Comptroller of the Currency
Administrator of National Banks

Community Developments

Community Affairs
Department

Fact Sheet

Small Business Administration Programs

How can a bank use SBA's programs?

Small Business Administration's (SBA) finance programs provide collateral support, technical assistance and, in some cases, financing for up to 90% of a project's cost. SBA loan guarantees can assist banks in expanding the availability of credit to small businesses with the potential for success but lack the current capacity to qualify for conventional bank loans.

What are the benefits to a bank participating in SBA programs?

- Can provide an additional source of fee income.
- The guaranteed portion of the loan is saleable on an active secondary market which can provide liquidity.
- The guaranteed portion of SBA loans has a lower risk-based capital requirement.
- Can provide support for loans with less than optimal collateral coverage.
- SBA Certified Development Company (504) loans can provide fixed asset financing for up to 90% of the project cost.

SBA 7(a) guaranteed loan programs

- SBA guaranteed loan programs are for loans that are not bankable without an SBA guarantee.
- SBA 7(a) Loan Guarantee Program provides a guarantee for 75% and 85% of the bank's loan.
- Variations of the 7(a) loan program are designed to accommodate targeted needs and provide a 50% to 90% loan guarantee. These others programs include:

  SBA *Express*
  Community *Express*
  CAPLines
  Defense Loan (DELTA)
  Export Working Capital Program
  Export *Express*
  International Trade Loans
  Prequalification Loan Program

How to participate in the SBA 7(a) program

- Lenders must execute an SBA Form 750 Loan Guaranty Agreement.
- Loans are documented by the lender but must be approved by SBA prior to disbursement.
- Lender will close all loans and retain copies of executed loan documents in loan files.
- Lender will provide SBA with a written monthly loan status report.
- Lender will pay SBA a monthly servicing fee of ½ of 1% of the outstanding loan balance.

- SBA will purchase the guaranteed percentage of the outstanding balance of a guaranteed loan that is in default in excess of 60 days.

Increasing levels of program participation

SBA provides lenders with increasing levels of lending authority based on the lender's prior performance under the 7(a) and related guaranteed loan programs.

- **Participating Lender** - Loans are documented by the lender but must be approved by SBA prior to disbursement.
- **Certified Lender Program** – Expedited approval process. Loans are documented by the lender and approved by SBA on a "review basis" prior to disbursement.
- **Preferred Lender Program** – SBA delegates loan approval, closing and most servicing and liquidation authority to these select experienced SBA lenders.

SBA Certified Development Company (504) loan program

SBA's Certified Development Company (504) loan program funds up to 90% of the project cost to finance fixed assets, such as real estate and heavy equipment.

- This program is for established businesses and loans should be bankable without SBA participation.
- SBA requires a minimum 10% down payment or borrower equity.
- The bank-funded portion usually funds 50% of the project cost and has a first lien position.
- SBA, through the Certified Development Company, funds up to 40% of the project cost with a second lien.
- SBA does not provide a loan guarantee for the bank-funded portion of the financing.
- The borrower works directly with an SBA Certified Development Company to underwrite the SBA funded portion of the loan.
- Bank-funded construction or bridge financing is permissible.
- The bank may not take additional collateral except during the construction or bridge financing, and the additional collateral must be released after the SBA-funded portion is disbursed.
- Personal guarantees of the principal owners may be required.
- The 504 program cannot be used for working capital, inventory, consolidating or repaying debt, or refinancing.

Risk Tips

The SBA has identified the following eight strategies a bank utilizing the 7(a) program should employ to ensure its guarantee is preserved and its claim is paid in event of default.

1. Make sure that the borrower's financial information received in conjunction with a loan application (or subsequently received in conjunction with a change in business ownership) is verified through the IRS.
2. Make sure that loan proceeds are used as required in the authorization.

3. Provide evidence of the borrower cash equity injection which would have been required prior to the disbursement of the loan.
4. Request loan purchase within 120 days after the date of default of the loan.
5. Prepare a collateral list as required by the loan authorization (or prudent lending practice) and be sure you can assert rights over this collateral.
6. Obtain proper lien position on collateral and perfect all liens.
7. Properly service and liquidate collateral.

Make appropriate site visits in a timely manner to ensure against removal of collateral.

For more information

- SBA's Web-site at: www.sba.gov

- OCC's Web-site for information about small business's financing opportunities generally at: http://www.occ.treas.gov/cdd/SBRG09032003.htm

- OCC's District Community Affairs Officers whose contact information can be obtained at: www.occ.treas.gov/cdd/commfoc.htm