

U.S. Small Business Administration Programs & Services



The State of Rural Small Business: “Tools of the Trade

When Do I Think - SBA?

Think SBA When:

- Collateral is insufficient
- Business is a Start Up
- New Ownership/Business Acquisition
- Business Expansion
- Projections based cash flow
- Credit profile does not support the request
- Or for some other reason you feel you need to mitigate risk

Eligibility Requirements

- Be operated for profit
- U.S. citizens or owners with verified “green card” status
- Not exceed SBA size standards
- Owners must be of “good character”
- Owners must possess management ability and have experience in field.
- Demonstrate repayment ability
- Not engaged in lending, real-estate development, investments or speculation

Eligible Use of Proceeds

SBA loans may be used to:

- Purchase machinery, equipment, fixtures, buildings and land for business;
- Finance receivables and augment working capital;
- Refinance existing debt - including credit card debt (with compelling reason);
- Finance seasonal lines of credit; and/or
- Expand, renovate facilities;
- Construct commercial buildings.
- Change of ownership/purchase of a business
- Most legitimate business purposes

The 7(a) Loan Guarantee Program

Traditional 7(a)

- Maximum Loan Amount of \$5 million
- 85% guarantee on loans of \$150,000 or less; 75% guarantee on loans >\$150,000
- Guarantee Fees based on guaranteed portion of the loan
 - \$0 up to \$150,000 loan (FY2014); 3% loans of \$150K - \$700K; 3.5% up to \$1M; 3.75% over \$1M- **NO FEES FOR LOANS UNDER \$150K- thru 9/30/15**
- Submit via SendThisFile using the new 10-Tab Submission Template found at:
<http://www.sba.gov/content/7a-submission-instructions-and-checklist>

SBAExpress Program

- Maximum Loan \$350,000
- 50% Guaranty (LOC or Term)
- Lender Documents can be used
- Rates higher than traditional 7a loan rates can be charged
- Submit via E-Tran & retain all documents in the file

SBA Veteran's Advantage Program

- SBAExpress loans – no fees to the Borrower
- All other 7(a) loans of more than \$150,000 fees reduced by 50%
- Borrower must be a Veterans, Service Disabled Veterans, Active-Duty Military eligible for TAP, Reservists and National Guard members, current spouses of any of those groups & widowed spouses of a service member or veteran who died during service or of a service connected disability are eligible



Small 7a Loan Program

fka Small Loan Advantage

- Must meet minimum score (currently 140) through ETRAN
- Maximum Loan Amount: \$350,000
- Term loans only
- Abbreviated underwriting requirements
- Collateral: Follow bank's policies & procedures with at least a lien on items being purchased with loan proceeds & business assets
- 85% for loans of \$150K or less/75% >\$150K
- 1919 & 1920 – SBA paperwork
- Lender loan documents OR SBA documents may be used
- Closing & disbursement procedures should mirror same size, non-SBA Guaranteed loans
- Pre-screened & Submitted via E-TRAN
- Send This File or ETRAN document upload submission of SBA Forms & Credit Analysis for approval on non-PLP loans

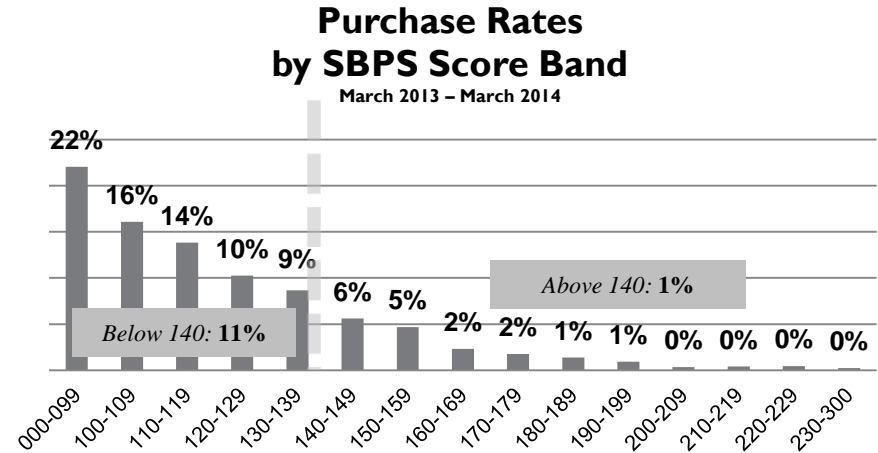


SBA and Credit Scoring

- **SBA Credit Scoring is required on all 7(a) loans (non-Express) under \$350K as of July 1, 2014**
- The model has been in use internally since 2006
- Predicts risk more accurately than complex underwriting
- Similar to liquid credit from FICO/Dun & Bradstreet
- Takes information from Business Credit Bureau
 - Commercial loan, lease, and card data
 - Number of trades and utilization
 - Sales Figures
 - Number of years in business
 - Number of Employees
 - Ratio information as compared to industry averages
- Uses personal credit scores of Guarantors & Principals

Small Business Credit Scores Accurately Predict Purchase

- ▶ FICO/D&B's LiquidCredit scores use commercial and consumer data to predict purchase risk.
- ▶ FICO/D&B developed the suite using loan, lease, and card data from lenders nationwide.
- ▶ Small business credit scores are *compensatory*.
 - ▶ Criteria do not have hard-cutoffs, and scores do not always use all criteria or data sources.



Source: SBA Loan/Lender Monitoring System.

This Score Suite is an Industry-Standard Decision Making Tool

- ▶ Nationwide, banks use the suite to evaluate borrower risk.
- ▶ Under 7(a) Small Loans, SBA will approve loans using this methodology scoring 140 and above. Loans that do not meet the score minimum may be submitted to LGPC for full large loan underwriting.
- ▶ The impact of increased scoring reduces turn time by LGPC on routine approvals, leaving more resources for larger more complex loan transactions.

Source: Dun & Bradstreet, Fair Isaac Corp.

Capline Program Summary

Capline Program Summary

7(a) LOANS CAPLines				
Attribute	Working Capital CAPLines	Contract CAPLines	Seasonal CAPLines	Builders CAPLines
Geographic Area	Nationwide	Nationwide	Nationwide	Nationwide
Borrower Portion of SBA Application	Non-delegated: Same as Standard 7(a) PLP: SBA Form 1919	Non-delegated Same as Standard 7(a) PLUS must provide a project cost schedule for each contract to be financed. PLP: SBA Form 1919 PLUS the project cost schedule for each contract to be financed.	Non-delegated: Same as Standard 7(a) PLUS historical financial statements that demonstrate a seasonal financing pattern. PLP: SBA Form 1919 PLUS historical financial statements that demonstrate a seasonal financing pattern.	Non-delegated: Same as Standard 7(a) PLUS <ul style="list-style-type: none"> demonstrate successful performance on similar type construction PLUS produce a cash flow projection for project to be financed. PLP: SBA Form 1919 PLUS two items noted above.
Lender Portion of SBA Application	Non-delegated: Same as Standard 7(a) PLP: SBA Form 1920SX Parts B and C.	Non-delegated: Same as Standard 7(a) PLP: SBA Form 1920SX Parts B and C.	Non-delegated: Same as Standard 7(a) . PLP: SBA Form 1920SX Parts B & C.	Non-delegated: Same as Standard 7(a). PLP: SBA Form 1920SX Parts B & C.
Unique Eligibility Requirements	Must sell on credit and create accounts receivable, not notes receivable	Contract must permit lender to obtain an assignment of proceeds. Some exceptions may apply (see ch.7 of this subpart).	30-day zero balance each year is required.	Borrower must have previous building experience of the same type. Speculative building but with documentation to support likelihood of sale.
Type of Loan	Revolving Line of Credit to finance short-term WC needs of the Borrower	Finances all costs associated with specific contract(s), but not profit. May be revolving.	Finances seasonal WC needs. May be revolving.	Finances direct costs associated with building a commercial or residential structure for sale.
Loan Decision	Non-delegated: SBA approves the loan for both credit and eligibility. PLP: Lender is delegated credit decision and completes a checklist for eligibility which it retains for possible review by SBA at a later date.	Same as Working Capital CAPLines.	Same as Working Capital CAPLines.	Same as Working Capital CAPLines.

504 Loan Program

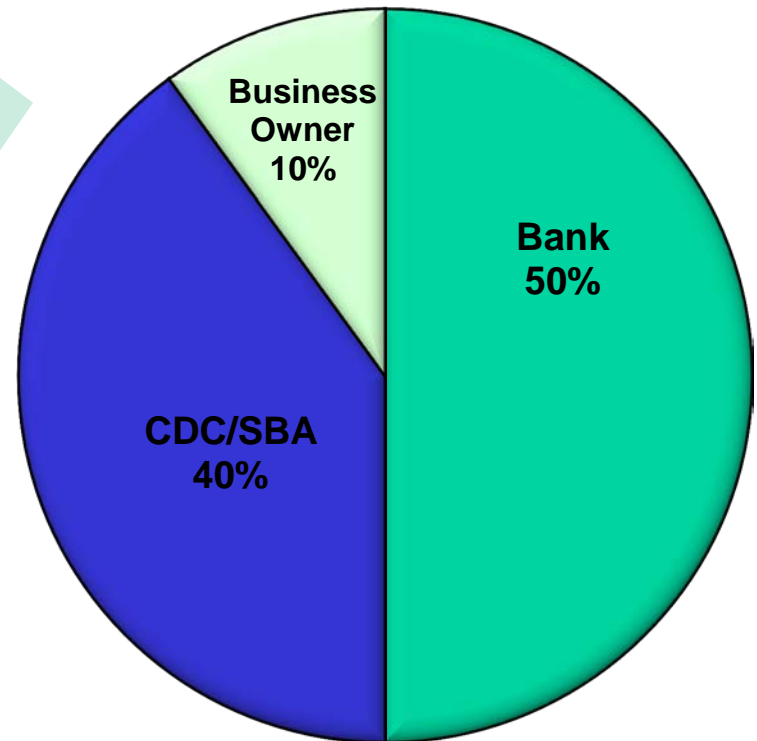
Program Details

- Maximum Loan Amount: increases from \$2 million to **\$5 million**
- 1.5% origination fees
- Maximum guaranty: 100% SBA's portion
- Uses: Long-Term; Fixed Assets
- Maturity: Generally 10 - 20 years
- Maximum Interest: Fixed rate established when debenture backing sold

15% for special-use property (hotel, gas station, etc.)

15% for start-up business

20% if both special-use & start-up



Eligible and Ineligible Proceeds

Eligible Uses of 504 Loan Proceeds

- Land
- Land improvements
- Purchase building
- Building improvements
- Construction of new building
- Purchase equipment
- Some related professional fees
- Interim financing costs
- Contingencies

Ineligible Use of 504 Loan Proceeds

- Organizational costs
- Counseling
- Finders fees; brokers fees
- Origination fee on 1st mortgage loan
- Rolling stock
- Equipment with less than 10 years useful life
- Franchise fees
- Moving costs

Other Proceed Requirements

- Acquisition or new construction or improvement of owner-occupied real estate
- 51% occupancy for existing building
- 60% occupancy for new construction
- Machinery & Equipment
- i.e., fixed assets with a useful life of 10 or more years

Connecticut CDC's

Community Investment Corporation

Housatonic Industrial Development Corporation

New England Certified Development Corporation

Greater New York Development Company

Ocean State Business Development Authority

Microloans

General Details

- Maximum loan amount: increases from \$35,000 to **\$50,000**
- No Loan Fees Applied
- Maturity: shortest term possible (6 years or less)
- Maximum Interest Rate: Negotiable with intermediary

Uses

- Purchase machinery, equipment, fixtures, working capital, leasehold improvements, increased receivables

SBA Intermediaries A/K/A Micro Lenders

HEDCO – Hartford
15 Lewis Street Hartford,
CT 06103

- *<http://www.hedco-ghbdc.com>*

CEDF – Meriden
965 East Main Street,
Meriden, CT 06450

- *<http://www.cedf.com>*

CIC – Hamden
2315 Whitney Ave, Suite
2B
Hamden, CT 06518

- *<http://www.ctcic.org>*



What's in store for the future?

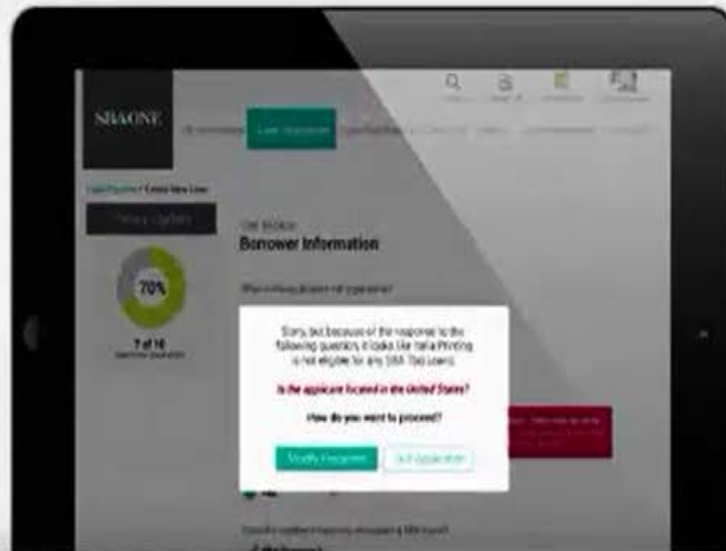




Turbo Tax™-like Ease

Borrower's answers drive process





Intelligent Dynamic Data Capture

Automated form-building reduces time, cost, errors



Resources

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Thank You for Your Time



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Questions?