



Small Business Administration Programs

How can a bank use SBA's programs?

Small Business Administration's (SBA) finance programs provide collateral support, technical assistance and, in some cases, financing for up to 90 percent of a project's cost. SBA loan guarantees can assist banks in expanding the availability of credit to small businesses with the potential for success but lack the current capacity to qualify for conventional bank loans.

What are the benefits to a bank participating in SBA programs?

- Can provide an additional source of fee income.
- The guaranteed portion of the loan is saleable on the secondary market which can provide liquidity.
- The guaranteed portion of SBA loans has a lower risk-based capital requirement.
- Can provide support for loans with less than optimal collateral coverage.
- SBA Certified Development Company (504) loans can provide fixed asset financing for up to 90 percent of the project cost.
- Loans made under the SBA programs may be eligible for CRA credit.

SBA 7(a) guaranteed loan programs

- SBA guaranteed loan programs are for loans that are not bankable without an SBA guarantee.

- SBA 7(a) Loan Guarantee Program provides a guarantee up to 90 percent of the bank's loan.
- Variations of the 7(a) loan program are designed to accommodate targeted needs and provide a 50 percent to 90 percent loan guarantee. These 7(a) programs include:

- Standard 7(a)
- SBA Express
- Small/Rural Lender Advantage
- Patriot Express
- Community Express
- CAPLines
- Export Working Capital Program
- Export Express
- International Trade Loans

How to participate in the SBA 7(a) program

- Lenders must execute an SBA Form 750 Loan Guaranty Agreement.
- Loans are documented by the lender but must be approved by SBA prior to disbursement.
- Lender will close all loans and retain copies of executed loan documents in loan files.
- Lender will pay the SBA a monthly servicing fee of ½ of 1 percent of the outstanding loan balance.
- SBA will purchase the guaranteed percentage of the outstanding balance of a guaranteed loan that is in default in excess of 60 days.

Increasing levels of program participation

SBA provides lenders with increasing levels of lending authority based on the lender's prior performance under the 7(a) and related guaranteed loan programs.

- **Participating Lender** - Loans are documented by the lender but must be approved by SBA prior to disbursement.
- **Certified Lender Program** – Expedited approval process. Loans are documented by the lender and approved by SBA on a “review basis” prior to disbursement.
- **Preferred Lender Program** – SBA delegates loan approval, closing and most servicing and liquidation authority to these select experienced SBA lenders.

SBA Certified Development Company (504) loan program

SBA's Certified Development Company (504) loan program funds up to 90 percent of the project cost to finance fixed assets, such as real estate and heavy equipment.

- This program is for established businesses and loans should be bankable without SBA participation.
- SBA requires a minimum 10 percent down payment or borrower equity.
- The bank-funded portion usually funds 50 percent of the project cost and has a first lien position.
- SBA, through the Certified Development Company, funds up to 40 percent of the project cost with a second lien.
- Under certain circumstances, refinancing of existing debt is permitted if the existing loan was used to finance 504 – eligible fixed asset.
- SBA does not provide a loan guarantee for the bank-funded portion of the financing.

- The borrower works directly with an SBA Certified Development Company to underwrite the SBA funded portion of the loan.
- Bank-funded construction or bridge financing is permissible.
- The bank may not take additional collateral except during the construction or bridge financing, and the additional collateral must be released after the SBA-funded portion is disbursed.
- Personal guarantees of the principal owners may be required.
- The 504 program cannot be used for working capital and inventory but can be used for refinancing.

The American Recovery and Reinvestment Act of 2009 (Recovery Act)

The enactment of the Recovery Act on February 11, 2009 resulted in some of the fees and guarantees associated with the 7(a) and 504 programs being affected. They include:

- Temporary elimination of the 7(a) upfront guaranty fee, which depending on the loan amount ranges from 0.25 percent to 3.75 percent of the guaranteed portion of the loan.
- Temporary elimination of 504 borrower application fee, which is 1.5 percent of the total loan.
- Temporary elimination of 504 lender fee on first mortgage, which is ½ percent of first loan amount.
- Temporary increase in the basic 7(a) guaranty up to 90 percent from the current 85 percent.

The original funding in the Recovery Act for fee relief and higher guarantees has been exhausted. However, several temporary extensions have been approved providing additional funding for these purposes.

Risk Tips

The SBA has identified the following eight strategies a bank utilizing the 7(a) program should employ to ensure its guarantee is preserved and its claim is paid in event of default.

1. Make sure that the borrower's financial information received in conjunction with a loan application (or subsequently received in conjunction with a change in business ownership) is verified through the IRS.
2. Make sure that loan proceeds are used as required in the authorization.
3. Provide evidence of the borrower cash equity injection which would have been required prior to the disbursement of the loan.
4. Request loan purchase within 120 days after the date of default of the loan.
5. Prepare a collateral list as required by the loan authorization (or prudent lending practice) and be sure you can assert rights over this collateral.
6. Obtain proper lien position on collateral and perfect all liens.
7. Properly service and liquidate collateral.
8. Make appropriate site visits in a timely manner to ensure against removal of collateral.

For more information

- SBA's information on changes to their programs due to the American Recovery and Reinvestment Act of 2009 at:
<http://www.sba.gov/recovery/information/index.html>
- SBA's information about the 7(a) program at:
<http://www.sba.gov/services/financialassistance/sbaloantopics/7a/>

- SBA's information about the 504 program at:
http://www.occ.treas.gov/cdd/2010_Insights_504.pdf
- OCC's 7(a) Community Developments Insights report at:
[http://www.occ.treas.gov/cdd/Insights-SBAs7\(a\).pdf](http://www.occ.treas.gov/cdd/Insights-SBAs7(a).pdf)
- OCC's District Community Affairs Officers contact information can be obtained at:
<http://www.occ.treas.gov/cdd/commfoc.htm>