



Minority Depository Financial Institution Advisory Council

SBA New Program Update

March 1, 2011



“Advantage” Loan Programs:

A simpler, faster and more profitable way to get SBA’s full loan guaranties for smaller loans

Overview



The “Advantage” Loan Difference

SBA is focused on Underserved Markets :

- SBA is committed to expanding access to capital for small businesses and entrepreneurs in underserved communities to help drive economic growth and job creation
- Lower dollar loans are critical to small business formation and growth in underserved communities
- Recession has especially cut smaller dollar lending (SBA down 5% 2008-2010)

The “Advantage” response:

- Less Paperwork
 - One page (front and back) borrower application form
 - Lenders can use their own note and guaranty agreement.
- Dedicated approval group in Citrus Heights CA Loan processing center
- Three different ways for lenders to access



1.) Small/Rural Loan Advantage (S/RLA)

Not just for rural lenders anymore

- The Small/Rural Lender Advantage (S/RLA) initiative is designed to accommodate the unique loan processing needs of small community/rural-based lenders that may not have the capacity to do extensive SBA lending, especially for smaller loans.
- Part of a broader SBA initiative to promote the economic development of local communities, particularly those facing the challenges of population loss, economic dislocation, and high unemployment.

Key Features of S/RLA

- Open to SBA lenders that averaged 20 or fewer loans in each of the last three years
- **\$350,000** maximum loan size
- SBA guarantees **85 percent of loans of \$150,000 or less and 75 percent of loans greater than \$150,000**
- All loans centrally processed through SBA's Standard 7(a) Loan Processing Center
- Expedited SBA processing with routine **loans processed within 3-5 days**
- Lenders can transmit applications via fax, and soon, online as well
- **Simplified SBA loan eligibility questionnaire** to help small or occasional lenders meet SBA's eligibility requirements
- Standard 7 (a) rules apply to pricing, servicing, and liquidation
- Training on SBA program requirements from local SBA offices
- Less bank capital needed and guarantees can be sold in a robust secondary market



1.) Small Loan Advantage (SLA) – **New Program!**

Purpose: To encourage SBA's most experienced lenders to make more smaller dollar loans

Key Features of SLA

- Open only to SBA Preferred Lender Program (**PLP**) participants
- Allows for **delegated** use of all of the “Advantage” underwriting and loan closing platform features
- Initially limited to loans of **\$250,000, or less**
- **Requires Etran** (online) submission of all loans
- Can be used to submit smaller dollar ‘**non-delegated**’ loans as well (which will expedite processing of these loans)
- Standard 7 (a) rules apply to pricing, servicing, and liquidation
- **Any experienced SBA lender can apply for PLP status** (with as few as 10-20 SBA loans to demonstrate knowledge of SBA policies, procedures and the capacity to make SBA loans on a delegated basis)



3.) Community Advantage (CA) pilot loan program (3-year duration) **New Program!**

Purpose:

1. To meet the capital access needs of small businesses in underserved markets
2. To increase the number of access points for underserved market businesses
3. To provide mission-oriented lenders access to 7(a) loan guarantees for loans of \$250,000 or less

Target: Underserved markets by means of mission lenders focused on economic development in these markets

Underserved markets for this pilot (at least 60% of CA loans) include:

- ✓ Low-to-Moderate Income (LMI) communities
- ✓ Empowerment Zones or Enterprise Communities
- ✓ HUBZones
- ✓ Start-up businesses (in business no more than two years)
- ✓ Veteran-owned businesses (including Patriot Express eligible businesses)
- ✓ More than 50% of full time workforce is low-income or resides in LMI census tracts.



Lenders requirements and CA loan terms

Eligible Lenders:

- SBA-authorized Certified Development Companies (CDC)
- SBA-authorized Microloan Intermediaries
- Non-Federally Regulated Community Development Financial Institutions

To participate in the program eligible applicants will be evaluated on their organization's expertise, capacity and infrastructure

Basic Loan Terms and Conditions are the same as standard 7(a) loan with the following exceptions:

- **\$250,000** maximum loan size
- **Prime + 4%** maximum interest rate (somewhat higher, simpler)
- Revolving lines are not allowed
- **Management and Technical Assistant will be encouraged** when appropriate, but not required for each loan
 - ✓ Information will be collected on each loan at application



Applications

Lenders should submit the completed application to local SBA field office

www.sba.gov/content/find-local/sba-office

Field offices will provide further instructions & answer questions as need be

Field offices will forward completed applications to SBA Office of Credit Risk Management (OCRM)

Comments on Community Advantage and other SBA programs are welcomed



Intermediary Lending Pilot Program



The Small Business Jobs Act authorized a temporary program to facilitate loans of up to \$200,000

The Issue: Small businesses, especially those with devalued collateral and lower credit scores, continue to face difficulty **obtaining small loans** (i.e., loans below \$200,000). This problem is exacerbated in traditionally ‘underserved’ communities.

Jobs Act Solution: Stand up a **temporary, three-year Intermediary Lending Pilot program** allowing selected non-profit intermediaries to provide loans of up to \$200,000 to small businesses.

Statutory parameters

- SBA is authorized to select up to **20 non-profit intermediaries each year** and provide them with 20-year, \$1-million loans at below-market rates
- Intermediaries, in turn, make **loans of up to \$200,000** to small businesses in their communities
- SBA will use a **competitive, “grant-like” process** to select intermediaries, which otherwise are subject to few restrictions (i.e., non-profit status, 1 year experience)
- In operation, the program closely resembles **SBA’s microloan program**
- SBA received \$6.5 million in the Jobs Act specifically to administer this program
- Note: The ILP program has been authorized for three years but **only funded for two**

Additional requirements

- Intermediaries will be required to hold a **loss reserve** (which must be raised from alternate sources)
- Intermediaries’ loans to small business borrowers are regulated **to ensure favorable terms** (e.g., interest rate caps, fee caps)

Risk and reporting

- SBA will receive electronic reports **on each loan** within seven days of disbursement, as well as **quarterly portfolio reports**
- Authorized to perform on-site reviews, as necessary



Target timeline: SBA would begin accepting applications in April 2011

Anticipated Timeline

- Timeline **highly dependent on external decisions**, but ideally...
- **Early April:** Publish regulations in Federal Register
- **Mid-April:** Begin accepting applications from prospective intermediaries
- **Early May:** Close application period
- **Late June:** Announce selected intermediaries (and provide training materials)
- **By late August:** Disburse first ILP loan



SMALL BUSINESS JOBS ACT:

Temporary 504 LOAN PROGRAM DEBT REFINANCING



Jobs Act temporary 504 debt refinance program

- Market research shows that a large percentage of commercial mortgages are set to mature within the next few years
- Real estate values have declined in many markets, and many small businesses that are performing well and making their payments on time will have a hard time refinancing these loans and may face foreclosure
- The Jobs Act granted SBA \$15 billion in temporary program authority over two years. However, the amount of owner-occupied commercial real estate that has lost significant value is many times this amount.
- Loans being refinanced must initially be maturing on or before 12/31/2012.
- At a later date, SBA may allow other balloons, as well as loans that can demonstrate strong needs in other ways.
- Structured like SBA's traditional 504 loan program: borrowers will work with lending institutions and SBA approved CDCs to obtain financing in a traditional 50%/40%/10% split.
- All loans must be approved by September 27, 2012.
- The first and second mortgage loans combined may not be more than the lower of 90% of the fair market value of the fixed assets securing the loan or the outstanding loan principal.
- Businesses must be at least 2 yrs old and current for the past year.



Jobs Act – 504 Debt Refinance Program

EXAMPLES

The following examples illustrate potential loan structures for over-collateralized and under-collateralized refinancing projects :

Example 1) over-collateralized

Example 2) slightly over-collateralized

Example 3) under-collateralized

Example 4) under-collateralized (*with additional collateral that increases project size*)

In each example, the fair market value of the Eligible Fixed Assets securing the refinancing is based on an independent appraisal as noted in the example.



Jobs Act – 504 Debt Refinance Program

Example 1 – Over-collateralized

Appraised Value of Property	\$ 600,000
<u>Eligible Other Costs*</u>	<u>20,000</u>
Total Project Costs	\$ 620,000

**Eligible costs are defined in 13CFR 120.882(c)(d) and 120.883.*

Outstanding Balance of Debt	\$500,000
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*The value of the collateral securing the project exceeds the outstanding principal balance of the debt.
Lien is less than 90% of the appraised value.*

	<u>Project</u>
Third Party Loan	\$ 310,000 (50% of appraised value)
SBA 504 Loan	210,000 (balance of existing lien – 33.9 % in example)
Borrower's Contribution	<u>100,000</u> (all equity in project – 16.1% in example)
Total Project	\$ 620,000 (100%)



Jobs Act – 504 Debt Refinance Program

Example 2 – Slightly over-collateralized

Appraised Value of Property	\$540,000
Outstanding Balance of Debt	\$500,000

The value of the collateral securing the project is greater than the outstanding principal balance of the debt. Lien is slightly greater than 90% of the appraised value. No additional assets are being injected into the project.

	<u>Project</u>
Third Party Loan	\$ 270,000 (50% of appraised value)
SBA 504 Loan	216,000 (40% of appraised value)
Borrower's Contribution	<u>54,000</u> (10% of appraised value: \$40,000 equity and \$14,000 cash from the borrower)
Total Project	\$ 540,000 (100%)



Jobs Act – 504 Debt Refinance Program

Example 3 – Under-collateralized

Appraised Value of Property	\$600,000
Outstanding Balance of Debt	\$800,000

The value of the collateral securing the project is less than the outstanding principal balance of the debt. Existing lien exceeds the appraised value. No additional assets are being injected into the project.

	<u>Project</u>
Third Party Loan	\$ 300,000 (50% of appraised value)
SBA 504 Loan	240,000 (40% of appraised value)
Borrower's Contribution	<u>60,000</u> (10% of appraised value)
Total Project	\$ 600,000 (100%)



Jobs Act – 504 Debt Refinance Program

Example 4 – Under-collateralized

Appraised Value of Property	\$ 600,000 (project property)
Appraised Value of all Eligible Fixed Assets	\$ 900,000 (\$600,000 project property + \$300,000 additional Eligible Fixed Assets from Borrower)
Outstanding Balance of Debt	\$ 800,000

The value of the collateral securing the project is less than the outstanding principal balance of the debt. Additional assets are pledged which increase the project size. Existing lien exceeds the appraised value. Borrower has additional Eligible Fixed Assets with Equity of \$300,000 that will be included in the project.

Project

Third Party Loan	\$ 450,000 (50% of appraised value of all eligible fixed assets)
SBA 504 Loan	350,000 (38.9% in this example, to pay off existing lien)
Borrower's Contribution	<u>\$100,000</u> (11.1% in this example, all equity in project)
Total Project	\$ 900,000 (100%)



”Startup America” Initiative:

an initiative to celebrate, inspire, and accelerate high-growth entrepreneurship throughout the nation.



Startup America

This coordinated public/private effort brings together an alliance of the country’s most innovative entrepreneurs, corporations, universities, foundations, and other leaders, working in concert with a wide range of federal agencies to dramatically increase the prevalence and success of America’s entrepreneurs.

Listening Tour

The locations where the “Reducing Barriers” roundtables will be held are:

Durham, NC, March 3	Silicon Valley, CA, date TBD
Austin, TX, March 12	Atlanta, GA, date TBD
Boston, MA, date TBD	Minneapolis, MN, date TBD
Silicon Valley, CA, date TBD	Boulder, CO, date TBD

SBA Capital Programs

•**\$1 Billion Impact Investment Fund:** SBA commits \$1 billion to funds that invest growth capital in companies located in underserved communities. This will include investing in economically distressed areas and companies in emerging sectors such as clean energy. SBA will provide up to a 2:1 match to private capital raised by these funds (SBICs)

•**\$1 Billion Early-Stage Innovation Fund:** Early-stage companies face difficult challenges accessing capital, particularly those without the necessary assets or cash flow for traditional bank funding. Early-stage), with 70% of the financings for early-stage (\$1-4 million investments) go to only three states – California, Massachusetts and New York. The Innovation Fund will target this gap, providing a 1:1 match to private capital raised by early stage seed funds.



Startup America

Mentor Program

Connecting Mentors and Entrepreneurs:

SBA and Department of Energy Launch Mentorship Program for Clean Tech Startups: The SBA, in partnership with the Department of Energy (DOE) and Advanced Research Projects Agency-Energy (ARPA-E) will:

- Fund four private business accelerators with proven track records and use the funding to support an additional 100 clean energy startups across the country.
- The accelerators will provide intensive mentorship from seasoned entrepreneurs to a selection of the most promising new companies previously funded by DOE and ARPA-E.
- This pilot program is the first step in the development of a large, distributed network of entrepreneurs, mentors, and startup accelerators.

SBA/Treasury Capital Access Conference

Treasury Dept. and SBA Convene Small Business and Entrepreneurs Access to Capital Conference: The Department of Treasury and SBA will host a conference March 2011 to explore access to capital for small and entrepreneurial businesses.

- Access to capital is vital to spurring investment in small and innovative businesses, promoting job creation, and fueling sustainable economic growth.
- A broad range of options to expand growth capital will be discussed, including venture capital, private equity, public and alternative private markets along with obstacles to securing capital.
- The conference will encourage input from entrepreneurs, investors and policy makers.