

## Bankers' Guide to the SBA 7(a) Loan Guaranty Program

### Abstract

This *Community Developments Insights* report describes the U.S. Small Business Administration's (SBA) 7(a) Loan Guaranty Program and the major considerations banks may need to address when using the guaranty to support their commercial lending activities. The 7(a) loan program is the SBA's flagship loan guaranty program. In fiscal year (FY) 2013, the 7(a) loan program provided 46,399 federal loan guarantees on approximately \$17.9 billion of privately originated small business loans.<sup>1</sup>

Lenders are attracted to the 7(a) loan program for a range of reasons, including flexibility in meeting the needs of small business borrowers.<sup>2</sup> Proceeds from 7(a) guaranteed loans may be used to establish new businesses or assist in the operation, acquisition, or expansion of existing businesses. If properly administered, the 7(a) loan program can also help banks safely and profitably grow their loan portfolios as well as potentially meet their Community Reinvestment Act (CRA) objectives.

The information presented in this report was obtained from a variety of sources, including interviews with staff at community and midsize national banks active in 7(a) lending, secondary market participants, trade associations, and SBA staff. Relevant reference materials, such as scholarly studies and newspaper articles, also were consulted. Appendix A provides a list of useful Web sites about the 7(a) loan program. Appendix B illustrates a 7(a) loan sale to the secondary market, and appendix C summarizes the various 7(a) subprograms.

### I. What Is the SBA 7(a) Loan Program?

Congress established the SBA 7(a) loan program (named after section 7[a] of the Small Business Act) in 1953.<sup>3</sup> The program is designed to serve creditworthy small business borrowers who cannot otherwise obtain credit at reasonable terms and do not have other sources of financing.<sup>4</sup> The program provides lenders with a guaranty that if a loan

<sup>1</sup> SBA, [Business Loan Approval](#), period ending September 30, 2013.

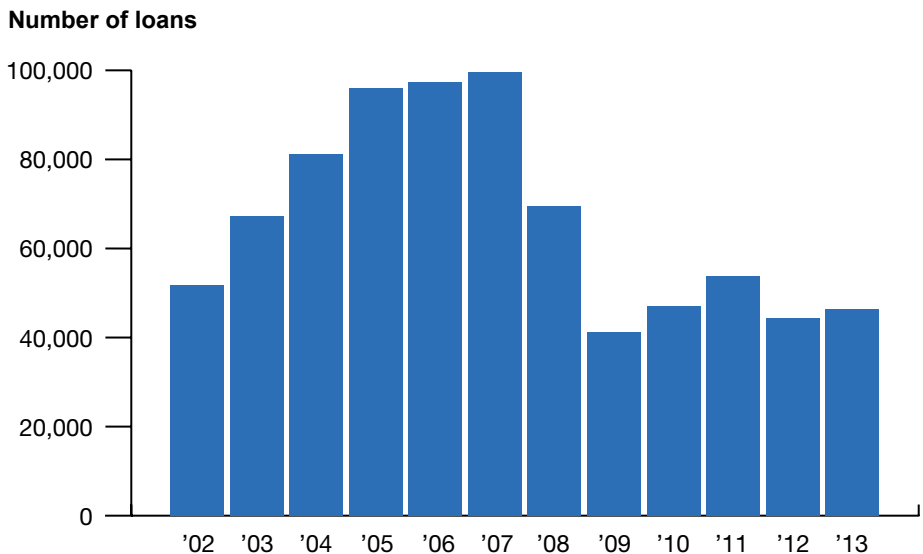
<sup>2</sup> The terms "lender" and "bank" are used interchangeably throughout this report.

<sup>3</sup> Small Business Jobs Act of 1953 (Public Law 83-163, as amended). Section 7(a) authorized the program.

<sup>4</sup> An application meets the "credit elsewhere requirement" if the small business applicant is unable to obtain the loan on reasonable terms without a federal government guaranty. Specific requirements can be found at SBA standard operating procedure (SOP) 50 10 5 (G), subpart B, chapter 2, III, C, "The Small Business Applicant Must Demonstrate a Need for a Guaranty on the Loan."

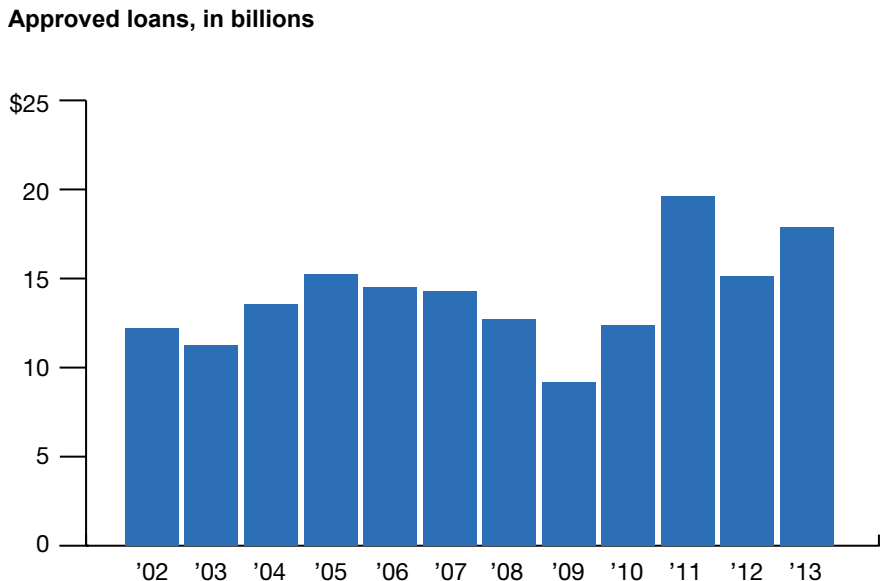
defaults, the SBA will pay off the federally guaranteed portion of the remaining loan balance. In 2011, more than 3,500 lenders originated 7(a) loans.<sup>5</sup> Between 2002 and 2013, the program’s guaranty supported more than \$168 billion in loans to small businesses.<sup>6</sup> While the number of 7(a) loans has declined since its 2007 peak, the dollar amount of loans has rebounded to new highs after dropping during the 2008 financial crisis (see figures 1 and 2).<sup>7</sup>

**Figure 1: Number of Loans Approved Through the SBA 7(a) Loan Program, FY 2002–2013**



Source: SBA

**Figure 2: Dollar Amount of Loans Approved Through the SBA 7(a) Program, FY 2002–2013**



Source: SBA

<sup>5</sup> SBA, *FY 2013 Congressional Budget Justification and FY 2011 Annual Performance Report*, p. 31.

<sup>6</sup> National Association of Government Guaranteed Lenders, 7(a) Gross Loan Approvals.

<sup>7</sup> Based on an analysis of SBA data. The maximum loan size for the 7(a) program was permanently increased to \$5 million with the Small Business Jobs Act of 2010.

## Regular 7(a)

The regular 7(a) loan program offers guaranties on loans to eligible small businesses that are structured under SBA requirements. These loans are available on a guaranteed basis to for-profit businesses that meet the SBA's eligibility requirements, which include the following:

- The business must be small, as defined by the SBA.<sup>8</sup>
- The business must not engage in prohibited activities.<sup>9</sup>
- Proceeds of the loan must be used for an eligible purpose.<sup>10</sup>
- The transaction must meet other SBA requirements.<sup>11</sup>

Regular 7(a) loans are term loans with regular monthly payments of principal and interest and an established maturity date. Lenders and borrowers may negotiate interest-only payments during start-up and expansion phases of a project, when eligible. Balloon payments or call provisions are not allowed. A lender may not charge a borrower a prepayment penalty if the loan is paid off before maturity.<sup>12</sup>

The rate and term of a loan are based on negotiations between the lender and borrower, subject to the SBA's maximums. The interest rate can be fixed or variable. The SBA guaranty is not a substitute for collateral, and the SBA expects each loan to be prudently secured. The SBA does not, however, decline requests to guarantee loans if the only unfavorable factor is insufficient collateral, provided the borrower offers all collateral it has available to secure the loan.

For the lender, the regular 7(a) loan program can provide as much as an 85 percent guaranty for loans of \$150,000 or less, and as much as a 75 percent guaranty for larger loans. The maximum 7(a) loan amount is \$5 million. There is no minimum loan amount. The conditional guaranty covers a portion of the risk of payment default by the borrower, but not the risk of improper closing and servicing by the lender.

The lender is charged certain fees for obtaining and maintaining the guaranty, which are described in more detail later in this report.

## Requesting a 7(a) Guaranty

A lender can request guaranties through different procedures, based on the lender's experience and comfort with SBA products and procedures, the lender's level of authority provided by the SBA, and, in some circumstances, the size, type, and complexity of the loan being guaranteed. Depending on the processing procedures the lender uses to request the SBA guaranty, the SBA either re-analyzes or reviews the lender credit and eligibility determination or has previously delegated those decisions to the lender.

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<sup>8</sup> SBA's [small business size standards](#).

<sup>9</sup> For instance, guaranties are unavailable for businesses involved in lending, speculating, passive investment, and illegal activities. In addition, nonprofit organizations and municipal governments are ineligible for loan guaranties.

<sup>10</sup> Proceeds can be used to purchase machinery, equipment, fixtures, and supplies; make improvements to land and buildings; finance receivables and augment working capital; acquire and start businesses; and refinance existing debt under certain conditions.

<sup>11</sup> These include the credit elsewhere test, SBA anti-discrimination rules, limitations on lending to agricultural enterprises, and adherence to sound lending requirements.

<sup>12</sup> The SBA, however, charges the borrower a subsidy recoupment fee if the loan has a maturity of 15 or more years and 25 percent or more of the loan is prepaid during the first three years. See "Prepayment Penalties" in section 6, "How Does the SBA 7(a) Cost Structure/Pricing Work?" of this report for additional details.

Standard 7(a) loan processing is used by non-delegated lenders, which often originate a small number of SBA loans annually or have less familiarity with the program. Under standard processing, non-delegated lenders submit a full application package when they request an SBA guaranty. The SBA typically confirms the originating lender's credit decision after it has conducted its own analysis of the application. That process typically takes seven to 10 business days. The lender is required to have executed a standard SBA 750 participation agreement with the SBA.

All loans of \$350,000 or less (except SBA Express and Export Express) are processed under 7(a) Small Loans. The lender is required to screen applications by submitting certain information to the SBA electronically. A credit score is generated by the SBA based on a combination of consumer credit bureau data, business bureau data, and other application data. If the application receives an acceptable credit score, the use of a shorter and more simplified lender analysis is permitted. Limited but key financial documentation is required.<sup>13</sup> If the application does not receive an acceptable score, the lender may submit a loan application using standard 7(a) large loan processing, or an SBA Express lender<sup>14</sup> may submit an application using its delegated SBA Express authority for a maximum 50 percent guaranty.

The Certified Lenders Program (CLP) is for experienced SBA lenders that have met certain performance standards. The SBA provides expedited loan processing and services under this program. Lenders submit a full application package, just like in standard 7(a) loan processing. The SBA confirms the credit decision of the originating lender by completing a credit review instead of an independently conducted analysis. That process typically takes three business days. The lender is required to have a fully executed participation agreement and a CLP agreement with the SBA.

The Preferred Lenders Program (PLP) is used by the most experienced SBA lenders. PLP lenders have delegated authority to process, close, service, and liquidate most SBA-guaranteed loans without prior SBA review. PLP lenders are responsible not only for underwriting but also for confirming eligibility for the 7(a) program for each loan. When applying for an SBA guaranty, PLP lenders submit a short checklist verifying that they conducted the appropriate customer assessments. The SBA assigns a loan number to the request. Typically, the process takes less than 24 hours. The lender is required to have a fully executed participation agreement and a PLP agreement with the SBA.

SBA Express program applications (described in more detail later in this report) are processed similarly to applications processed under the PLP program. Qualified lenders have delegated authority to make the credit and eligibility decisions. The program allows lenders to use, to the maximum extent practicable, their own loan analyses, procedures, and documentation requirements. In return for the expanded authority and autonomy provided by the SBA to lenders under the program, lenders agree to accept a maximum SBA guaranty of 50 percent.

<sup>13</sup> While each 7(a) Small Loans application is screened to determine its credit score, lenders must perform the simplified credit analysis of the applicant in order to support reasonable assurance of repayment, and this credit analysis must be documented in the loan file. Lenders are still required to analyze each application in a commercially reasonable manner, consistent with prudent lending standards. SBA SOP 50 10 5 (G), chapter 4.

<sup>14</sup> For more information on the SBA Express program, please see the "Express Loans" subsection of "Special Purpose 7(a) Loan Programs That Can Be Structured As Revolving Loans" in this *Community Developments Insights* report.

## **Special Purpose 7(a) Loan Programs**

In addition to the regular 7(a) loan, the SBA has developed several variations to address some specific financing needs of certain small businesses. These special purpose programs can vary significantly in terms of the type of qualifying business borrower, use of loan proceeds, maximum loan amount, guaranty amount, and process used to apply for the guaranty. These programs are summarized below. Appendix C provides additional information about these programs.

### **International Trade Loan Program**

The International Trade Loan program was designed to help small businesses enter and expand into international markets. The proceeds may be used to acquire, construct, improve, or expand facilities or equipment in the United States to produce goods or services involved in international trade. Proceeds can also be used for working capital and to refinance debt not structured on reasonable terms and conditions. Under the program, the SBA can guarantee up to 90 percent of the loan amount, for a maximum guaranty of \$4.5 million, less the amount of the guaranteed portion of other SBA loans outstanding to the borrower.

### **Community Advantage Program**

The Community Advantage program was designed to meet the needs of lenders serving traditionally underserved communities. The program, available to mission-focused community-based lenders, such as community development financial institutions that were previously not able to offer SBA loans, provides guaranties on loans of up to \$250,000.

## **Special Purpose 7(a) Loan Programs That Can Be Structured as Revolving Loans**

Revolving loans allow a borrower to draw down funds as they are needed, up to a pre-specified amount and over an established period of time. Small businesses typically use revolving credit to address irregular cash flows due to the timing of vendor payments or the seasonality of some businesses.

### **CAPLines Program**

The CAPLines program was designed to help small businesses meet short-term and cyclical working capital needs. Four programs are included under the CAPLines umbrella. The Contract Loan Program is used to finance costs associated with contracts, subcontracts, or purchase orders. The Seasonal Line of Credit program is used to support the building of inventory, accounts receivable, or labor and materials above normal usage for seasonable inventory. The Builders Line Program provides financing for small contractors or developers to construct or rehabilitate residential or commercial property. The Working Capital Line of Credit Program is a revolving line of credit that provides short-term working capital. The program is typically used by businesses that provide credit to their customers or whose principle asset is inventory.

### **Export Working Capital Program**

The Export Working Capital program was designed for exporters needing short-term revolving export working capital. The program provides a guaranty of up to 90

percent for loans up to \$5 million. Loan maturities are generally 12 months or less, with a maximum maturity of three years. The loan proceeds can be used to pay for the manufacturing costs of goods to export; to purchase goods or services for export; to support standby letters of credit to act as bid or performance bonds; or to finance foreign accounts receivable. Indirect exports are also an eligible use.<sup>15</sup>

### **Express Loan Programs**

Loans from an SBA Express lender can be either a revolving line of credit or a term loan. The SBA Express program provides a 50 percent guaranty for loans up to \$350,000. Because a lender can use its own forms, analysis, and procedures to process, structure, service, and disburse SBA Express loans, the requirements for repayment are set by the lender, not the SBA.

The SBA Export Express program is used to enhance a company's export development. The program provides lenders with a 90 percent guaranty up to \$350,000, and a 75 percent guaranty for larger loans up to \$500,000. The loans can be structured as term loans or revolving lines of credit. As with the SBA Express program, the responsibility to perform the applicant's credit analysis is delegated by the SBA to the lender.

## **II. Why Is the SBA 7(a) Loan Program of Interest to Banks?**

### **Serve Existing Customers, Reach New Customers**

The 7(a) loan program is designed to serve creditworthy small business borrowers that would not otherwise be able to obtain credit at reasonable terms. The Small Business Act and 7(a) loan program regulations and guidance<sup>16</sup> allow lenders to use their conventional lending practices to determine whether borrowers can obtain credit elsewhere at reasonable terms. With the 7(a) loan program, rather than decline a borrower's request for credit, the bank can offer customers who meet the program guidelines government guaranteed loans.

The U.S. Government Accountability Office (GAO) found that the most common reasons lenders cited to substantiate that borrowers could not obtain credit at reasonable terms elsewhere were that the borrower needed a longer repayment period than the lender permitted, and the borrower's collateral did not meet the lender's requirements. The age and type of business were also factors that made borrowers ineligible for conventional credit.<sup>17</sup>

Borrowers receiving 7(a) loans may become repeat customers, either with subsequent government-backed loans or with conventional loans. In addition, 7(a) borrowers may open additional accounts with their lending institutions, establishing full banking relationships such as checking and payroll accounts.

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<sup>15</sup> Refer to the Office of the Comptroller of the Currency's (OCC) Community Developments Insights report titled "[SBA's and Export-Import Bank's Working Capital Guarantee Programs](#)," April 2011.

<sup>16</sup> SBA SOP 50 10 5(G), "Lender and Development Company Loan Programs," October 1, 2014.

<sup>17</sup> GAO-09-228, "[Small Business Administration: Additional Guidance on Documenting Credit Elsewhere Decisions Could Improve 7\(a\) Program Oversight](#)," February 2009.

## Mitigate Risk Through the SBA Guaranty

The guaranty on 7(a) loans helps lenders manage risk. Several of the banks interviewed for this report used the SBA 7(a) loan program to help grow their loan portfolios.

A well-managed bank must be able to identify, measure, monitor, and control its exposure to liquidity risk in a timely and comprehensive manner.<sup>18</sup> The guaranteed, and in some cases the unguaranteed,<sup>19</sup> portion of a 7(a) loan can be sold into the secondary market. The process can generate fees for the bank, depending on the rate and maturity of the loan and the market conditions at the time of sale. When banks sell their 7(a) loans, the SBA requires that they retain the servicing of the loans. Typically, the originating lender retains a 1 percent annual servicing fee on the guaranteed portion of the loan sold into the secondary market. Banks continue to earn interest income on the unguaranteed portion of the loans still in the banks' portfolios.

## Qualify for Potential CRA Consideration

Bank loans with SBA guaranties have the potential to receive CRA consideration as either loans to small businesses or as community development loans, provided they meet the geographic requirements of the CRA regulation. For example, the CRA performance evaluation under the large bank test includes a review of small business loans that meet the definition of "loans to small business" on the Consolidated Reports of Condition and Income.<sup>20</sup> Loans over \$1 million may qualify as community development loans if the loan purpose meets the CRA definition of community development.<sup>21</sup>

Institutions evaluated under the small and intermediate small bank tests receive CRA consideration for business loans of any amount that finance small businesses, which are defined as businesses with gross annual revenues of \$1 million or less. Intermediate small banks may opt to have business loans of any amount that meet the definition of community development considered as either business loans under the lending test or community development loans under the community development test.

Banks may receive CRA consideration for investments in securities backed by the guaranteed portion of SBA loans if the underlying loans meet certain geographic requirements and have a primary purpose of community development.

Examiners consider investments in securities that benefit the bank's assessment area(s). Examiners may also consider investments that benefit the broader statewide or regional area that includes the bank's assessment area(s). The bank may provide documentation to show the investment meets the CRA's geographic requirements for consideration. Examiners typically consider any information provided by the bank that reasonably

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<sup>18</sup> OCC, "Liquidity" booklet of the *Comptroller's Handbook*, June 2012.

<sup>19</sup> The SBA requires that lenders keep at least 10 percent of the gross loan, although that portion can be reduced with the SBA's permission. For more information, see SBA SOP 50 10 5 (G), subpart B, chapter 8.

<sup>20</sup> Loans to small businesses are defined as those with original amounts of \$1 million or less that are reported as "loans secured by nonfarm or nonresidential real estate" or "commercial and industrial loans" in part 1 of the call report.

<sup>21</sup> Activities that promote economic development by financing small businesses meeting the size requirements of the SBA's Development Company or Small Business Investment Company programs, and activities that help to create, retain, or improve jobs for low- or moderate-income individuals or in low- or moderate-income geographies or areas targeted by federal, state, local, or tribal governments for redevelopment, are considered to have a primary purpose of community development.

demonstrates a specific security includes serving geographies or individuals located within the bank's assessment area(s) or the broader statewide or regional area that includes the assessment area(s).<sup>22</sup>

For all banks, providing technical assistance on financial matters to small businesses qualifies as a community development service. For example, banks may provide assistance to small businesses in preparing loan application packages for submission to local, state, or federal government agencies.

For additional information and guidance on the CRA, refer to the regulations and the interagency questions and answers on the CRA.<sup>23</sup>

### **III. How Does the SBA 7(a) Loan Program Work?**

#### **Becoming a 7(a) Participating Lender**

A bank interested in participating in the 7(a) loan program can start the process with a written request to the local SBA field office to be a participating lender. If the field office determines that the bank meets the requirements to be a 7(a) participant,<sup>24</sup> both parties execute a loan participation agreement. Additional agreements may also be necessary, depending on the 7(a) subprogram.

#### **Marketing the 7(a) Program**

Banks identify potential 7(a) customers in several ways. Experienced lenders typically cite word-of-mouth as a frequently used and expedient channel. Lawyers, accountants, commercial brokers, and real estate professionals can be good referral sources. Advertising can also be effective. Lenders that provide small business financing in underserved markets may explore developing collaborative relationships with government agencies, foundations, universities, and other organizations that provide resources for small business development. Organizations such as SBA-sponsored Small Business Development Centers and SCORE assist borrowers with business plan development, marketing strategies, and loan packaging services. Banks that partner with nonprofit technical assistance providers may increase their capacity to make safe and sound 7(a) loans.<sup>25</sup>

Some lenders use loan agents or brokers to procure loans. The SBA classifies three types of loan agents: loan packagers, referral agents, and lender service providers (LSP). "Loan packagers," according to the definitions in the Code of Federal Regulations (CFR),<sup>26</sup> are agents compensated by either loan applicants or lenders to prepare loan applications. "Referral agents" refer either loan applicants to lenders or lenders to loan applicants.

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<sup>22</sup> Large institutions with a nationwide branch footprint typically have many assessment areas in many states; thus, investments in nationwide funds are likely to benefit such an institution's assessment area(s) or the broader statewide or regional area that includes its assessment area(s), and provide that institution with the opportunity to match its investments with the geographic scope of its business.

<sup>23</sup> 12 CFR 25 and "Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment," March 11, 2010. See also "Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment"; Notice, 78 Fed. Reg. 69671, November 20, 2013.

<sup>24</sup> 13 CFR 120.410.

<sup>25</sup> OCC, *Effective Strategies for Community Development Finance*, Washington, D.C., 2000.

<sup>26</sup> 13 CFR 103.1.



Referral agents may be compensated by either party. LSPs carry out lender functions in originating, disbursing, servicing, or liquidating loans in return for compensation from lenders.<sup>27</sup>

Loan agents can help lenders, borrowers, and the SBA by screening prospective borrowers for eligibility early in the loan origination process and, when appropriate, preparing application paperwork in a complete, consistent manner. Loan agents can also increase small business access to capital by reaching underserved communities and bringing into the program people who otherwise might not be served by the SBA. Agents often bring smaller, rural banks into the 7(a) loan program, where one or two SBA loans can be very meaningful to a small town's economy. Unfortunately, some agents have been involved in fraudulent schemes and unsavory business practices. Banks using loan agents or brokers should conduct a thorough due diligence when selecting an agent,<sup>28</sup> and adhere to the standard operating procedures (SOP).<sup>29</sup>

Banks may identify potential customers internally. Typically, a small business borrower approaches a bank for a conventional loan. If the borrower is unable to qualify for a conventional loan based on conventional underwriting procedures, the bank may decide to utilize the SBA 7(a) program. Often, the bank has specialized staff who support the loan officer in determining the eligibility of a loan applicant for the 7(a) loan program.

### **Guaranty Application**

The application process depends upon the 7(a) loan program and the authority of the lender.

Most of the experienced lenders we spoke with used delegated authority, such as the PLP. Under delegated authority, participating lenders use a combination of SBA and their own forms, procedures, and analyses. With streamlined paperwork, it can take as little as 20 minutes to complete the initial application. The SBA typically provides a lender with a response within 24 hours.

Non-delegated lenders use the standard 7(a) process. Lenders we interviewed estimated that completing a standard 7(a) guaranty application package takes five to seven business days. The majority of the time is spent collecting the necessary documentation from the applicant. A loan officer must ensure that all of the proper documentation material is provided to the SBA's 7(a) Loan Guaranty Processing Center (LGPC). Loan guaranty applications include, but are not limited to, the 7(a) eligibility questionnaire; a list of collateral; personal financial statements; business financial statements, such as balance sheets, reconciliation of net worth, and cash flow analysis; a history of the business; resumes of principals; and an explanation of how the proceeds will be used.<sup>30</sup> The LGPC requires detailed information that must be complete for an application to be processed in a timely manner. If any of the required information is absent, the process can be slowed.<sup>31</sup>

<sup>27</sup> SBA SOP 50 10 5 (G), subpart B, chapter 3, "Loan Terms and Conditions," IX, "Agents," October 1, 2014.

<sup>28</sup> OCC Bulletin 2013-29, "[Third Party Relationships: Risk Management Guidance](#)," October 30, 2013.

<sup>29</sup> SBA SOP 50 10 5 (G), subpart B, chapter 3, "Loan Terms and Conditions," IX, "Agents," October 1, 2014.

<sup>30</sup> SBA SOP 50 10 5(G), subpart B, chapter 6, "Submission of Application for Guaranty," October 1, 2014.

<sup>31</sup> According to the SBA, the most common reasons applications are delayed are that the repayment ability is not properly demonstrated; the personal financial statements are incomplete; available collateral is not pledged; the loan term requested exceeds standard policy; the standard application form (SBA Form 912) is incomplete; the explanation of tax liens is not provided; and the current financials, affiliate information, statement of personal history (SBA Form 912), and pro forma balance sheets are missing.

For non-delegated 7(a) loans, lenders submit their guaranty applications to one of the LGPC's two locations, which are in Citrus Heights, California, and Hazard, Kentucky, depending on the borrower's location. Applications submitted under any delegated authority are submitted directly through E-tran (SBA's electronic origination program).

Loans up to \$350,000 are electronically processed under 7(a) Small Loans. Lenders obtain certain data from the applicant and then receive a score get a qualification indication from the SBA. If the score is positive, the lender may complete a streamlined credit memo and make a formal request to the SBA for guaranty. If the application does not receive an acceptable credit score, the lender may submit a standard 7(a) loan application to the LGPC or process it using SBA Express if it is an approved SBA Express lender.

### **Servicing and Reporting**

If the bank receives guaranty approval from the SBA, the bank can close the loan. After closing, the lender services the loan and the SBA moves the loan records from the LGPC to one of two commercial loan service centers in California or Arkansas.

A lender must have a continuing ability to evaluate, process, close, service, liquidate, and litigate small business loans.<sup>32</sup> A lender may contract with a third party LSP to assist the lender with one or more of these functions. The lender itself, not the LSP, however, must be able to demonstrate that it has day-to-day responsibility for evaluating, processing, closing, disbursing, servicing, liquidating, and litigating its SBA portfolio. A formal agreement between the LSP and the lender, approved by the SBA, is required.<sup>33</sup>

Each lender must provide a monthly report on SBA Form 1502 that includes loan status information for all of the lender's SBA-guaranteed loans.

If a borrower defaults on an SBA-guaranteed loan, the bank can request that the SBA honor its loan guaranty.<sup>34</sup> This request, depending on loan type, is administered either by the assigned commercial loan service center directly or is transferred to the SBA National Guaranty Purchase Center in Herndon, Va. In most cases, when a loan goes into default the liquidation of the collateral is completed by the bank and occurs prior to the SBA's payout of the remaining guaranteed portion of the loan balance.

### **Secondary Market**

A secondary market was established in the 1970s to provide greater liquidity to lenders and thereby expand the availability of commercial credit for small businesses. In a secondary market sale, the SBA's conditional guaranty to a lender converts into an unconditional guaranty to an investor.<sup>35</sup> With the exception of lines of credit or revolving loans, most 7(a) loans can be sold on the secondary market.

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<sup>32</sup> 13 CFR 120.410. For more information on these responsibilities, please see Ryan C. Senegal and Bryan P. Stevens, FDIC, *Supervisory Insights, From the Examiner's Desk: SBA Lending: Insights for Lenders and Examiners*, summer 2001.

<sup>33</sup> SBA SOP 50 10 5 (G), subpart B, chapter 3, "Loan Terms and Conditions," IX, "Agents," October 1, 2014.

<sup>34</sup> A guaranty purchase is when the bank submits a request to the SBA for the payout of the guaranteed portion of the 7(a) loan if the borrower defaults. The SBA's payment to a bank on the guaranteed portion of a loan is known as the guaranty payout.

<sup>35</sup> 13 CFR 120.620.

The secondary market is overseen by the SBA and administered by the fiscal transfer agent (FTA). The FTA centrally registers all secondary market transactions, facilitates the first sale of the loan, collects payments from lenders on sold loans, remits payments to investors, and notifies the SBA of delinquencies, among other responsibilities.

The lender often starts the process by contacting brokers/dealers to get selling price quotes. Brokers/dealers are familiar with the paperwork and selling process and make a market in the securities. A lender may, however, sell a loan directly to an investor without the services of a broker/dealer.<sup>36</sup> The SBA maintains lists of approved pool assemblers.<sup>37</sup>

The lender remains responsible for all loan servicing activities. The lender must forward the borrower's monthly payments to the FTA with a complete accounting of the funds. The lender may modify the loan, although—in most cases—that requires the investor's consent.<sup>38</sup>

Lenders are permitted to securitize the unguaranteed portion of SBA-guaranteed loans. The sale of the unguaranteed portion of the loans goes through a different process. The unguaranteed portion is sold to a trust, which issues certificates to investors. The lender is required to hold a portion of the securities issued by the trust. The size of the lender's retention is related to the loss rate of the lender.<sup>39</sup>

#### **IV. What Are the Key Risks and Regulatory Considerations Presented by the SBA 7(a) Loan Program?**

##### **Lender Credit Analysis**

A lender making 7(a) loans needs to undertake a thorough credit analysis of the loan request and understand the risk inherent in the proposed transaction. Both the lender and the SBA share risk. Lenders with delegated authority, which encompass most loans made through the 7(a) program, make decisions to extend credit within SBA SOP guidelines but without prior SBA approval. The lender's analysis is subject to the SBA's review and determination of adequacy, however, when the lender requests the SBA purchase its guaranty or when the SBA is conducting a review of the lender as part of its ongoing oversight of delegated lenders. For lenders using standard 7(a) processing, the SBA makes the final credit determination.

Lenders are required to use appropriate, prudent, and generally accepted industry credit analysis processes and procedures for commercial lending. Requirements for underwriting are outlined in the SBA SOP.<sup>40</sup>

SBA credit underwriting requirements are separated into three categories. The first is for 7(a) Small Loans, which consist of any loan of \$350,000 or less (except SBA Express and SBA Export Express). The second is for any loan over \$350,000 processed using Standard, CLP, or PLP procedures. The third is for any loan that is processed using SBA Express or SBA Export Express.

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<sup>36</sup> The transaction still requires participation by the FTA and in most cases requires pre-approval by the SBA.

<sup>37</sup> Refer to the SBA's [Active Pool Assembly](#).

<sup>38</sup> SBA SOP 50 57, "7(a) Loan Servicing and Liquidation," chapter 7, March 1, 2013.

<sup>39</sup> SBA SOP 50 10 5 (G), subpart B, chapter 8, "Post-Disbursement, Secondary Market, Securitization, and Lending Reporting," October 1, 2014. For more information, see 13 CFR 120.420 through 13 CFR 120.428.

<sup>40</sup> SBA SOP 50 10 5 (G), chapter 4, "Credit Standards, Collateral, and Environmental Policies," October 1, 2014.

On SBA-guaranteed loans, the cash flow of the small business applicant is the primary source of repayment, with the liquidation of collateral as the secondary source. If cash flow is insufficient, the loan request must be denied, regardless of the collateral available. While a loan request cannot be denied solely on the basis of insufficient collateral, the lender is required to collateralize the loan to the maximum amount possible,<sup>41</sup> up to the loan amount, provided collateral is available. In addition, the lender must determine if the amount of equity in the transaction is acceptable based on the factors related to that type of business, experience of the management, and the level of competition in the market area. The lender must include in its credit analysis a detailed discussion of the required equity and its adequacy.

Loans applications of \$350,000 or less that are processed under 7(a) Small Loans are first screened by the SBA under its credit scoring model. If the credit score is acceptable, lenders must perform a simplified credit analysis of the applicant in order to support reasonable assurance of repayment, and this credit analysis must be documented in the loan file. SBA's credit memo requirements for loan applications processed through 7(a) Small Loans are identified in SBA SOP 50 10 5 (G), chapter 4.

### **SBA Oversight**

The SBA is required to perform annual reviews of delegated lenders in the PLP, and is authorized to assign risk ratings to its lenders.<sup>42</sup> The SBA developed the Loan/Lender Monitoring System, which assigns a 7(a) lender a composite rating based on the lender's portfolio and other criteria. A rating of 1 indicates strong portfolio performance and the least risk, and requires the lowest degree of SBA management oversight. A 5 rating indicates weak portfolio performance and the highest risk, and requires the highest degree of SBA management oversight.<sup>43</sup>

The Loan/Lender Monitoring System is used by the SBA to monitor and conduct off-site reviews of all lenders. Off-site monitoring serves as the primary means of reviewing lenders, although the SBA may determine at its discretion to conduct on-site reviews of these lenders. The SBA typically couples off-site monitoring with on-site reviews for large-volume 7(a) lenders. The on-site reviews are to ensure that large-volume 7(a) lenders are originating and servicing loans according to the program's standards.

### **Loan Guaranty Claims**

The SBA may suspend or revoke the authority of a lender to conduct 7(a) loan program activities.<sup>44</sup> To ensure the guaranty, lenders must structure loans according to SBA loan requirements, comply with the SBA loan authorization, and certify that all matters were performed with due diligence.<sup>45</sup> The SBA has established SOPs as practical requirements

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<sup>41</sup> The SBA expects most 7(a) loans to be fully secured if sufficient collateral is available. For loans in excess of \$350,000, if business assets do not fully secure the loan, the lender must take available personal assets of the principals as collateral. SBA SOP 50 10 5 (G), subpart B, chapter 4, II, "Collateral," October 1, 2014.

<sup>42</sup> SBA Office of the Inspector General, *The SBA's Portfolio Risk Management Program Can Be Strengthened*, Report No. 13-17, July 2, 2013.

<sup>43</sup> See 13 CFR 120.10 (definitions related to "Risk Rating"), 13 CFR 120.1015 ("Risk Rating System"), and 75 Fed. Reg. 9257, March 1, 2010, and 75 Fed. Reg. 13145, March 18, 2010 ("Risk Rating Notices").

<sup>44</sup> 13 CFR 120.1400–1600.

<sup>45</sup> 13 CFR 120.410.

for lenders based on sound lending practices for all steps of the loan process. Common reasons<sup>46</sup> for denial of the SBA to purchase all or a portion of the 7(a) guaranty include the following:

- The lender has failed to request that the SBA purchase a guaranty within 180 days after maturity of the loan.<sup>47</sup>
- The required lien position was not obtained.
- Loan proceeds were not used for the authorized purpose.
- Servicing actions were insufficiently documented.

Lenders interviewed for this report noted few, if any, instances of SBA denials, although all mentioned that the process of guaranty purchase could be slow.

### **Legal Lending Limits, Risk Weighting, and Allowance for Loan and Lease Losses**

The federally guaranteed portion of a 7(a) loan does not count toward a bank's legal lending limit. For example, if a bank's legal lending limit is \$1 million, the bank can make a 7(a) loan above that amount with a 75 percent guaranty because the guaranteed portion is not included in the limit.

The federal guaranty also lowers a lender's risk-weighting for meeting capital requirements (i.e., the risk weight for capital purposes is lower than for unguaranteed loans).<sup>48</sup> The bank should take the guaranty into account when determining the adequacy of the bank's allowance for loan and lease losses, as long as the payment from the SBA is probable.<sup>49</sup>

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<sup>46</sup> Katie Sanders, "[Realizing on Your SBA 7\(a\) Loan Guaranty—Recovery Is Not Always Guaranteed](#)," Engle, Hairston, and Johanson, PC, July 22, 2013.

<sup>47</sup> 13 CFR 120.524(a)(8).

<sup>48</sup> The 7(a) guaranty to the lender is "conditional," based on the lender following certain requirements established by the program. For non-advanced approaches banks, the guaranteed portion of a loan receives a 20 percent capital risk weighting and the unguaranteed portion receives a 100 percent risk weighting. Until January 1, 2015, non-advanced approaches banks should refer to 12 CFR 3, appendix A to part 3, "[Risk-Based Capital Guidelines](#)." As of January 1, 2015, non-advanced approaches banks should refer to 12 CFR 3, subpart D, and note that the risk weights remain the same. As of January 1, 2014, advanced approaches banks should follow the eligible guarantee framework in 12 CFR 3, subpart E, to calculate the capital charge.

Under the regulatory agencies' "advanced approaches" capital framework, which implements standards developed by the Basel Committee on Banking Supervision, firms must meet specific risk measurement and management criteria when calculating their risk-based capital requirements. The framework applies to large, internationally active banking organizations—generally those with at least \$250 billion in total consolidated assets or at least \$10 billion in total on-balance sheet foreign exposure—and includes the depository institution subsidiaries of those firms.

<sup>49</sup> When a bank is reviewing its SBA loans to determine if such loans are subject to classification or allowance for loan and lease losses consideration, the non-guaranteed portion of the SBA loans would be reviewed for consideration when the loans are put on the books, even before they become problem assets. While the method of evaluation would change to ASC 310-10 rather than ASC 450, it would still be considered. If it is determined that a SBA loan is a problem loan, typically the guaranteed portion is considered a "pass." An allowance for loan and lease loss may, however, be necessary even for the guaranteed portion. See the OCC's September 2013 *Bank Accounting Advisory Series*, page 142, question 31. It is possible to have a situation in which the guaranteed portion would also be subject to classification. If a bank buys only the guaranteed portion of a SBA loan (either pools or certificates), it is possible that an allowance for loan and lease losses may not be necessary given the 100 percent unconditional government guarantee. On the other hand, when a bank retains only the non-guaranteed portion, there may be significant allowance for loan and lease losses necessary given the increased risk and only a conditional guarantee.

## V. Who's in the SBA 7(a) Business Today?

Enterprises receiving 7(a) loans are spread across the country and span all for-profit sectors of the economy, including the retail, manufacturing, service, and construction industries. The 7(a) loan program contributes a much greater proportion of loans to start-ups and women and minority-owned businesses than the conventional market.<sup>50</sup> In FY 2013, 24 percent of 7(a) loan recipients were minority-owned businesses, 17 percent were women-owned businesses, and 31 percent were start-ups.<sup>51</sup> While the SBA permits loans to companies with up to 500 employees, most 7(a) loan recipients have fewer than 25 employees.<sup>52</sup>

### Bank Participation

More than 2,000 lenders worked with the SBA to originate 7(a) loans in 2007. The number of participating lenders grew to 3,537 in 2011, before falling to 2,476 in FY 2012.<sup>53</sup>

Most lenders originate fewer than 10 7(a) loans per year (see table 1). Less than 1 percent of the 7(a) lenders in 2013 originated more than 1,000 7(a) loans per year. The median dollar volume originated in 2013 was just over \$1 million.

**Table 1: SBA 7(a) Loans in FY2013**

Number of loans	Number of lenders	Percent of lenders	Number of loans approved	Gross approval amount	Percent of approval amount
1 to 9	1,709	73.4%	5,145	\$2,203,676,400	12.3%
10 to 49	504	21.7%	10,408	\$4,690,170,500	26.2%
50 to 99	59	2.5%	4,254	\$2,190,837,400	12.3%
100 to 999	49	2.1%	11,664	\$5,344,014,100	29.9%
1,000 and more	6	0.3%	14,927	\$3,439,337,100	19.2%

Source: SBA

<sup>a</sup> Does not add to 100 percent because of rounding.

<sup>50</sup> GAO, *Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance*, Washington, D.C., 2007. According to this study, between 2001 and 2004 conventional lending contributed 5 percent to start-ups and 9 percent to minority-owned small businesses, while the 7(a) program contributed 25 percent to both categories.

<sup>51</sup> SBA, *SBA Lending Statistics for Major Programs*, September 30, 2013.

<sup>52</sup> Shelli Rossman, B. Brett Theodos, Rachel Brash, Megan Gallagher, Christopher Hayes, and Kenneth Temkin, *Key Findings from the Evaluation of the Small Business Administration's Loan and Investment Programs: Executive Summary*, Urban Institute, Washington, D.C., 2008.

<sup>53</sup> SBA, *FY 2014 Congressional Budget Report and FY 2012 Annual Performance Report*.

## VI. How Does the SBA 7(a) Cost Structure/Pricing Work?

### Interest Rate and Maturity

The interest rate on a 7(a) guaranteed loan is negotiated between the lender and borrower, subject to SBA maximums.<sup>54</sup> Both fixed and variable interest rates are allowed. A variety of factors determines the interest rate charged, including competition, risk, collateral, and the borrower's relationship with the bank.

While 7(a) loans can be variable or fixed rate, most are variable rate,<sup>55</sup> although the preferences of individual lenders may vary. The variable rate typically adjusts every quarter, in response to changes in the prime rate. Lenders may establish ceilings and floors for variable rate loans. The SBA requires that the floor be equal to or greater than the difference between the stated rate and the ceiling. For instance, if the beginning rate is 9 percent and the ceiling is 200 basis points above the beginning rate, the ceiling would be 11 percent and the floor must be 7 percent or less.<sup>56</sup>

Loan maturity is based on loan use and the borrower's ability to repay. Working capital loan maturities typically range from five to seven years. Machinery and equipment loan maturities cannot exceed the average life expectancy of the equipment, and real estate loans can have up to a 25-year term.<sup>57</sup>

According to a GAO study conducted in 2007, 7(a) loans tended to be larger, have a variable interest rate, have a longer maturity, and have a higher interest rate than comparable conventional loans.<sup>58</sup> This is consistent with the goal of serving borrowers with loan requests that lie outside a bank's traditional lending criteria. Lenders interviewed for this report stated that 7(a) loans tended to have similar rates and fees to conventional loans, plus the additional cost of the SBA guaranty fee.

### SBA Guaranty, Servicing, and Oversight Fees

The SBA charges lenders an upfront, one-time guaranty fee and an annual ongoing servicing fee for each loan approved and disbursed. Lenders may also be required to pay fees for ongoing SBA oversight.

The guaranty fee is based on the loan maturity and the amount of the guaranteed portion of the loan (see table 2). For loans of \$150,000 or less, the lender is authorized to retain 25 percent of the fee. For loans with a maturity of 12 months or less, the lender is required to submit the fee with the application. For loans with maturities exceeding 12 months, the lender must pay the SBA guaranty fee within 90 days of the date of the loan's approval. The lender may charge the borrower the fee after the lender has made the first disbursement of the loan.<sup>59</sup>

<sup>54</sup> SBA SOP 50 10 5 (G), subpart B, chapter 3, "Loan Terms and Conditions," section IV, "Interest Rates," October 1, 2014.

<sup>55</sup> GAO, *Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance*, Washington, D.C., 2007.

<sup>56</sup> SBA SOP 50 10 5 (G), subpart B, chapter 3, "Loan Terms and Conditions," section IV, "Interest Rates," October 1, 2014.

<sup>57</sup> 13 CFR 120.212. A portion of a 7(a) loan used to acquire or improve real property may have a term of 25 years plus an additional period needed to complete the construction or improvements.

<sup>58</sup> GAO, *Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance*, Washington, D.C., 2007.

<sup>59</sup> SBA SOP 50 10 5 (G), subpart B, chapter 3, "Loan Terms and Conditions," October 1, 2014.

**Table 2: Guarantee Origination Fees**

Loan maturity	Gross loan size	Upfront guaranty fee as a percentage of the guaranteed portion of the loan
12 months or less	Up to \$5 million	0.25%
Exceeds 12 months	\$150,000 or less	2.00%
Exceeds 12 months	\$150,001 - \$700,000	3.00%
Exceeds 12 months	\$700,001 - \$1 million	3.50%
Exceeds 12 months	More than \$1 million	3.50% on guaranteed portion up to \$1 million + 3.75% on guaranteed amount in excess of \$1 million

Source: SBA. See the SOP for the most up-to-date and detailed information.

Note: On October 1, 2014, the SBA extended fee relief on 7(a) loans through fiscal year 2015. Both the upfront guaranty fee and the annual servicing fee were reduced to zero on loans of \$150,000 or less. In addition, fee relief for SBA Veterans Advantage loans was renewed and expanded. This fee relief is scheduled to expire September 30, 2015. SBA Press Release 14-58, October 1, 2014.

Lenders are required to pay SBA an annual service fee. This fee is set at the time of loan approval and based on the outstanding principal balance of the guaranteed portion of each loan. SBA specifies the amount of the fee each fiscal year for all loans approved during that year.

This service fee is paid by the lender to the SBA, and cannot be charged to the borrower.<sup>60</sup>

The SBA may also charge a fee for off-site monitoring and on-site examination and reviews of SBA lender performance. Lenders are charged an annual fee for off-site monitoring. The assessment of fees may be waived for lenders owing less than a threshold amount. On-site reviews, if applicable, are billed after completion of the examination or review.<sup>61</sup>

### **Lender Packaging, Servicing, and Other Fees**

The lender may charge an applicant packaging or other “reasonable fees” customary for similar lenders in the geographic areas where the loan is being made. The lender must advise the applicant in writing that the applicant is not required to obtain or pay for unwanted services. These fees are subject to SBA review at any time, and the lender must refund any such fee considered unreasonable by the SBA.<sup>62</sup>

Lenders may charge an applicant an additional fee if all or portions of a loan have extraordinary servicing needs. The fees are subject to prior written SBA approval. A lender may collect from the applicant necessary out-of-pocket expenses, including filing or recording fees; charges for photocopying, delivery, collateral appraisals, and environmental impact reports that are obtained in compliance with SBA policy; and other direct charges related to the loan closing. The lender is also allowed to charge the borrower a late payment fee not to exceed 5 percent of the regular loan payment when the borrower is more than 10 days delinquent on its regularly scheduled payment.<sup>63</sup>

<sup>60</sup> 15 USC 636(a)(23). The SBA loan servicing fee as of October 1, 2014, cannot exceed 0.51 percent of the outstanding balance of the guaranteed portion of the loan.

<sup>61</sup> SBA SOP 50 10 5 (G), subpart A, chapter 1, “How the SBA Oversees 7(a) Lenders,” October 1, 2014.

<sup>62</sup> 13 CFR 120.221.

<sup>63</sup> SBA SOP 50 10 5 (G), subpart B, chapter 3, “Loan Terms and Conditions,” October 1, 2014.



## **Prepayment Penalties**

The lender is not permitted to charge the borrower a prepayment penalty. For loans with terms of more than 15 years, however, the SBA charges the borrower a subsidy recoupment fee if 25 percent or more of the loan is voluntarily prepaid in the first three years. The subsidy recoupment fees are as follows: 5 percent of the prepayment during the first year, 3 percent during the second year, and 1 percent during the third year.<sup>64</sup>

## **VII. What Barriers Have Limited Bank Participation in the SBA 7(a) Loan Program?**

### **Misunderstandings Concerning Role of Guaranty**

Some lenders believe that if they participate in the 7(a) program, they must make loans that the SBA would allow, but the lenders are uncomfortable making from a risk management standpoint. SBA SOP, however, require the borrower to be creditworthy. The SBA expects the loan to be reviewed using prudent underwriting standards, and there must be sufficient cash flow to pay the debt. The bank and the SBA share risk in the transactions, and both have a mutual interest in good underwriting and strong loan performance.

### **Program Complexity and Reporting**

The SBA 7(a) loan program has strict guidelines for eligibility, underwriting, and servicing. The SOP for the program is approximately 400 pages, and the rules can change frequently.

Recurring SBA lenders have made investments in the people and infrastructure necessary to build their capacity to comply with the SBA regulations efficiently. Less frequent SBA lenders have traditionally used the more time-intensive standard 7(a) processing to obtain a 7(a) guaranty for a proposed loan. The SBA has been incorporating new procedures, such as 7(a) Small Loans, to make it easier for new and less frequent users of the program to participate.

### **Fees**

Some report that the current fee structure discourages lenders from making smaller loans. The SBA created several new programs to encourage the participation of smaller and mission-driven lenders.

## **VIII. Conclusion**

If properly administered, the 7(a) loan program can be a valuable tool in helping banks meet customer needs, safely and profitably grow their loan portfolios, and meet certain regulatory requirements. In 2013, more than 2,500 lenders partnered with the SBA to make small business loans that they would not otherwise be able to make. Lenders using the 7(a) loan program need to be aware that the program has strict guidelines for eligibility, underwriting, servicing, and reporting. Even infrequent users of the program need to be aware of the program guidelines and regulations.

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<sup>64</sup> Ibid.

## **Appendix A**

### **Additional Resources**

Small Business Administration

7(a) loan program

Lender portal

OCC Small Business Directory

Coleman Report

National Association of Government Guaranteed Lenders

National Small Business Association

Urban Institute's 7(a) research

## Appendix B

**Table 3: Illustrative 7(a) Loan Sale Year One Cash Flow Analysis**

Loan amount	\$500,000
Maturity	20 years
Prime rate*	3.25%
Guaranteed % (\$375,000)	75.00%
Unguaranteed % (\$125,000)	25.00%
Gross rate (variable rate, adjusts quarterly) Prime + 2.0%	5.25%
Servicing fee (retained by lender)	1.00%
Net rate (to investor)	4.25%
Sale price**	108.50
Premium (%)	8.50%
<b>Guaranteed portion (amount to be sold)</b>	
Current loan balance x guaranteed %	\$375,000
<b>Unguaranteed portion (invested fund)</b>	
Current loan balance x unguaranteed %	\$125,000
Premium (\$) earned on sale Guaranteed portion x premium	\$31,875
Servicing fee on guaranteed portion Guaranteed portion x servicing fee (1%)	\$3,750
Interest income on unguaranteed portion Unguaranteed portion x gross rate	\$6,563
Year 1 cash flow Premium + servicing + interest (unguaranteed portion of loan)	\$42,188
Less guarantee fee Origination guarantee fee***	(\$11,250)
<b>Total</b>	<b>\$23,750</b>

Source: OCC

Note: This is not meant to characterize an accounting of this transaction under generally accepted accounting principles (GAAP).

\* Prime rate as of October 23, 2013, from The Wall Street Journal

\*\* Sale price determined by market conditions

\*\*\* Origination guarantee fees based on loan terms (see table 2).

Appendix C

Table 4: 7(a) Subprogram Term Loans

Program	Use of proceeds	Maximum loan amount	Percent of guaranty	Maturity	Structure	Maximum interest rates	Which lenders qualify	Credit analysis
Regular 7(a)	Acquire land; purchase existing buildings; convert, expand, or renovate buildings; construct new buildings; acquire and install fixed assets; acquire inventory; purchase supplies and raw materials; purchase a business; start leasehold improvements; term working capital; and under certain conditions, to refinance certain outstanding debts.	A regular 7(a) loan can be for as much as \$5 million. The SBA's limit to any one business is \$3.75 million; therefore, a business can have multiple loans guaranteed by the SBA, but the SBA portion cannot exceed \$3.75 million.	Loans up to \$150,000 guaranteed up to 85%; loans over \$150,000 guaranteed up to 75%. Businesses with multiple SBA loans may get some variations.	Based on the use of the proceeds and the borrower's ability to repay. Not based on collateral. Maximum maturity: 10 years for working capital (seven years is common); 10 years for fixed assets; 25 years for real estate.	Term loans with one monthly payment of principal and interest. Borrower contribution required. Interest rate depends upon how the lender applies for the guaranty. Cannot revolve, no balloon or call provisions.	Can be fixed or variable. Loans less than 7 years: \$0 - \$25,000: Prime + 4.25%. \$25,001 - \$50,000: Prime + 3.25%. Over \$50,000: Prime + 2.25%. Loans 7 years or longer: \$0 - \$25,000: Prime + 4.75%. \$25,001 - \$50,000: Prime + 3.75%. Over \$50,000: Prime + 2.75%.	Lenders that have an executed participation agreement with the SBA. CLP or PLP requires additional agreement.	Standard processing: lender to cover all aspects of prudent credit analysis with emphasis on applicant's ability to repay from operation. SBA conducts analysis of lender's work. CLP: SBA reviews lender's work. PLP: delegated to lender.

**Table 4: 7(a) Subprogram Term Loans (continued)**

Program	Use of proceeds	Maximum loan amount	Percent of guaranty	Maturity	Structure	Maximum interest rates	Which lenders qualify	Credit analysis
Community Advantage	Same as regular 7(a) except restrictions on some types of refinancing.	Maximum loan \$250,000.	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).	Prime plus 6%.	Same as regular 7(a), plus an executed Community Advantage Agreement.	Similar to regular 7(a) except credit factors to consider are more defined.
International Trade Loan	Acquire, renovate, or modernize facilities or equipment used in making products or services to be exported. Also for permanent working capital and to refinance business debts currently on unreasonable terms.	Same as regular 7(a), but when the borrower has both international trade and working capital loans guaranteed by the SBA, the limit to any one business can be \$4 million.	Up to 90% on the total loan amount.	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).

Source: SBA. See the SOP for the most up-to-date and detailed information.

**Table 5: 7(a) Subprogram Loans With Revolving Option – Express**

Program	Use of proceeds	Maximum loan amount	Percent of guaranty	Maturity	Structure	Maximum interest rates	Which lenders qualify	Credit analysis
SBA Express	Same as regular 7(a) except restrictions on some types of refinancing.	Maximum loan \$350,000.	Guaranty is 50%.	Same as regular 7(a).	Same as regular 7(a), but revolving lines of credit for up to seven years are also allowed.	If \$50,000 or less, cannot exceed prime + 6.5%. If over \$50,000, cannot exceed prime + 4.5%. Prime may be lender prime.	Same as regular 7(a), plus an executed SBA Express agreement.	Delegated to lender.
Export Express	Similar to export working capital loans and international trade loans that meet export related eligibility criteria.	Maximum loan \$500,000.	90% for loans of \$350,000 or less; 75% for loans over \$350,000 up to \$500,000.	Same as regular 7(a).	Same as regular 7(a), but revolving lines of credit for up to seven years are also allowed.	Same as SBA Express.	Same as regular 7(a), plus an executed Export Express agreement.	Delegated to lender.
SBA Veterans Advantage 1/1/2014–9/30/2014	Same as 7(a). Small businesses must be owned and controlled by one or more of the following groups: veteran, active duty military in TAP, reservist, or National Guard member, or a spouse of any of these groups, or a widowed spouse of a service member or veteran who died during service, or a service-connected disability.	Same as SBA Express or regular 7(a).	Same as SBA Express or regular 7(a).	Same as SBA Express or regular 7(a).	Same as SBA Express or regular 7(a).	Same as SBA Express or regular 7(a).	Same as SBA Express or regular 7(a).	Same as SBA Express or regular 7(a).

Source: SBA

**Table 6: 7(a) Subprogram Loans With Revolving Option – Working Capital**

Program	Use of proceeds	Maximum loan amount	Percent of guaranty	Maturity	Structure	Maximum interest rates	Which lenders qualify	Credit analysis
Export Working Capital	Short-term working capital for export purposes, including ability to support an export stand-by letter of credit.	Same as regular 7(a).	Percentage of guaranty up to 90% of loan amount.	Can be up to a maximum of 36 months, but generally 12 months or less.	Finance single or multiple transactions. Interest paid monthly, principal paid as payments from items shipped overseas are collected. Can be renewed annually. Extra fees apply. Generally revolving.	No SBA maximum.	Same as regular 7(a).	Same as regular 7(a).
Seasonal CAPLines	Same as regular 7(a). Plus, in business for at least one year and can demonstrate seasonal financing needs.	Same as regular 7(a).	Same as regular 7(a).	Up to five years.	Revolving loans; a “clean up” period of 30 days is required to finance activity for a new season.	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).
Contract CAPLines	Used to finance the costs associated with contracts, subcontracts, or purchase orders.	Same as regular 7(a).	Same as regular 7(a).	The loan maturity is usually based on the length of the contract, but no more than 10 years.	If used for one contract or subcontract, it is generally not revolving; if used for more than one contract or subcontract at a time, it can be revolving.	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).

**Table 6: 7(a) Subprogram Loans With Revolving Option – Working Capital (continued)**

Program	Use of proceeds	Maximum loan amount	Percent of guaranty	Maturity	Structure	Maximum interest rates	Which lenders qualify	Credit analysis
Builders CAPLines	Financing for small contractors or developers to construct or rehabilitate residential or commercial property. Proceeds are used solely for direct expenses of acquisition, immediate construction, and/or significant rehabilitation of residential or commercial structures.	Same as regular 7(a).	Same as regular 7(a).	Loan maturity is generally three years but can be extended for up to five years.	Can be revolving or not.	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).
Working Capital CAPLines	Generally used by businesses that provide credit to their customers, or whose principal asset is inventory.	Same as regular 7(a).	Same as regular 7(a).	Up to 10 years.	Revolving line of credit.	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).
Export Working Capital Program Loans	Same as regular 7(a). Plus, must have been in business one year and engaged or preparing to engage in exporting.	Same as regular 7(a).	Same as regular 7(a).	Can be a maximum of 36 months, but generally 12 months or less.	Generally revolving.	Same as regular 7(a).	Same as regular 7(a).	Same as regular 7(a).

Source: SBA



David Black updated this report in December 2014. Derek Hyra was the primary author of the original report, issued in September 2008. *Community Developments Insights* reports differ from OCC bulletins and regulations in that they do not reflect agency policy and should not be considered definitive regulatory or supervisory guidance. Some of the information used in the preparation of this paper was obtained from publicly available sources. These sources are considered reliable, but the use of this information does not constitute an endorsement of its accuracy by the OCC.





