



SBA 7(a) Guaranteed Loan Program

The Small Business Administration (SBA) helps small businesses and entrepreneurs obtain loans, build skills, and gain access to government contracts. The SBA works with banks to provide loans to small businesses that might not otherwise be able to obtain financing.

This fact sheet highlights the SBA's 7(a) Guaranteed Loan Program. The 7(a) loan program and the Certified Development Company/504 Loan Program (504 program) are two of the SBA's flagship efforts to expand access to capital. Together, they encourage banks and other lenders to help small businesses and entrepreneurs start and grow their businesses.

What Is the 7(a) Loan Program?

This program provides federally guaranteed loans to small businesses in need of flexible underwriting terms, extended loan terms, and low down payments. The program benefits borrowers and lenders.

Borrowers benefit from loan terms that accommodate their ability to repay, meet their credit needs, and match the useful life of assets financed. Loans can be used for the acquisition, rehabilitation, and expansion of land, buildings, equipment, and fixtures; leasehold improvements; working capital; refinancing existing debt; seasonal lines of credit; and inventory purchases.

Lenders benefit from the federal guaranty, which in the event of loan defaults, requires the SBA to pay off a portion of outstanding balances. The

guaranty offsets some of the risk lenders face when lending to borrowers who may not meet conventional underwriting terms. The SBA guarantees loans to borrowers who otherwise could not qualify for credit.

For standard 7(a) loans, the guaranty is for 85 percent of loans up to \$150,000 and 75 percent of loans greater than \$150,000. The maximum standard loan is \$5 million. If made for working capital, loans typically are limited to seven years. When used for fixed assets other than real estate, such as machinery and equipment, loans are limited to the useful life of the assets. Loans made for acquisition and improvement of land and buildings are limited to 25 years.

There are, however, exceptions to these general rules through targeted programs that are under the SBA 7(a) loan family of programs. The Export Working Capital Loan Program, for example, designed to encourage exports, provides loan guarantees of 90 percent on loans up to \$5 million. The SBA Express Program, designed to meet the working capital needs of small businesses with smaller loans and less paperwork, offers a 50 percent guaranty on loans up to \$350,000. These targeted programs, which offer special incentives for specific business needs, include:

- Express loan programs,
- Advantage loan programs,
- Export loan programs, and
- CAPLines working capital loan programs.

How Can Banks Participate?

SBA participating lenders include banks, savings and loans, and credit unions. Lenders interested in participating in the 7(a) loan program must contact their local SBA District Office. The SBA requires that lenders meet certain requirements. Lenders must be regulated and have executed SBA Form 750, the Loan Guaranty Agreement, which establishes the terms under which the SBA will guarantee a loan submitted by the lender.

Participating lenders may apply for the federal guaranty on pending loans in two ways.

First, lenders may apply as general participants if they are new or have little experience with SBA lending and if they originate a small number of loans annually. These lenders document their loans and then send them to the SBA for approval before disbursement. Typically, the SBA responds to these requests within five to 10 business days.

Second, lenders experienced with SBA lending and having an acceptably performing portfolio may qualify for the Preferred Lender Program and be given delegated authority. The SBA typically delegates to these lenders the authority to approve, close, serve, and liquidate loans. The SBA allows these lenders to electronically submit loan requests. Typically, the SBA approves these requests within minutes.

What Are the Benefits for Banks?

The SBA 7(a) loan program helps banks to serve customers who may not meet conventional underwriting criteria, thereby expanding the banks' customer bases. The guaranty reduces the risk they face when lending to new customers, small businesses, and businesses that may not meet conventional underwriting standards.

Because the guaranteed portion of the 7(a) loan does not count against a bank's legal lending limit, the program can help banks add customers and make more commercial loans. This is particularly true for community and mid-sized

banks restricted by legal lending limits. Also, the SBA allows qualified lenders to sell the guaranteed portion of 7(a) loans on the secondary market to raise liquidity. Finally, lenders making these loans may qualify for CRA consideration.

What Risks and Fees Do Lenders Face?

SBA 7(a) loans tend to have a higher default rate than conventional loans. To ensure loans are originated in a sound manner and to reduce the risk of defaults, the SBA expects lenders to follow the agency's standard operating procedures. Lenders must take a first lien on collateral and do an extensive credit analysis of borrowers. Proper due diligence helps ensure that the SBA will honor the guaranty in the event of default.

The SBA assesses 7(a) lenders two types of fees—a guaranty fee and a servicing fee—on every loan approved. These fees help offset the cost to the SBA, and ultimately to taxpayers, in the event of defaults. Typically, the fees are determined by the amount of the loan guaranty and passed on to borrowers.

What Specialized Programs Are Offered Through the 7(a) Program?

The 7(a) loan program offers specialized loan programs targeted for specific types of borrowers and lenders.

Express Loan Programs

These programs, offered to experienced lenders, help to make smaller loan amounts cost-effective. Three programs offer lenders a streamlined application form, simplified collateral and closing requirements, and approval to use any proven credit scoring method that they use in making non-SBA guaranteed loans. Because these programs are available only to lenders with delegated authority, the SBA can quickly approve loan requests submitted by lenders using its electronic processing system.

Express Loan Programs include:

- **SBA Express**, for businesses looking for quick approval and processing times, provides working capital loans to small businesses. The loan guaranty is 50%, and the maximum loan amount is \$350,000.
- **Export Express**, for small business exporters, makes loans up to a maximum of \$500,000. The loan guaranty, however, is 90 percent for loans of \$350,000 or less and 75 percent for loans greater than \$350,000.
- **Patriot Express**, a pilot program for veterans and military members, has a maximum loan amount of \$500,000. Its maximum guaranty is 85 percent for loans of \$150,000 or less and 75 percent for loans greater than \$150,000.

Advantage Loan Programs

Advantage loans expand capital to small businesses and entrepreneurs in underserved communities with smaller loans. Advantage programs also offer a streamlined application and an expedited review process that shortens SBA approval times. There are several Advantage loan programs, including:

- **Rural Lenders Advantage**, which is designed to meet the needs of rural lenders, makes loans up to a maximum of \$350,000.
- **Small Loan Advantage**, which is designed to encourage existing 7(a) lenders to make smaller dollar loans. The program makes loans up to a maximum \$250,000 and is open to lenders who participate in the SBA's Preferred Lenders Program.
- **Community Advantage**, which is designed to open up the 7(a) program to new lenders. The program makes loans up to \$250,000 maximum and is open to mission-focused lenders, such as non-supervised Community Development Financial Institutions, SBA-authorized Certified Development Companies,

or SBA-authorized nonprofit micro lending intermediaries that do not normally have access to the SBA 7(a) program.

Export Loan Programs

Export loans help small businesses develop and expand export activities. They include:

- **Export Express**, which provides flexible capital and streamlined financing for up to \$500,000.
- **Export Working Capital Program**, which provides a 90 percent guaranty on loans of up to \$5 million on working capital advances on export orders, export receivables, or letters of credit.
- **International Trade Loan Program**, which offers term loans of up to \$5 million to businesses that plan to start or continue exporting, or that have been adversely affected by competition from imports. The proceeds of the loan must enable the borrower to be in a better position to compete.
- **SBA and Export-Import Bank Co-Guarantee Program**, which is designed to provide small business exporters the ability to obtain larger export working capital loans through the Export Working Capital Program than SBA can support alone.

CAPLines Working Capital Loan Programs

CAPLines is an umbrella of four loan programs that help small businesses meet short-term and cyclical working-capital needs. Each of the four lines (seasonal, contract, builders, working capital) is designed to help small businesses finance contracts that will help them to scale up their business and create jobs.

For More Information

- [SBA 7\(a\) Loan Program](#)
- [SBA 504 Loan Program](#)
- [SBA standard operating procedures](#)
- The OCC's *Community Developments Insights* on the [SBA 7\(a\) Loan Program](#)
- The OCC's [Small Business Resource Directory](#)
- The OCC's [District Community Affairs Officers](#)