

Financial Assistance for New England Fuel Oil Dealers 2008/2009
Adapting SBA's Seasonal CAPLines Program To Meet The Need

HOW THE PROGRAM WORKS:

The line of credit which SBA guarantees must be structured in such a way that the lender will receive sufficient payments over the term so that the line revolves and full repayment is achieved by maturity. SBA interprets this requirement to mean that the lender is responsible for making sure when the customers of the borrowing business pay for their fuel, that the lender receives these collections (or a significant portion of these funds) and applies them against the loan. The program does not allow for the borrower to keep its collections and only agree to repay the obligation at the end of the season.

The applicant prepares a standard SBA 7(a) loan application with exhibits plus a cash flow projection for the coming season based on historical information. The lender uses this projection to determine the necessary loan amount with the understanding that this is a revolving loan where disbursements and re-payments are occurring during the seasonal build up.

FEATURES:

- Maximum loan amount: \$2,000,000.
- SBA guaranty: 85 percent for loans of \$150,000 or less; 75 percent for loans above \$150,000.
- A short-term Revolving Line of Credit to finance a business's seasonal increases in sales activity.
- Loan Proceeds:
 1. Proceeds to acquire inventory (prior to generating receivables);
 2. May be advanced up to the approved loan amount, then reduced through the collection of receivables, then re-advanced within the same seasonal cycle;
 3. Can be used to refinance other outstanding debt under the following conditions:
 - a. CAPLines may refinance existing short term notes as long as:
 - i. The refinanced portion does not include any term debt or permanent working capital; and
 - ii. It does not put SBA in a position to sustain a loss which the existing lender is presently facing.
 - b. Additional documentation required:
 - i. A copy of the note(s) being refinanced; and
 - ii. A copy of the transcript of account.
 - c. If the debt to be refinanced was not being repaid in accordance with the terms of the note, the debt should be refinanced on a term, rather than revolving basis.

September 15, 2008

Financial Assistance in 2008 for New England Fuel Oil Dealers

- Maturity up to 11 months.
- Maximum interest rate: Wall Street Journal Prime plus 2.25 percent.
- Guaranty Fee: $\frac{1}{4}$ of 1 percent of amount guaranteed.
- Collateral: 1st lien on inventory and receivables (can obtain additional collateral as well).
- Extraordinary Servicing Fee: Up to 2 percent annually or 0.166% per month allowed.
- Two lines can be outstanding to one borrower with a Pari Passu or shared first position lien as long as both loans are administered the same way.

REQUIREMENTS:

- Approved loan amount to be based on the projected cash needs for the coming season that correlates to the costs of the seasonal buildup of inventory and receivables;
- The payment of principal must be tied to the borrower's receipt of payments from its customers. As a revolving line, funds continually disbursed and get repaid over term of the line. Lender to outline their procedures for compliance with this requirement as part of the application process. Lender to establish controls so compliance is achieved. Examples of the types of controls that may be used include, but are not limited to the following:
 - Lock Box
 - Sweeping the accounts where the borrower's customers send payments
 - Borrowing Base Certificate to reconcile borrower collections with repayment
- Lender keeps a percentage of the amount collected that will repay the principal and interest associated with the draw and returns the rest to the business so they can pay their operational expenses.
- Timing between disbursement and repayment must be agreed upon by the lender and borrower prior to any disbursement.
- A borrowing base certificate can be used to assist the lender in monitoring the seasonality of a borrower's current assets, to inform them of when payments are coming in to the borrower from its customers, and to determine when payments should be made to the lender.
- The requirements for personal guaranties are the same as for any other 7(a) program.
- Applicants must be current on payroll taxes.

September 15, 2008

Financial Assistance in 2008 for New England Fuel Oil Dealers

- Application and explanation for how principal repayment will be achieved must be submitted to SBA's Standard 7(a) Loan Processing Center.
- Final disbursement to occur far enough in advance of maturity to allow the business to collect sufficient funds to fully repay the line at maturity.
- Small Business Applicant must:
 - Have been in operation for at least 12 calendar months; and
 - Be able to demonstrate a definite pattern of seasonal activity.
- Small Business Applicant must complete an SBA Form 4 with all required exhibits, plus a month-by-month cash flow for the upcoming 12 month period.
- Lender Participant must:
 - Have an executed SBA Form 750B (for short term loans);
 - The lender needs to explain and have SBA agree with their procedures for receiving the payments of the borrower's customers as they are made.
- Loan Authorization: CAPLines Authorization available at www.sba.gov/banking, then click "Authorizations."