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### SBA Finance Options for Grocers

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# SBA Finance Options

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*Fourth National Rural Grocery Summit*

*June 9 – 10, 2014*





# SBA – What it is/What it does

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- Federal government agency created in 1953
- Purpose – to help potential and existing small businesses start, grow & succeed
- The three “C’s”:
  - COUNSELING
  - CONTRACTING
  - CAPITAL



# SBA Loan Programs

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- Key source of financing for viable small businesses that cannot qualify for credit on reasonable terms from traditional sources
- Three Principal Players:
  - Small Business Applicant
  - A Lender
  - SBA

*SBA does not provide direct loans or grants to start or grow a small business*



# SBA Loan Programs

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- Loan programs:
  - 7(a) loan program
  - 504 loan program
- Benefits to borrowers:
  - Access to capital not otherwise available
  - Lower down payment
  - Longer repayment term; no balloon or demand notes
  - Reasonable interest rate
  - Term loans & revolving lines of credit available



# 7(a) Loan Program

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- SBA's primary loan program
- Broad eligibility requirements
- Meets wide range of financing needs
- SBA guarantees loans made by private lenders, such as banks, credit unions or non-bank lenders
- SBA guaranty: 50 – 85%
  - Reduces lender's risk of borrower non-payment
  - Borrower still obligated for full loan amount



# 7(a) Loan Program

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- Use of loan funds
  - New start-up, change of ownership or existing businesses
  - Acquire land, building, equipment, fixtures
  - Inventory
  - Working capital
  - Refinance of existing debt
- Maximum amount - \$5,000,000
- Interest rate set by lender w/in SBA maximums
  - Prime + 2.25% for loans < 7 yrs; prime + 2.75% for loans > 7 yrs; rates can be higher for smaller loans



# 7(a) Loan Program

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- Maximum maturities
  - Up to 25 years for real estate
  - Up to 10 years or useful life for equipment
  - 7 – 10 years for working capital, inventory
- Fees
  - SBA charges one-time “guaranty fee” (2-3.75% of guaranteed portion of loan)
  - Tiered structured based upon loan amount
  - *NO FEE on loans of \$150,000 and less through 9/30/2014*





# 7(a) Loan Program

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- Procedure
  - Prepare business plan or loan proposal
  - Submit to lender of your choice
  - Lender decides to: 1) make loan themselves; 2) make loan with SBA guaranty or 3) decline
  - Lender gathers necessary information from applicant and submits request for guaranty to SBA
  - If approved by SBA, lender responsible for closing loan, disbursing funds, collecting payments and servicing loan



# 7(a) Loan Program – SBA Express

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- SBA guarantees 7(a) loans through several different delivery methods/sub-programs
- SBA Express (most popular)
  - Lender must be approved to use the program
  - SBA delegates credit decision entirely to the lender
  - Minimal SBA paperwork for applicant
  - Quicker response time
  - Lender receives 50% guaranty from SBA
  - Maximum loan amount - \$350,000



# 7(a) Loan Program – SBA Express

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- “Veterans Initiative”
  - For businesses owned at least 51% by members of the military community and/or their spouses
  - NO GUARANTY FEE on loans of \$350,000 and less originated through SBA Express program
  - Initiative good through 9/30/2014

# 504 Loan Program

- Long-term, fully amortizing, *fixed rate, subordinate* financing for purchase, renovation or construction of *fixed assets* (land, building, machinery & equipment)
- Two-tiered project financing
  - Private lender
    - 50% of project cost; 1<sup>st</sup> lien on project assets (no SBA guaranty)
  - SBA 504 loan
    - Finances 30 – 40% of project cost; 2<sup>nd</sup> lien on project assets
- Small business applicant provides 10 – 20%



# 504 Loan Program

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- Provided through Certified Development Companies (CDCs)
- Funded by monthly sale of 100% SBA-guaranteed debentures/bonds to investors on Wall Street
- Can be for new start-up, change of ownership, or existing business
- 504 & 7(a) can be used together to meet current & fixed asset financing needs
- Amount (504 share): \$125,000 to \$5 - \$5.5 million



# 504 Loan Program

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- Interest Rate
  - Private lender loan: set by lender & must be w/in SBA maximum (currently 6%)
  - 504 loan: *low, fixed rate* based upon debenture rate in month loan is funded
- Maturity
  - Private lender loan: Must be at least 10 yrs for Real Estate; at least 7 yrs for Machinery & Equipment
  - 504 loan: 20 yrs for Real Estate; 10 yrs for Machinery & Equipment



# SBA Wichita District Office

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For more information on SBA's programs and services

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