Patriot Express, and Small/Rural Lender Advantage up to $1,666,666	90%
Standard 7(a) above $1,666,666	$1,500,000 (maximum SBA guaranty) divided by the loan amount rounded down to second decimal
SBAExpress	50%

MATURITY

Most SBA loans are used to finance the long-term needs of small business. Maturities are expected to be commensurate with the business's ability to repay and the remaining useful life of the assets being financed.

The specific maturity of a loan is determined by:

- use of the proceeds
- useful life of the assets being financed
- ability to repay

MAXIMUMS:

- Working capital: generally not to exceed 10 years
- Fixed assets other than real estate: economic life of those assets - generally not in excess of 10 years.
- Construction, real estate acquisition or the refinancing of debt incurred in its acquisition - up to 25 years.

AMORTIZATION

Balloon notes are not permitted on guaranteed loans.

Fixed-rate guaranteed notes are generally amortized in equal periodic installments including principal and interest over the life of the loan. Principal plus interest and other methods of amortization may be permitted, when circumstances warrant. It is noted that principal plus interest amortizations require substantially higher payments during the earlier stages of the repayment term.

Variable rate notes are also typically amortized in equal periodic installments of principal and interest with payments calculated on the initial rate of interest. Installments are typically recalculated at the time of each fluctuation to assure full amortization of the loan within the stated maturity.

INTEREST RATE

The interest rate on an SBA guaranteed loan is negotiated by the lender and borrower and may be fixed or variable. The maximum rates* are:

- 2 1/4 percentage points over Wall Street Journal prime (or 30-day LIBOR + 3%) on maturities less than 7 years
- 2 3/4 percentage points over Wall Street Journal prime (or 30-day LIBOR + 3%) on maturities of 7 years or more

* Exception to the stated maximum rates: A lender may charge one percentage point higher than the stated maximum on loans over $25,000 up to $50,000, and two percentage points higher than the stated maximum on loans up to $25,000. The SBAExpress Loan Program allows a higher rate to be used.

Fixed Rate
The maximum fixed rate is based on the prime rate published in the Wall Street Journal on the day the guaranty request is received by SBA or three percent over the 30-day LIBOR rate. If the prime rate is expressed as a range, the lower rate is used as the base.

Variable Rate
The maximum variable rate is also based on the Wall Street Journal prime or three percent over the 30-day LIBOR rate.

Once the initial note rate has been established within the stated limits, the rate will fluctuate no more often than monthly. Floors and ceilings may be utilized as long as the spread between the initial rate and the floor equals or exceeds the spread between the initial rate and the ceiling.

CREDIT CONSIDERATIONS

SBA, like any prudent lender, evaluates an applicant's loan proposal with the primary view of establishing repayment ability. Among the factors considered are: depth and capability of management, financial health as presented by reliable historical financial statements, reasonableness of loan repayment through past and/or projected earnings of the business, and any secondary means of repayment, primarily collateral. While a working knowledge of SBA's lending philosophy is best obtained through close interaction with the local office and/or the processing center, some basic points follow:

Management is the single most important issue in evaluating the potential success of a business; yet it is the one issue that SBA is least able to analyze. While we do look at personal resumes of members of management and their personal credit information, the individuals running a business are generally much better known to the lender. For this reason, we rely heavily on the lender's analysis of management's capabilities and on the documentation of that analysis submitted with the guaranty request.

Repayment ability is evaluated through the examination of a company's past profit and loss statements and projections. Significant changes in the way the company does business, deviations from industry norms, and market and industry trends are studied. Ability to meet past obligations as agreed, particularly with the lender requesting the guaranty, is reviewed. The financial condition of the company is analyzed with consideration given to weak and intangible asset values and adjustments made, if necessary. Working capital adequacy is identified, a pro forma balance sheet is prepared reflecting the company's financial position once the loan has been granted, and ratios are compared between the company's own past records and industry standards. Loans being used to purchase or to start a business generally include comparisons with industry norms, evaluation of management's related experience, break-even analysis, and the reasonable valuation of the business being purchased.

Collateral and other secondary means of repayment are identified and evaluated. Personal guarantees of the principals owning 20% of the business are required, with lesser owners sometimes being required to provide limited guarantees. Assets acquired with the loan proceeds are generally expected to secure the loan. Other company-owned and personally-owned assets of the principals, if they are available, would be expected to offset any collateral deficiency. If a deficiency remains after all available assets have been pledged, approval of the guaranty request is still possible if all other credit factors are positive.

LOAN AUTHORIZATION

SBA's approval of a guaranty request is documented in its Loan Authorization. This document describes terms and conditions that must be met before the loan proceeds can be disbursed. SBA's National Authorizations are available at www.sba.gov/aboutsba/sbaprograms/elending.

FEES

FEES WHICH SBA CHARGES

One-time Guaranty Fee*

This fee must be paid by the lender, but may be passed on to the borrower once the loan has been disbursed. The maturity, the loan amount and the amount of the guaranteed portion determine the amount of the fee.

For long-term loans (maturities in excess of twelve months), the fee is:

- 2% of the guaranteed amount when the total loan amount is $150,000 or less. Lender is permitted to retain 25 percent of the fee.
- 3% of the guaranteed amount when the total loan amount is more than $150,000 up to and including $700,000.
- 3.5% of the guaranteed amount when the total loan amount is more than $700,000.
- Additional 0.25% on the SBA-guaranteed portion over $1 million.
- To be paid within 90 days of the Loan Authorization approval date.

As of March, 16, 2009, SBA has TEMPORARILY ELIMINATED guarantee fees to the borrower on long-term loans.

For short-term loans (maturities of twelve months or less), the fee is

- 1/4 of 1% of the guaranteed amount.
- To be submitted at the time of application.

Rebates of the guaranty fee can be issued on long-term loans when the loan remains completely undisbursed and SBA receives a written request to cancel from the lender. Rebates on short-term loans will be honored if SBA declines the loan or if the reason for cancellation is that SBA approved the loan on terms substantially different from those recommended by the lender.

On-going Guarantee Fee

SBA also charges a fee equal to .55 of one percent (0.55%) per annum of the guaranteed portion of the outstanding balance, calculated and submitted monthly. This fee may not be charged to the borrower, but may be factored into the interest rate as long as the rate is within the SBA maximum.

FEES WHICH THE LENDER MAY CHARGE

Service and Packaging Fees

The lender may charge the applicant reasonable fees (customary for similar lenders in the area where the loan is being made) for packaging and other services. The lender must advise the applicant in writing that the applicant is not required to obtain or pay for unwanted services. The applicant is responsible for determining whether fees are reasonable. SBA may review these fees at any time, and the lender must refund any such fee considered unreasonable by SBA.

Extraordinary Servicing

Subject to prior written SBA approval, if all or part of a loan will have extraordinary servicing needs, the lender may charge the applicant a service fee not to exceed 2 percent per year on the outstanding balance of the part requiring special servicing. Examples include:

- Construction loans requiring field inspections, monitoring of draw schedules, title reports, etc.
- Loans secured by accounts receivable and/or inventory that require monitoring and inspections of that collateral.

Out-of-Pocket Expenses

The lender may collect from the applicant necessary out-of-pocket expenses such as filing or recording fees.

Late Payment Fee

The lender may charge the borrower a late payment fee not to exceed 5 percent of the regular loan payment.

FEES WHICH THE LENDER OR ASSOCIATE MAY NOT CHARGE

The Lender or its Associate may not:

- Require the applicant or borrower to pay to the lender, an Associate, or any party designated by either, any fees or charges for goods or services, including insurance, as a condition for obtaining an SBA guaranteed loan (unless permitted by this part).
- Charge an applicant any commitment, bonus, broker, commission, referral or similar fee.
- Charge points or add-on interest.
- Share any premium received from the sale of an SBA guaranteed loan in the secondary market with a service provider, packager, or other loan-referral source.
- Charge the borrower for legal services, unless they are hourly charges for services actually rendered.

SPECIALIZED LOAN PROGRAMS

Section 7(a) of the Small Business Act authorizes SBA to make and guaranty loans to small businesses where the necessary financing is unavailable on reasonable terms through normal lending channels. SBA's basic guaranty program is generally used to fund the varied long-term capital needs of small businesses.

In addition to its regular loan program, SBA has designed a number of specialized programs to meet the particular needs of various segments of the small business community.

CAPLINES

All lines of credit (except the Export Working Capital Program, described further below) come under the CAPLines umbrella.

The CAPLines umbrella includes:

- **Contract Loan Program -** Assists small businesses in the short-term financing of the labor and material costs of specific, assignable contracts. A Contract Loan may finance more than one contract and may revolve, if so authorized.
- **Seasonal Line of Credit Program -** Finances the increased receivables and inventory of eligible small businesses arising from a seasonal upswing in business activity.
- **Small General Contractor Loan Program -** Assists small contractors to finance the construction or renovation of residential and commercial buildings for sale.
- **Small Asset-Based CAPLines Program -** Assists small businesses needing smaller, formula-based revolving lines of credit. The loan amount may not exceed $200,000 and multiple lines are not permitted. Eligible businesses must also demonstrate capabilities to meet higher credit standards by showing repayment ability from cash flow based on the requested loan amount being amortized over not more than 7 years.
- **Standard Asset-Based CAPLines Program -** to assist small businesses needing larger, formula-based revolving lines of credit. Lenders desiring to participate in this program must complete a Lenders Qualification Survey and be approved as a Standard Asset-Based CAPLines Lender. Significant loan servicing and collateral monitoring requirements exist for this program.

EXPORT WORKING CAPITAL PROGRAM (EWCP)

Assists small businesses that seek short-term working capital to support export sales. The loan can support a single transaction or multiple transactions.

- Eligible concerns must be in business at least one year prior to making application.
- Loan proceeds under this program may be used for pre-shipment working capital, post-shipment exposure, or a combination of the two. Additionally, the guaranty may be used to support Standby Letters of Credit used as bid bonds, performance bonds or payment guarantees to foreign buyers.
- Collateral: Since EWCP loans are transaction based, the primary repayment source is the collateral associated with an individual transaction or a series of transactions. Collateral may include export inventory, work-in-process, and assignments of contract and letter of credit proceeds. Personal guarantees are also required to support the credit.
- Maturities are usually 12-18 months for a single transaction (depending on the use of proceeds) and up to three

years for a revolving line of credit.

INTERNATIONAL TRADE LOAN PROGRAM

Assists small businesses engaged, or preparing to engage, in international trade or small businesses adversely affected by competition from imports. This program uses the regular 7(a) loan application forms.

- Eligible concerns will submit: (a) a business plan to include both a profit and loss projection and narrative substantiating the development of new or expansion of existing export markets; or (b) a narrative explanation and financial statements demonstrating how directly competitive imported items have made an important contribution to a decline in the firm's competitive position.
- SBA's maximum guaranty on these loans is $1,250,000, less any outstanding SBA guaranty. No more than $1,000,000 of SBA's guarantee can finance facilities and equipment and no more than $750,000 can be used for working capital.
- Maturities will be consistent with borrower's ability to repay and will generally adhere to the limits of 10 years for working capital and 25 years for real estate.
- It is required that a first position on those items financed be taken as collateral along with any other security considered appropriate.

CERTIFIED DEVELOPMENT COMPANY PROGRAM (504)

Finances the fixed asset requirements of small businesses through a guarantee of loans made by SBA Certified Development Companies (CDC's). Development Companies are charged with the responsibilities of: identifying eligible small businesses, performing credit analysis, recommending loan approval, closing, and servicing the loans it originates. Since the program is intended to finance the expansion needs of small business, a main eligibility consideration involves the extent to which new jobs are to be created or retained via the financing. The present rule requires that 1 job be created or retained for each $50,000 of guaranteed 504 loan proceeds.

The financing structure of a 504 proposal is different from a regular SBA guaranty. Typically, a lender will fund 50% of the total fixed asset needs of the small business, taking as collateral a senior position on those assets financed. SBA will provide a 100% guaranty of a loan made by the Certified Development Company for the next 40%, which would be secured by a second position on the project assets. The small concern itself would contribute a minimum of 10% of the total project cost. Other business and/or personal assets may also be required by the lender and/or SBA as collateral to secure their respective loans. The CDC is responsible for packaging the SBA loan and coordinating the process with the lender. A list of CDC's is contained in an attachment to this manual.

- The maximum loan amount (total project will be much larger – the maximum is on SBA’s 40% share referenced above) on 504 loans is $1,500,000, except in situations where significant public policy goals are involved, in which cases the maximum amount is $2,000,000. These goals include: expansion of exports, business district revitalization, expansion of minority, veteran or women business development, rural development, enhanced economic development (often high-tech), fostering of a sound environment, and expansion or location in areas adversely affected by Federal budget cutbacks (such as base closings). Further if the loan is to a small manufacturer the maximum loan is $4,000,000.
- The maturity on 504 loans is either 10 or 20 years, depending on the useful life of the assets being financed. The private sector lender's loan is required to have a maturity of at least 10 years when the 504 loan has a 20 year maturity, and 7 years when the 504 loan has a 10 year maturity.
- The interest rate on the 504 loan is a fixed rate based on the current market rate for five and ten year U.S. Treasury issues, plus an increment above the Treasury rate based on market conditions. The lender in the first position is free to negotiate its own rate with the small business.
- Size standards used to determine eligibility of the applicant business include either those used for the 7(a) guaranty loan program or: (1) average net profit for the past two years shall not exceed $3 million, **and** (2) net worth may not exceed $8.5 million. The applicant is eligible if both of these two **or** the 7(a) criteria are met.

MICROLOAN PROGRAM

This financing program is available through Microloan Intermediaries. Each intermediary is responsible for processing, closing and servicing its own loans. A list of Microloan Intermediaries is contained in the Nebraska Small Business Resource Guide.

- Eligible businesses must be located in the specific areas served by the intermediary and include those owned by women, low income and minority entrepreneurs, as well as business owners and other individuals possessing the capability to operate successful business concerns. This program is for start-up, newly established and growing small businesses.
- Amount, Term, Interest Rate:
  - Maximum amount - $35,000
  - Maximum term - 6 years
  - Maximum interest rate:
    - Loans $7,500 or less: 8.5% + the cost of money to the lender
    - Loans more than $7,500: 7.75% + the cost of money to the lender
- Proceeds may be used for working capital, inventory, supplies, furniture, fixtures, machinery, or equipment.

SBAExpress LOAN PROGRAM

Express streamlines the loan application process for guaranty loans in amounts of $350,000 or less, thereby reducing cost and expediting processing time. The SBA expects SBAExpress loans to be sound credits to businesses and principals with good credit histories. Emphasis is placed on the character and ability of the business owner. Lender is expected to perform a complete credit analysis without any further SBA review. SBAExpress allows the Lender to use their own forms, follow their own lending policies and use their own lending procedures. SBAExpress is a means to provide credit lines to small business customers (the only exception is floor plan financing). SBAExpress provides higher interest rate caps than other SBA loan programs – 6.5% over prime for loans up to $50,000 and 4.5% over prime on loans over $50,000.

Community Express LOAN PROGRAM

Same streamlined process as SBAExpress for loans up to $250,000. Community Express applicants must be women, veterans or minorities or their business must be located in low or moderate income areas. The Lender is expected to ensure that technical assistance is available to the Borrower. Generally that technical assistance is provided by the Nebraska Business Development Center.

Patriot Express LOAN PROGRAM

Same streamlined process as SBAExpress and Community Express for loans up to $500,000. Patriot Express applicants must be veterans, National Guard or Reserve members, and active duty service members nearing separation from the service, current spouses of the previously mentioned groups or widowed spouses of a service member who died during service or of service-connected disability.

Small/Rural Lender Advantage LOAN PROGRAM

A processing service designed to meet the needs of smaller, rural lenders. Loans are available in both rural and urban settings. Lenders averaging 20 or few SBA loans per year are eligible to use Lender Advantage; however, almost all Nebraska lenders are eligible. The Lender Advantage provides a shorter, simplified application (than standard loan guaranty package) for loans of $350,000 or less.

LOAN CLOSING & SERVICING

SBA guaranteed loans are closed and serviced by the Lender in accordance with prudent lending procedures, the terms and conditions specified in the Loan Authorization and SBA's Standard Operating Practices (SOP's). Any change to the Loan Authorization must be approved by SBA's Commercial Loan Servicing Center in writing before any disbursements are made.

STEPS TO CLOSING AN SBA GUARANTEED LOAN

1. Review terms and conditions of the Loan Authorization when received from SBA
2. Verify financial information on existing businesses, using the IRS verification procedure provided with each loan approval package.
2. Discuss terms and conditions with Borrower
3. Send the guaranty fee to SBA's Denver Fiscal Office, Denver CO 80259 upon first disbursement, but no later than 90 days from date SBA signed Loan Authorization
4. Obtain SBA's approval in writing of any proposed change to the Loan Authorization—consult "Servicing and Liquidation Matrix."
5. Have borrower execute all required documentation in accordance with Loan Authorization
6. Disburse loan proceeds
7. Follow "Servicing and Liquidation Matrix" when servicing loan

SECONDARY MARKET OVERVIEW

Why would I want to sell my loans?

- Liquidity - The SBA guarantee can be converted to cash. The sale process can be completed in as little as two weeks. The lender and buyer sign an agreement describing the rights and responsibilities of both parties (SBA Form 1086, Secondary Participation Guarantee and Certification Agreement). This agreement is sent to the fiscal and transfer agent (FTA), currently Colson Services, who reviews the documentation for completeness and contacts both parties to arrange a settlement. On the settlement date, the buyer wires money to the FTA. The FTA receives the money, issues a certificate to the buyer and wires the money to the seller.
- Profits - The profits from selling a loan come from three areas: (1) premium at the time of sale, (2) servicing fee during the life of the loan, and (3) float on the borrower's loan payment. Variable rate SBA loans usually sell at a premium. The premium varies with market conditions and the servicing fee retained by the seller. While SBA requires that an originating lender retain a servicing fee of at least 30 basis points, Lenders are free to retain a servicing fee greater than this amount. This fee consists of the cash flow from the portion of the loan retained by the lender to cover the cost of borrower visits, financial statement analysis and other items necessary to service small business loans. The payment flow from the borrower to the investor allows the lender to hold the loan payment until the end of the month in which it was received. If the borrower pays at the beginning of each month, the lender receives about one month's float on each payment. This additional float increases the yield.

How do I go about selling my loans?

While there is no requirement that a broker/dealer be used, a good first step is to call a few and get price quotes. These people are familiar with the paperwork and the selling process and make a market in the securities. After the deal is made, SBA Form 1086 is signed by all parties and, along with other required documents, is sent to the FTA.

What are my responsibilities after the sale?

The lender remains responsible for all loan servicing activities. After the sale, the lender must forward the borrower's monthly payment to the FTA (Colson Services), along with a complete accounting of the funds (using SBA Form 1502, Standard Remittance Form). Furthermore, with the exception of one three-month payment deferment, the investor before implementation must approve any servicing action that would affect the payment flow.