



# SBA 7A SMALL BUSINESS LOAN PROGRAM

## LESSON TOPICS

### 1. Defining the SBA 7A Loan

The SBA 7A loan is from \$20,000-\$150,000 for start-up and existing businesses. There will be no collateral for loans up to \$25,000 but for loans from \$25,000- \$150,000 a loan will have to be taken on the business assets. So in most cases the SBA 7A small loan is unsecured due to the business not having any assets. The term for this loan is ten years, fully amortizing. SBA loan is set up as working capital for operating expenses. SBA has a guarantee fee that is usually 2% of the guaranteed portion of the loan. Under the current 7A program, SBA will guarantee 85% of these loans.

### 2. Who Can Receive the 7A SBA Loan?

- 95% of these loans are received by start-up businesses. These would be pure start-ups which means the day they get funded by a loan is the same day they open their doors to sell their product.
- Franchises can also be funded by the 7A SBA Loan if they are on the SBA approved franchise registry.
- Business acquisitions can not be funded by this loan.
- Construction lending can not be funded by this small loan but once you have a certificate of occupancy, the loan can be funded.
- Individuals with a criminal history must be cleared by SBA.

### 3. Interest Rates and Fees

Loans from \$20,000-\$50,000 have a rate of 6.5%. Loans from \$51,000-\$150,000 have a

rate of 6%. A packaging fee is charged and is tiered from \$20,000-\$50,000 is 3% of the loan (not to exceed \$1,0000) and from \$51,000-\$150,000 is 2% of the loan (not to exceed \$2,5000).

### 4. Start-ups

To be approved for an SBA loan, a start-up will have to put in a minimum of 10% of the project costs that comes from the borrowers personal funds. Then the loan payments will be set up on an automatic draft basis out of your business checking account. The amount of credit score checks will also be evaluated and how they affected your small business score.

### 5. Fair Isaac Small Business Scoring Model

The Fair Isaac Small Business Scoring Model is heavily driven by your personal credit score but also considers the industry you are in and the risks that come with it. This scoring model also evaluates how many past account have you had and the credit history with those accounts. Another factor that is assessed is the debt to income which is the bills that come into your house monthly and your ability to pay them. This ratio is preferred to be in a 30% range, but can go up for small businesses because owners often commingle their personal accounts with their business accounts. The fair isaac small business model also looks at personal equity. SBA wants to see that after you have invested 10% into the loan, that you still have \$50,000 in some sort of personal funds for fallback.



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## LESSON TOPICS CONT.

### 6. Application Process

The application can be downloaded either at [smallsbacom](http://smallsbacom) or [sbdcloan](http://sbdcloan). If you are a one owner business, it will be three pages long. The first page would be about the business, the second would be a listing of ownership, and the last page would be the principal information (adding an additional principal page per borrower). Most of the information needed is obtained through the phone interview, once the loan has been approved. When the application gets to the SBA office, it will be run through various programs to check credit score, which is a pass/fail system. If you pass, the next step would be getting assigned to a packager, who will contact you the same day as credit score check, to provide a checklist of items to complete to continue the loan process. The entire process is conducted electronically.

Part of the packaging process provides you with an excel spreadsheet, that will aid in financial projections of your business for the first 2 full years. It will be in the same format that the underwriters use for every deal. this is done to ensure a speedy process.

### 7. Things SBA Can't Do

- Loans can not be made to non-profits.
- Loans can not be made to passive income businesses.
- SBA stays out of agricultural business.
- Loans can not be made to businesses engaged in lending.
- Loans can not be made for gambling or

pyramid-like businesses.

- Loans can not be made to businesses that restrict patronage.
- Loans can not be made to loan packagers.
- Businesses/owners that have defaulted on any past government loans can no longer acquire another government loan. The exception is if you have gone back and made restitution to the government.