Loan Programs Currently Provided by the SBA

The U.S. Small Business Administration (the SBA) was formed pursuant to the Small Business Act of 1953 to encourage the growth of small businesses in the United States.

One of the SBA's primary functions in pursuing its stated goal is to support small businesses through various funding programs, including the **7(a) Loan Program** and the **Economic Injury Disaster Loan Program** (referred to as the Loan Programs), each of which is described below.

SBA Size Standards

A threshold requirement for participation in the Loan Programs is to qualify as a small business according to the SBA's size standards.

The applicable standard for any business is based on either the number of employees of the business or the business's annual receipts and depends on the business's industry (the applicable threshold for each industry can be found **here**).

For example, to qualify as a small business under the SBA's size standards, an advertising agency must have annual receipts of $16.5 million or less.

The SBA provides an online **Size Standards Tool** to help determine eligibility for participation in SBA programs.

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7(A) LOAN PROGRAM

Through the 7(a) Loan Program, the SBA guarantees loans made by approved lenders to small businesses.

7(a) Loan Qualifications:

- Operate on a for-profit basis;
- A physical location and operations in the United States;
- Operate in any industry, other than as an ineligible business;
- Investment by the business owner of time or money; and
- Exhaustion of all other financing options.

In addition to the eligibility requirements listed above, any lender providing the funds will also have its own approval criteria.

7(a) Standard Loan Terms:

Maximum Loan Amount:	$5 million
Term:	Up to ten years
Use of Loan Proceeds:	For a variety of purposes including purchase of equipment, managing inventory or general working capital
Collateral Requirement:	Maximum amount possible up to the loan amount
SBA Guarantee:	Up to 85% of the loan amount for loans less than $150,000 and up to 75% of the loan amount for loans greater than $150,000

In addition, the 7(a) Loan Program provides:

1. Small Loans (up to $350,000; same guarantee percentages as the Standard Loans) with more relaxed collateral requirements; and
2. Express Loans (also up to $350,000; up to 50% guaranteed), for which the SBA provides approval decisions in 36 hours.

A detailed comparison of the types of 7(a) loans can be found here.

Interest Rates and Fees:

While the actual interest rates of 7(a) loans are negotiated between the borrower and the lender, the rates may not exceed the limitations set by the SBA. These SBA maximum rates vary based on the type, amount and maturity date of the loan (for example, the maximum permitted interest rate for a fixed rate loan of $250,000 or more is 5.0% above the prime rate or LIBOR).

Lenders are prohibited from charging processing fees, origination fees, application fees and brokerage fees, but the SBA may charge:

- An upfront guaranty fee based on the amount and term of the loan (for example, for loans in amounts of $150,001 to $700,000, the fee is 3.0% of the guaranteed portion); and
- An annual servicing fee equal to 0.55% of the guaranteed portion of the loan.

Finding a Lender:

In order to begin the process of obtaining a 7(a) loan, the SBA recommends using their online "Lender Match" referral tool, which assists applicants in preparing a form to be sent to participating lenders describing the applicant's business and funding needs.

After submitting the form, small business owners can expect to be contacted by interested lenders within two business days. The small business owner may select from any of the interested lenders and then will start the chosen lender's application process. In the event the Lender Match program does not provide a match, small business owners can contact their local SBA district office for additional assistance (SBA district office locations can be found here).

The "Lender Match" form may be found here.

ECONOMIC INJURY DISASTER LOAN PROGRAM

The SBA also offers an Economic Injury Disaster Loan Program (EIDLP), which provides small businesses and private nonprofit organizations with working capital loans of up to $2 million in the event of substantial economic injury due to a declared disaster.

EIDL Qualifications:

To qualify for an Economic Injury Disaster Loan (EIDL):

1. A disaster declaration must have been issued for the area in which the business is located; and
2. The business must have incurred economic injury as a result of such disaster.

EIDL borrowers are required to:

- Prove that they are not able to obtain credit elsewhere;
- Have a credit history acceptable to the SBA; and
- Show the ability to repay all loans.

EIDL Terms:

Maximum Loan Amount:	$2 million (based on the economic injury suffered by the borrower and its financial needs)
Term:	Up to 30 years
Use of Loan Proceeds:	Proceeds may be used broadly, including to pay fixed debts, for payroll, accounts payable and other bills
Interest Rate:	3.75% for for-profit entities or 2.75% for non-profit entities

EIDL APPLICATION PROCESS:

Borrowers can apply online for an EIDL here. An SBA representative will then review the applicant's credit history and the economic injury suffered by the business to determine the amount of the EIDL. Note that EIDLs may be adjusted after closing if the borrower's circumstances change (e.g., increased for unexpected costs or reduced due to insurance proceeds). More information on the application process can be found here.