

What Is the SBA 7(a) Loan Guaranty Program?

The 7(a) program is the Small Business Administration's (SBA) flagship loan guaranty program. The program was designed to expand access to capital for small businesses.

The program helps creditworthy small businesses acquire financing when they cannot otherwise obtain credit at reasonable terms. The program covers business borrowing requests in which the business has sufficient cash flow to repay the loan but may not have the necessary collateral or history required by a bank's lending policy.

The SBA does not provide funds to the borrower. Instead, the SBA guarantees a portion of the lender's loan, which is conditional based on the lender following certain requirements established by the SBA. If the borrower defaults, the SBA pays off the guaranteed portion of the remaining loan balance. This conditional guaranty covers a portion of the risk of borrower repayment default.

The 7(a) program is a flexible tool that can be used to finance a variety of business purposes. The proceeds of a 7(a) guaranteed loan may be used to purchase machinery, 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.

The regular 7(a) program's maximum loan amount is \$5 million. There is no minimum amount. The regular 7(a) loan program provides an 85 percent guaranty for loans of \$150,000 or less and a 75 percent guarantee for larger loans. Other, more specialized 7(a) programs have different terms and guaranty amounts.

How Can Banks Request a Guaranty From the SBA?

Non-Delegated Lenders

Non-delegated lenders, typically new or infrequent SBA lenders who have not been granted a higher level of authority or delegated status by the SBA, have two options to request an SBA guaranty: 7(a) Small Loans and standard 7(a) processing.

7(a) Small Loans: Loans of \$350,000 or less may be processed under 7(a) Small Loans. The lender initially screens applications by submitting certain information about the proposed borrower to the SBA electronically. The SBA generates a credit score based on a combination of consumer credit bureau data, business bureau data, and other application data. If the application receives an acceptable SBA credit score, the lender is permitted to use a shorter, simplified analysis. Limited but key

financial documentation is required.¹ If the application does not receive an acceptable score, the lender may submit a loan application using standard 7(a) loan processing, or an SBA Express lender may submit an application using its delegated SBA Express authority for a maximum 50 percent guaranty, as described in the “Express Lenders Programs” section of this *Community Developments Fact Sheet*.

Standard 7(a) processing: Under standard 7(a) processing, lenders submit a full application package when they request SBA guaranty. The SBA confirms the originating lender’s credit decision with its own analysis of the application, which typically takes five to 10 business days.

Delegated Lenders

More experienced SBA lenders may request delegated authority from the SBA.

Certified Lenders Program: The Certified Lenders Program (CLP) is for experienced performing SBA lenders. The SBA provides expedited loan processing and services under this program. Under the CLP, lenders submit a full application package, as with standard 7(a) loan processing. Rather than conducting its own analysis, however, the SBA confirms the originating lender’s credit decision. The process typically takes three business days.

¹ 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 required to analyze each application in a commercially reasonable manner, consistent with prudent lending standards. SBA Standard Operating Procedure (SOP) 50 10 5 (G), “Lender and Development Company Loan Programs,” subpart B, chapter 4, “Credit Standards, Collateral, and Environmental Policies,” October 1, 2014.

Preferred Lenders Program: The most experienced SBA lenders use the Preferred Lenders Program (PLP). PLP lenders have delegated authority to process, close, service, and liquidate most SBA guaranteed loans without prior SBA review. When applying for SBA guaranty, PLP lenders submit a short checklist verifying that appropriate customer assessments were conducted. Typically, the SBA’s approval process takes less than 24 hours.

Express Lenders Programs: Express programs are processed similarly to the PLP. Qualified lenders have delegated authority to make credit and eligibility decisions. The program allows lenders to use, to the maximum extent practicable, their respective loan analyses, procedures, and documentation. In return for the expanded authority and autonomy provided by the program, lenders agree to accept a maximum SBA guaranty of 50 percent.

Is There a Secondary Market for SBA 7(a) Loans?

A secondary market for the guaranteed portion of 7(a) loans 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. With the exception of lines of credit or revolving loans, most 7(a) loans can be sold on the secondary market.

The lender remains responsible for all loan servicing activities. The lender may modify the loan, although modifications often require the investor’s consent.² Lenders are also permitted to securitize the unguaranteed portion of SBA-guaranteed loans.

² SBA SOP 50 50 4, “Loan Servicing.”

What Are the Benefits to Banks?

- **Serve existing customers and reach new customers:** The 7(a) program helps banks serve customers who may not meet conventional underwriting criteria, expanding the bank's customer base.
- **Mitigate risk through the SBA guaranty:** The guaranty on 7(a) loans helps lenders manage risk.
- **Qualify for potential Community Reinvestment Act (CRA) consideration:** Loans with SBA guarantees have the potential to receive CRA consideration. To be eligible for consideration, SBA guaranteed loans would need to meet the definition of a "small business loan" or "community development loan" in the CRA regulation. The loans would also need to meet geographic requirements, as well as any other requirements, of the CRA regulation.³
- **Manage legal lending limits:** The guaranteed portion of a 7(a) loan may not count against a bank's legal lending limit, permitting the bank to make 7(a) loans in amounts above the bank's legal lending limit when consistent with safety and soundness.
- **Limit capital requirements:** The 7(a) guaranty also lowers a lender's risk-weighting for meeting capital requirements (i.e., the risk weight of guaranteed loans for capital purposes is lower than for unguaranteed loans).

³ See 12 CFR 25 and 12 CFR 195 and "Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment," 75 Fed. Reg. 11642, March 11, 2010. See also "Community Reinvestment Act: Interagency Questions and Answers Regarding Community Reinvestment," 78 Fed. Reg. 69671, November 20, 2013.

What Risks and Fees Do Lenders Face?

A lender making 7(a) loans needs to undertake a suitable credit analysis of the loan request and understand the risk inherent in the proposed transaction. Both the lender and the SBA share risk.

Lenders must use appropriate, prudent, and generally accepted industry credit analysis processes and procedures. A lender may use a business credit scoring model as long as the lender uses the model for its similarly sized, non-SBA guaranteed commercial lending.

SBA credit underwriting requirements are separated into three categories:

- 7(a) Small Loans, which consists of any loan of \$350,000 or less (except SBA Express and Export Express).
- Any loan over \$350,000 processed using standard, CLP, or PLP procedures, and 7(a) Small Loans that do not receive acceptable credit scores.
- Any loan processed using SBA Express or Export Express.

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 to support reasonable assurance of repayment, and this analysis must be documented in the loan file. The 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.

To ensure that the SBA does not suspend or revoke 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.⁴ The SBA has established SOPs as practical requirements for lenders based on sound lending practices for all steps of the loan process.

Regular and Specialized 7(a) Programs

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

- The business must be small, as defined by the SBA.⁵
- The business must not engage in prohibited activities.⁶
- Proceeds of the loan must be used for an eligible purpose.⁷
- The transaction must meet other SBA requirements.⁸

For the borrower, regular 7(a) loans are term loans with regular monthly payments of principal and interest and an established

⁴ 13 CFR 120.410.

⁵ The SBA's small business [size standards](#).

⁶ 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.

⁷ 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.

⁸ These include the credit elsewhere test, SBA anti-discrimination rules, limitations on lending to agricultural enterprises, and adherence to sound lending requirements.

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. The lender may not charge a borrower a prepayment penalty if the loan is paid off before maturity.⁹

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

The **International Trade Loan Program** helps 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 that are then used to produce goods or services involved in international trade. Proceeds may also be used for working capital and to refinance debt not structured on reasonable terms and conditions. Under the International Trade Loan 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.

The **Community Advantage Program** helps meet the needs of lenders serving traditionally underserved communities. The program—available to mission-focused, community-based lenders, such as community development financial institutions previously unable to offer SBA

⁹ The SBA charges the borrower a prepayment fee if the loan has a maturity of 15 or more years and is prepaid during the first three years.

loans—provides guaranties on loans of up to \$250,000.

The **CAPLines Program** helps small businesses meet short-term and cyclical working capital needs through four specialized programs. The Contract Loan Program finances costs associated with contracts, subcontracts, or purchase orders. The Seasonal Line of Credit Program supports inventory, accounts receivable, or labor and materials above normal usage for reasonable 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. Businesses that provide credit to their customers or whose principal asset is inventory use the program most often. The guaranty and maximum loan amount is the same as the regular 7(a) program.

The **Export Working Capital Program**¹⁰ is 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 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.

The **SBA Express Program** allows loans to be structured as 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 **Export Express Program** can enhance a company's export development, and provides lenders with a 90 percent guaranty on loan amounts 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. Generally, loans made under Export Express are subject to the same loan processing requirements as SBA Express. As with SBA Express, the credit analysis and decision under Export Express are delegated to the lender.

For More Information

[Small Business Administration](#)
[“Banker’s Guide to the SBA 7\(a\) Loan Guaranty Program.”](#) OCC *Community Developments Insights* report
[OCC Small Business Resource Directory](#)

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¹⁰ For more information, see the OCC’s *Community Developments Insights* report on [“SBA’s and Export-Import Bank’s Working Capital Loan Guarantee Programs,”](#) April 2011.