

U.S. Small Business Administration

Wichita District Office
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Wichita, KS 67202



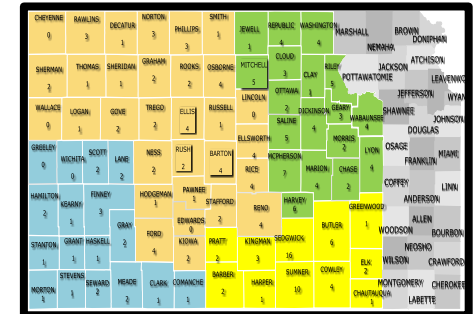
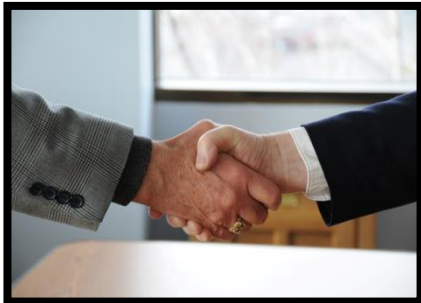
SBA Loan Programs

June 6, 2016



Your Small Business Resource
Helping Small Businesses
start, grow and succeed

www.sba.gov



Need Funding – Ask Yourself

- How much money do I need?
 - Requires business plan and financial projections
- What do I need it for?
 - Use of proceeds
- What type of capital is most appropriate?
 - How much control do I need?
 - Debt vs Equity

Sources of Financing

- Personal Funds
 - Cash/savings, bootstrapping, friends & Family, credit cards, home equity, stocks, etc.
- Traditional Debt (bank loan)
- SBA Guaranteed Loan
- Seller Financing
- Micro Loans
- Other sources of debt (community RLFs)
- Equity Financing



Bootstrapping

- Bootstrapping is finding way to avoid the need for external financing or funding through creativity, ingenuity, thriftiness, cost-cutting, or any means necessary
- It is the most common source of start-up funding and most entrepreneurs bootstrap out of necessity
 - Buying used instead of new equipment
 - Leasing instead of buying
 - Sharing office space with other businesses
 - Coordinating purchases with other businesses
 - Obtaining payments in advance from customers
 - Vendor financing
 - Making due with what you have
 - Crowd funding

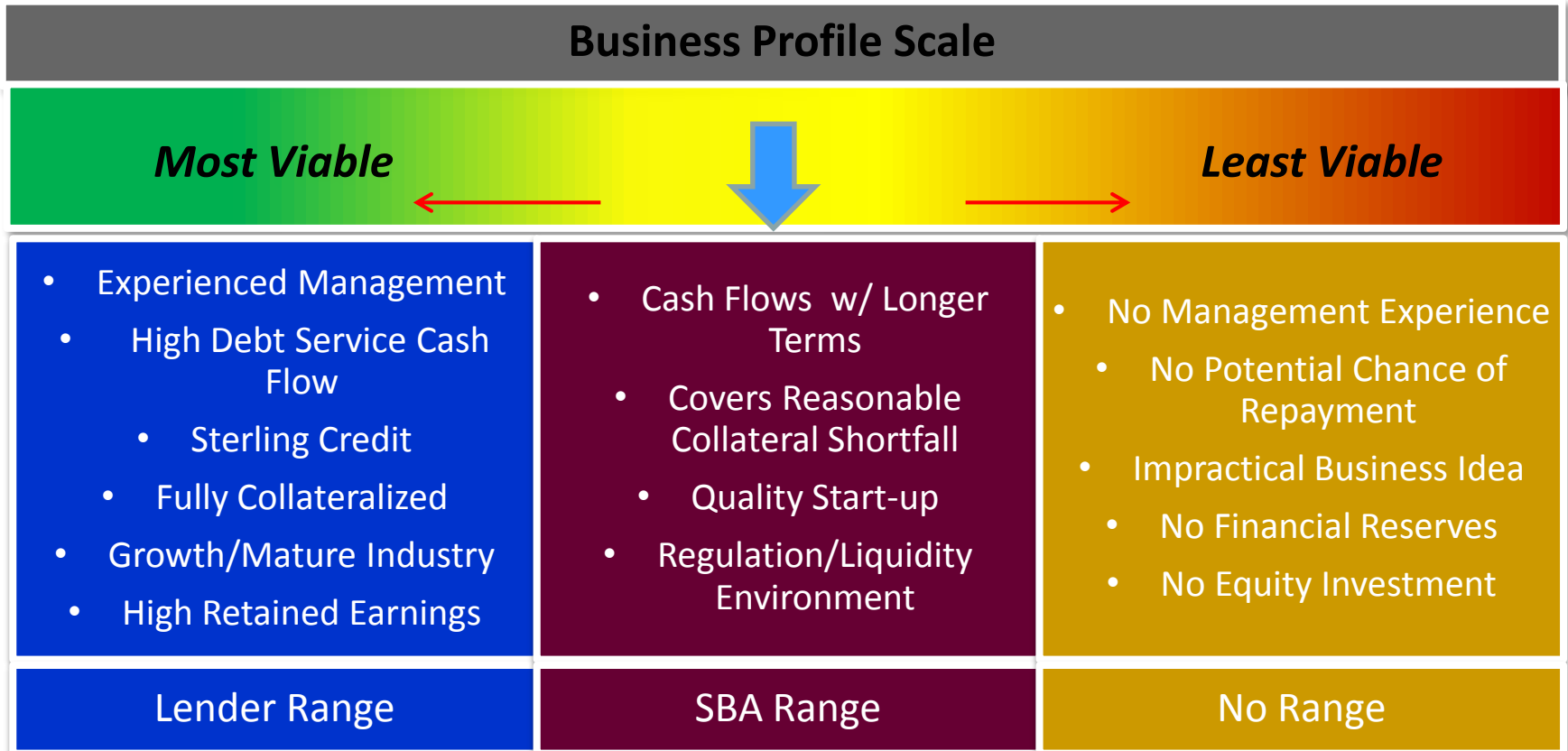
Who is the SBA Borrower?

- A borrower who may be short on collateral
- A borrower who doesn't fit the lenders standards of lending
- A start-up with no proven history
- A borrower who currently has non-SBA financing under less than favorable terms



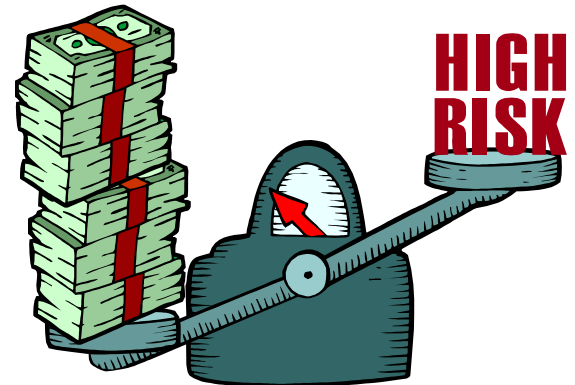
Where Does the SBA Loan Fit?

Factors that determine this range:



The SBA Loan Guaranty

- The SBA promises to reimburse a lender for losses at an agreed percentage of loss
 - Max. 85% loans \leq \$150,000
 - Max. 75% loans $>$ \$150,000
- Lender Benefits
 - Reduced Risk
 - Increased Liquidity
- Borrower Benefits
 - Access to business credit
 - Better terms and rates



7(a) Term Loan

SBA Express Loan

Up to \$5 Million

- Refinance Business Debt
- Change of Ownership
- Lease Buildings
- Working Capital
- Start Up Costs
- Inventory
- Fixtures
- Equipment & Real Estate/Buildings

Up to \$350,000

- Business Debt Refinancing Change of Ownership
- Leasing Building
- Working Capital
- Start Up Costs
- Inventory
- Fixtures
- Equipment & Real Estate/Buildings
- Typically Used as a revolving Line of Credit & Carries Higher Interest Rates
- ***No Guaranty Fee for Veteran Borrowers and their Spouses-Only for EXPRESS LOANS***

7 to 10 year maturity for Working Capital & Equipment
25 year maturity for real estate



SBA Eligibility Requirements

- A Business must meet SBA Size Standards
- A Business must be For Profit
- One that is located in the United States
- Owned by U.S. Citizens or legal permanent residents
- Open to the public on a non-discriminatory basis.
- 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, promoting religion or illegal activities



What Lenders Look For

- 5 C's of Credit
 - Character/Credentials
 - Background, Education, Experience, Credit
 - Capacity
 - Source of Repayment/Cash flow
 - Collateral
 - Assets you own
 - Capital/Cash
 - Money you have invested
 - Conditions
 - Your Industry

Collateral

- Personal guaranties from principals owning 20% or more of business
- Liens on personal assets may be required
 - **A personal residence is taken as collateral when:**
 - Collateral offered is weak
 - The participating lender requires it
- Loans are not declined for insufficient collateral
- **A 7(a) loan must be fully secured or secured to the extent possible with available collateral (both business and personal)**

Guaranty Fees

- Term of 12 months or less – $\frac{1}{4}$ of 1%
- Term over 12 months
 - NO FEE- up to \$150,000
 - 3%- over \$150,000-\$700,000
 - 3.5%- over \$700,000+
 - Additional Fee of .25% on guaranteed amount in excess of \$1 million – 3.75%

(Fees charged on guaranteed portion of loan only)

Veteran's Advantage

Fee relief offered to veterans and their spouses under the SBA's loan programs with the exception of the 504 loan program.

- SBA Express Loans
 - 100% reduction in guaranty fees independent of loan amount up to \$350k
- Loan Programs with a 50% reduction in guaranty fees for loans exceeding \$150k
 - Regular 7(a) term loan
 - CapLine Loan Products
 - Export Loan Products
- Eligible Borrowers
 - Veterans (Other than dishonorably discharged)
 - Service-Disabled Veterans
 - Active Duty Personnel in Transition Assistance
 - Reservists and National Guard Members
 - Current Spouse of any Veteran, Active Duty, Reservists/National Guard
 - Widowed Spouse of any Veteran Active Duty, Reserve or National Guard who died in service or from service-connected disability

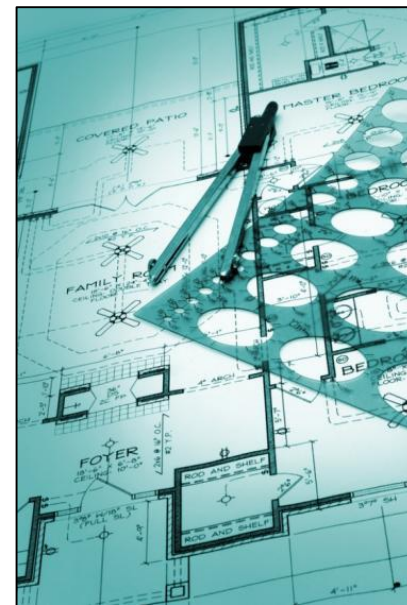


Under these same programs, when the loan amount is less than \$150k the fee is \$0



CDC-504 Loans

- \$25,000 to \$5,000,000 (\$5,500,000 for manufacturers)
 - Create 1 job per \$65,000 borrowed (*Vets/Women Owned Exempt*)
 - For financing real estate and or equipment only
 - New financing may not be more than 90% of collateral value
 - Three part loan
 - Commercial lender provides 50% (1st Lien)
 - 504-CDC portion is up to 40% (2nd Lien)
 - Owner/Borrower makes up the difference
 - 504-CDC part term
 - 20 year fixed rate for real-estate
 - 10 year fixed rate for equipment
 - Occupancy requirement
 - 51% of existing & 60% of new construction
- *Administered through Certified Development Companies**



Things You Should Know

- SBA Does **Not** Have a Grant Program
- Generally No 100% Financing
- Financing can take extended periods of time so be patient
- Denial for a loan does not preclude applying at another bank
- Some business operations are not eligible for SBA financing i.e. Speculative Ventures, Pyramid plans, Restricts patronage, etc.

Preparing a Loan Package

- Business Plan
 - Answers the who doing the what, where and when
 - Amount of a Loan & Uses
 - Answers how much and when its needed.
- Collateral Offered to Secure Loan
- Current Financial Statements for Business & Personal
 - 3 Years Business & Personal Income Tax Returns
 - 3 Years Projected Income & Expense
- Attorney & Accountant
- Make a Appointment with SBA Participating Lender



Planning for and Meeting with a Lender

- Find out the rules for business loans
- Is the lender active in your industry
- Ask for a loan application ahead of time
- Make an appointment
- Rehearse
- The lender is in essence your first customer
 - Never assume they understand the language of your industry
 - Your presentation should empower them to seek more info regarding what you do
- Dress appropriately
- Bring your documents and information
- Be positive and confident
- Know your industry
- Answer negatives with positives
- Document your meeting with notes
- Be open to various forms of financing depending on your lender
- Nothing is personal unless you make it personal



Top Mistakes



- **No Capital (Equity Injection)**
 - Lack of skin in the game indicates you either cannot accept the risk or are unable to
- **Not enough Working Capital**
 - The “Blood” of your small business
 - Entrepreneurs tend to underestimate their needs
- **Not paying yourself**
 - Must indicate how you will survive without income from the business

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Thank You

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