Energy Conservation and Pollution-Control Loan Programs

By Bruce Hodgman

The SBA is very committed to making our communities safe and free of any environmental issues. We support all programs that protect human health and safeguard the natural environment — air, water, and land — upon which all people depend. For many years, SBA has been providing financing to small businesses for a cleaner, healthier environment for the American people. All SBA loans require a SBA participating lender to perform an environmental assessment before the loan is contemplated. If any environmental issue is noted, it must be resolved before SBA will guarantee the loan.

In Arizona, SBA partners with other Federal environmental agencies such as the Environmental Protection Agency to promote environmental awareness such as the Brownsfield Project and support the work of many Arizona state agencies with environmental missions. These include the Arizona Department of Environmental Quality, Arizona Office of Environmental Health, and the Arizona Environmental Health Sciences. These organizations can be found in the White Pages of your telephone book.

SBA has two specific loan programs targeted towards environmental capital assistance:

- ***Energy Loan Program***. This special loan program provides loans to assist small businesses to engineer, manufacture, distribute, market, install, or service energy measures to conserve the nation's energy resources.

- ***Pollution-Control Loan Program***. This special loan program provides loans to assist small businesses in the planning, design, or installation of a pollution control facility.

These loan programs are available from SBA participating lenders and cannot be submitted under SBA's expedited loan programs of PLP or CLP.

Part A: THE SBA ENERGY LOAN PROGRAM

Loans under this program are for small businesses engaged in engineering, manufacturing, distributing, marketing, installing, servicing products or services, designed to conserve the nation's energy resources. Program can be used with other loan programs when loan limits or credit enhancement is required. Loans for traditional energy conservation in other industries are considered under the regular SBA 7(a) Loan Program.

Loan Program Basics

• Maximum Loan Amount:	$2,000,000
• Minimum Loan Amount:	None; loans under $75K are difficult to obtain.
• Maximum Percent of Guaranty:	75%
• Terms:	Up to 25 years (weighted)
• Maximum Interest Rate:	2 ¾% over Prime (1 to 1 ½% are typical)
• Guaranty and Other Fees:	3 to 3 ½%
• Collateral:	Real estate or equipment (First lien position)
• SBA Processing Time:	15 Business Days

- Provided Through: SBA Participating Lenders that offer this unique loan
- Use of Proceeds: See below.
- Eligibility: Standard 7(a) Eligibility plus:

Specific Program Eligibility FAQ's:

Question? ***Who is eligible for an Energy Conservation Loan?*** (13 CFR § 120.330)

Answer: SBA may make or guarantee loans to assist a small business to design, engineer, manufacture, distribute, market, install, or service energy devices or techniques designed to conserve the Nation's energy resources.

Question? ***What Energy Measures are eligible for assistance?*** (13 CFR § 120.331)

Answer: Eligible energy conservation devices or techniques include:

(a) Solar thermal equipment;
(b) Photovoltaic cells and related equipment;
(c) A product or service which increases the energy efficiency of existing equipment, methods of operation or systems which use fossil fuels, and which is on the Energy Conservation Measures list of the Secretary of Energy;
(d) Equipment producing energy from wood, biological waste, grain or other biomass energy sources;
(e) Equipment for cogeneration of energy, district heating or production of energy from industrial waste;
(f) Hydroelectric equipment;
(g) Wind energy conversion equipment; and
(h) Engineering, architectural, consulting, or other professional services necessary or appropriate for any of the devices or techniques in paragraphs (a) through (g) of this section.

This list is not all inclusive and can be subject to change based on new technology or changes with the energy industry. Contact SBA for clarification if you have a device or technique that is not mentioned above.

Question? ***What Energy Measures are eligible for financial assistance?*** (13 CFR § 120.331)

Answer: The following measures are eligible:

(1) Solar thermal energy equipment of the active type based on mechanically forced energy transfer or the passive type based on convective, conductive, or radiant energy transfer or some combination of these. Active systems generally use mechanical (pumps or store and distribute energy). Passive systems use natural energy flows (conduction, convection, and radiation) and buildings themselves to trap, store, and transport thermal energy within the structure. Frequently, designs combine aspects of both types of systems, resulting in a hybrid system.

(2) Photovoltaic cells and related equipment. Such devices produce electricity when exposed to radiant energy, especially light.

(3) A product or service primarily for conservation of energy through devices or techniques which increase the energy efficiency of existing equipment, methods of operation or systems using fossil fuels and which are on the Energy Conservation Measures List of the Secretary of Energy or which the Administrator determines to be consistent with the intent of section 7(a)(12) of the

Act, based on cases submitted by the field offices. For purposes of this program (except those measures on the Energy Conservation Measures List), the applicant must furnish written evidence, satisfactory to SBA, demonstrating projected or actual energy savings.

(4) Equipment primarily for energy production from wood, biological waste, grain, or other biomass sources. This refers to energy generated by the burning of combustible biological materials and/or conversion to solid, liquid or gaseous fuels.

(5) Hydroelectric equipment generates electricity by conversion of the energy of flowing water.

(6) Wind energy conversion equipment which produces, electrical or mechanical, by conversion of the energy of wind.

(7) Equipment primarily for industrial co-generation of energy, district heating or production of energy from industrial waste. Industrial co-generation is the production of , electrical or mechanical, and useful thermal energy from the same primary source and using the rejected heat in a thermal process. District heating is the use of central sources of heat to supply heat to a number of buildings, residential or commercial, in a community. Production of energy from industrial waste is the burning of combustible industrial scrap such as cardboard, waste lubricating oils or by-products from industrial processes to produce energy either directly or by conversion to another fuel.

(8) Engineering, architectural, consulting, or other professional services necessary or appropriate to aid citizens in using any of the above measures.

Enterprises installing or undertaking energy conservation measures for their own benefit are not eligible under this program. Any concern, including a farm, that produces alcohol for use in gasohol is not producing for its own account if at least 75 percent of the total production is to be sold to others. But, this program requires maintenance of this 75 percent minimum during the term of the loan and is subject to monitoring by the participant or SBA.

If eligibility cannot be determined from the 13 Code of Federal Regulations *Business Credit and Assistance* or SBA SOP's, the local SBA District Office may submit any proposal considered to be energy saving and consistent with SBA's regulations to the Director, Office of Loan Programs, for a determination.

Question? ***What are the eligible uses of proceeds?*** (§ 120.332)

Answer: You can use the loan proceeds for the following purposes:

(a) **Acquire property**. The Borrower may use the loan proceeds to acquire land necessary for imminent plant construction, buildings, machinery, equipment, furniture, fixtures, facilities, supplies, and material needed to accomplish any of the eligible program purposes in § 120.330.

(b) **Research and development**. Up to 30% of loan proceeds may be used for research and development:

(1) Of an existing product or service; or
(2) A new product or service.

Note: Proceeds for research and development may not exceed 30 percent of the total loan amount and are permitted only where a business plan indicates strong prospects of repayment or where the further development of a product or service already being marketed is involved.

(c) **Working capital**. The Borrower may use proceeds for working capital for entering or expanding in the energy conservation market. Debt payment is an eligible use of loan proceeds when the debt being refinanced was incurred for purposes eligible as stated above.

Question? ***Are there any special credit criteria?*** (§ 120.333)

Answer: Yes. In addition to regular credit evaluation criteria, SBA shall weigh the greater risk associated with each energy project individually. SBA shall consider such factors as quality of the product or service, technical qualifications of the applicant's management, sales projections, and financial status. Further, Section 7(a)(6)(B) of the Small Business Act, indicates loans made under this loan program need not be as "Sound Value" as those required for general SBA loans.

Part B: THE SBA POLLUTION CONTROL LOAN PROGRAM

Loans under this program are for small businesses that plan to design, build, install or service a pollution control facility. Program can be used with other loan programs when loan limits or credit enhancement is required. Loans for improvements, additions, or pollution control enhancements to an existing facility are considered under the regular SBA 7(a) Loan Program.

Loan Program Basics:

- Maximum Loan Amount: $2,000,000
- Minimum Loan Amount: None; loans under $75K are difficult to obtain.
- Maximum Percent of Guaranty: 75%
- Terms: Up to 25 years (weighted)
- Maximum Interest Rate: 2 ¾% over Prime (1 to 1 ½% are typical)
- Guaranty and Other Fees: 3 to 3 ½%
- Collateral: Real estate or equipment (First)
- SBA Processing Time: 15 Business Days
- Provided Through: SBA Participating Lenders that offer this unique loan
- Use of Proceeds: See below.
- Eligibility: Standard 7(a) Eligibility plus: (See below.)

Specific Program Eligibility FAQ's:

Question? ***What is the definition of a Pollution Control Facility?*** (§ 120.370)

Answer: A pollution control facility is real or personal property which is likely to help prevent, reduce, abate, or control noise, air or water pollution or contamination by removing, altering, disposing, or storing pollutants, contaminants, wastes or heat and such real or personal property which will be used for the collection, treatment, storage, utilization, processing or final disposal of solid or liquid waste. Any related "resource recovery" property (recycling) is also eligible when it is stated to be useful for pollution abatement by a local, state or Federal environmental regulatory authority.

Question? ***What are the eligible uses of proceeds?***

Answer: The only allowable uses of proceeds are the planning, design, or installation of a pollution control facility. A pollution control facility is defined above.

Question? ***Are there any other submission requirements for thee loans?***

Answer: Yes. In addition to general submission requirements for all SBA applicants, Borrowers must provide building or design plans and/or specifications, as appropriate, for the pollution control facility and written, realistic cost estimates to ensure that the project can be completed with the available sources of funds, including loan proceeds. Borrowers should provide copies of any local, state or Federal environmental regulations that relate to the proposed facility with the application.

Part C: STANDARD CREDIT CRITERIA FOR SBA LOANS

What is SBA's lending criteria? Is it different from SBA participating lenders?

SBA, and generally the lending community, have eight key areas they will focus on including character, management experience, strength of the business, repayment ability, equity investment, other long term factors, potential for success, and collateral.

Character Issues:

These area has two parts: 1) Owner's historically willingness and ability to pay their debts as evidenced by a good credit history, and 2) the owner's willingness to abided by the laws of their community. While all lenders will obtain a copy of your credit report, the strength of an owner's character is sometimes difficult to ascertain. SBA will require every owner, partner, officer, director, or 20% shareholder to complete "Statement of Personal History," SBA Form 912. Most lenders will not require a perfect credit history but they will require a good history. If you have had problems in the past, you may need to seek credit repair before approaching a lender.

Management Experience:

In assessing management ability, SBA and our lending partners will consider such factors as education, experience, and motivation, and they will independently assess and evaluate an applicant's management ability or potential. You may provide brief comments in your loan request when management skill is clearly satisfactory. Otherwise, you may need to address any weaknesses and identify ways to improve deficient areas. Lenders may consider requiring small business training, such as provided by SCORE or Small Business Development Centers (SBDC), as a prerequisite to disbursement. Many people assume because they have earned a college degree or worked in a specific industry for a number of yes that this qualifies them to operate their own small business. SBA encourages (and many lenders require) new entrepreneurs to attend various small business training and counseling programs like those offered by SCORE or your local SBDC.

Strength of the business:

SBA and our lending partners judge the financial strength of a business by analysis. We give consideration to a number of factors found in the business Balance Sheet. These include (but not limited too) making any necessary adjustments by deleting intangibles, such as goodwill, old accounts receivable, non-business assets and other items as appropriate. They will adjust inflated asset values and excessive depreciation and evaluate questionable items.

Next will be a determination of the adequacy of the business Working Capital. Adequate working capital is of major importance to SBA and our lending partners since most firms have failed before reaching their potential due solely to inadequate working capital. In the case of new businesses, lenders may require you to provide a detailed cash flow projection over a one or two year period of time. Consider increasing the loan amount if the request does not provide for sufficient working capital. Do not reduce a needed working capital portion of a loan merely to improve the net worth position or to reduce collateral requirements. You may be setting yourself up to fail.

Ability to repay the loan:

SBA and our lenders will use historical earnings and cash flow as the best source upon which to gauge the ability to repay a loan. Projections will be considered for new businesses or if a change in the circumstances affecting the business. Regardless of whether historical trend analysis or projected performance is the basis for repayment, all expenses (e.g., operating expenses, owners withdrawals, salaries, dividends, etc.) will be considered when evaluating repayment ability. **The ability to repay a loan from the cash flow of the business is the most important consideration in SBA's loan making process**. All SBA loans must be of such sound value or so secured as to reasonably assure repayment. Sound value contemplates such factors as good character, earnings, collateral, management ability and financial condition. The object is not to obtain sufficient collateral to completely liquidate loans under future conditions. The SBA does not make loans based upon the liquidation value of collateral. This would be a disservice to the borrower. If you do not believe a firm can repay the loan from the cash flow of its operations, you must decline the loan application.

Equity Investment:

SBA and our lending partners generally ***will not*** provide 100 percent financing for a firm and the decision of adequate investment will be determined on a case-by-case basis. This is particularly important for new businesses where a pattern of earnings has not been established. A solid equity position reduces the need for debt, provides an incentive for the principals to remain committed, provides a cushion which helps the business endure economic slumps, and improves the value of the collateral as security for the loan. Adequacy will be calculated on a tangible basis, generally discounting such soft values as organization costs, and goodwill.

Excessive debt can place unreasonable demands on a firm's ability to develop sufficient cash flows to service it. The amount of equity investment will vary from lender to lender but most will require a 10 to 50 percent investment on your part. The deciding factor of which percentage used will rest with the overall loan risk and other economic or credit factors.

Other Favorable Factors:

Other favorable factors may help offset one, or possibly two, adverse credit factors. These could include the pledge of additional or outside assets as collateral, the continuity of experienced management that has produced solid and consistent earnings in operating a business, education and knowledge in a specialized field such as medicine or law, or other factors. One major factor is a business with very little debt. Simply stated, the smaller the amount of debt in comparison to the net worth of the business, the chances for business success and growth are substantially better.

Potential for long term success:

Many factors affect the prospects for the survival of a business. You must evaluate the financial issues, as well as many other factors when considering a loan. The more you know about the factors that affect your business, the better you can assess the prospects and the risks, and how a lender will view them. These factors generally include the industry, location, demographics, and SBA's experience in a specific industry.

Collateral requirements

SBA's and our lending partners are cash flow lenders and do not apply loan-to-value criteria in deciding whether to approve or decline loan requests. It has been SBA's long-standing policy not to decline a loan where inadequacy of collateral is the only unfavorable factor. However, this not necessarily a participating lenders philosophy nor should it be ignored as a credit factor. To the extent that worthwhile assets are available from either the applicants or the principals of the applicant, adequate collateral is to be required.

While cash flow is the primary consideration in the analysis of repayment ability, it is important, nonetheless, to accurately calculate the real value of the collateral assets providing the secondary source of repayment, as this valuation will help identify the overall level of risk associated with the loan. Collateral and personal guarantees of the principals provide a secondary means of repayment if the borrower is unable to repay the debt from its cash flow.

A loan is considered fully secured if the lender has a security interest in assets with a combined "collateral liquidation value" that equals or exceeds the loan balance, and not based on "Market Value."

When submitting a loan request to SBA, the lender recommends the loan structure and various terms and conditions, including the collateral. If you disagree with the lender about any of the proposed loan conditions, including the collateral requirements, you must resolve the disagreement(s) before they submit the loan to SBA. If a lender is proposing to take collateral which does not fully secure the loan and other collateral is available to be pledged, SBA may decline the loan due to inadequate collateral.

Part D: FINDING A PARTICIPATING LENDER

"SHOW ME THE MONEY!" might be the only words on the lips of many future entrepreneurs searching for the right SBA lender that offers these specialized loans. I would suggest you resist the urge since it may do more harm than good. Instead, small business owners should first think carefully about what qualities and attributes they want in a lender and if they offer this product THEN interview lenders to determine the best fit their financial needs.

Before You Approach a Lender

Before you apply for a Energy Conservation or Pollution Control Loan, the most important document to prepare is a written loan proposal or a Business Plan. SBA's resource partners: SCORE, the Small Business Development Centers, and Women's Business Centers are available to assist you. Begin your loan proposal with a cover letter. Explain who you are, your business background, nature of your business, the amount and purpose of your loan request including terms of repayment, how the funds will benefit your business, and how you will repay the loan.

Make sure you make sure your proposal or Business Plan addresses the program eligibility requirements contained in this flyer.

Your Business Plan is the most important document you will have, as this is the ladder to success and accessing your needed capital. There are many different business plan outlines, including computerized formats that are available for preparation of a loan proposal. Include the industry-specific details to make the reader more comfortable with how your particular business operates and what industry trends affect it.

Which Lender Should I Approach?

There are many different types of lenders to choose from and small business owners should consider looking for a mentor or partner rather than a loan source that ONLY offers this type of loan. Relationship building — rather than one-stop shopping — can be the key to making sure your business needs are considered and handled for the long run rather than the short term. It is important to remember that lenders, including those that participate with SBA, all have specific lending criteria and no two lenders are alike. Make sure your selection measures up to these tests:

TEST 1: *SBA PROGRAM PARTICIPATION*: First, choose a bank that participates in Small Business Administration lending and has been successful in SBA's loan programs. This will insure they can provide you with this loan product and make sure the loan terms or conditions are affordable. The most active and expert participating lenders qualify for SBA's *Preferred Lenders Program* (PLP). This program offers a quicker turnaround on a SBA loan application.

This designation is given to those participating lenders that have proven they have a thorough knowledge of SBA rules and regulations; have met the SBA's underwriting standards; are experienced in both documentation and loan servicing, and done a sufficient volume of loans to justify participation in this program.

This does not mean you should disregard a smaller, community lender that does not participate in the PLP Program. For a lender to qualify for PLP they also must process a specific amount of loans to maintain this status and many smaller community lenders may not have the market or resources to maintain a high volume of activity.

We suggest you shop for a lender and ask them can they offer a "Small Business Administration Energy Conservation or Pollution Control Loan?"

TEST 2: *STABILITY*: Look for a bank that is stable with a proven record of accomplishment. Be careful with lenders that have a recent history of mergers or acquisitions as their focus may be on other priorities rather than approving small business loans. SBA research shows small business lending drops off after mergers or acquisitions by banks on a national level.

TEST 3: *REAL PEOPLE*: Find a local lender that will sit down and listen to your needs, future and present and how this loan product will benefit you. Having a real name and face to contact regarding questions is very important. Participating lenders should be selected based on their interest in your industry and a willingness to get to know the ins and outs of your business. They should want to feel eager to build on your success as much as you do. Look for lenders that are eager to meet you at your place of business. A good banker likes to meet on site to learn more about the borrower and the business.

TEST 4: *EXPERIENCE*: Look for a lender who is knowledgeable in your industry, and who is experienced in making loans to small businesses. Also, make sure the person you are dealing with is knowledgeable in the Energy Conservation and Pollution Control Loan Programs and can answer eligibility questions with ease. You do not want to spend time with a junior banker who is rotating their way up the ladder and may not have the answers you need. Find someone who looks at the bigger picture, who perhaps suggests alternative financing options such as the SBAExpress Loan Program and demonstrates a desire to work to "get the job done correctly" that is good for you in the long haul.

The person should be creative and not willing to accept "no, we don't offer these loans." Instead, the lender should be asking, "how can we get this loan done," and if unsure, contact the local SBA office for guidance or clarification. More importantly, the lender should seem interested in the discussion.

Finding a good lender is not saying, "just give me the loan" but rather the beginning of a mutually beneficial relationship. That is why you need to connect with your banker, as they should be familiar with your business from the up-start stage through the succession plan when it is time to sell or retire. Look for someone who will get to know your company's history and potential for success can help speed up the loan process and increase the chances for approval. This is especially true when you may require additional money for more equipment, real estate or working capital.

I have often heard that a "Good bankers often acts as an informal board member that you can share ideas with." Your banker should not only provide financing, but partner with you to provide information on cash management solutions, checking and saving accounts, and other personal or business financial services. Do not forget to consider credit unions as many are now actively involved in small business lending.

TEST 5: *HOW LONG WILL IT TAKE?* Look for a lender that will give you a written proposal that clearly identifies the rate, term, conditions, all fees and how long the process will take. Generally, the best SBA lenders will respond to a complete application with a written proposal within a week. Also, there are many SBA loan programs to choose from, including real estate loans, term loans, and lines of credit. This may make the process longer. Remember, all SBA lenders have the correct forms you need to start the application process.

TEST 6: *ASK THE RIGHT QUESTIONS.* You need to ask the RIGHT questions of any lender BEFORE you start the application process:

QUESTIONS TO ASK A BANKER WHEN SHOPPING FOR A SBA LOAN

Here are some suggested questions to ask the lender when you are shopping a loan. This can be asked over a telephone conversation but make sure you talk with a person that knows about SBA loans:

1. ***Are you a SBA lender?*** You want to make sure they are an approved SBA lender. Most will have signs or decals that indicate they participate in SBA loan programs.
2. ***What type of loans do you offer?*** SBA offers many types of loans so make sure they are qualified in the type you need. Ask them how many they have done and funded. Make sure they are knowledgeable in SBA's Energy Conservation and Pollution Control Loan Programs.
3. ***What type of terms, conditions, and interest arte are you offering?*** It is important to get a feel for their rate and terms BEFORE you start the application process.
4. ***How long does it take until disbursement?*** Find out how long their loan process to funding is for the type of loan that you are seeking. Again, ask how many SBA loans they have done.
5. ***Do you have any industry limitations?*** Find out what their loan limitations or restrictions are. For example, they do not offer start-up loans or do not make loans to businesses in specific industries such as restaurants or C-Stores.
6. ***Where can I go to get more information about your bank?*** The point here is to see if they have a web site or some form of printed information. If they do, ask to obtain a copy.
7. ***Do you specialize in any type of financing or industry?*** If you are seeking a specialized loan such as a loan to purchase a Franchise, find out if they specialize in this source. Again, ask how many they have done or do they specialize.
8. ***Do you require business-banking relationship or can I just apply for a loan?*** Many lenders help offset the cost of a loan by requiring you to become a deposit customer (personal or business) before they will consider a loan. This is a common practice and if you do not want to open a checking account, seek someone that will not require it.

Getting Help in Selecting the Right Lender

We realize that all SBA lenders are different and it will be difficult to find a lender especially if you are a business start-up. Most entrepreneurs need to get their loan approved quickly. This is also, why many lenders are moving into computerized lending such as Credit Scoring. For this reason, we recommend you attend a local SBA Loan Clinic that will answer your questions about Small Business Administration's loan programs. Please give us a call at (602) 745-7200 and we can help you with finding the right lender for your needs.