

# EVERYTHING YOU NEED TO KNOW TO APPLY FOR AN SBA LOAN, SUCCESSFULLY

*By understanding the SBA, their offerings, the application process, and what they are looking for, you increase your chances of being funded.*



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## INTRODUCTION

While small business is the backbone of the American economy, capital is its lifeblood. Without it, life slowly grinds to a halt. This is made all the more apparent with the recent events of 2020, first with COVID-19, then with the response of state and local governments. The impact on most small business has been the same, devastating.

The Federal Government's response to the economic fallout as a result of the COVID-19 pandemic was the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. Signed into law on March 27, 2020 by President Donald Trump, the economic stimulus bill sought to provide \$2.2 trillion dollars get the American economy moving again, \$376 billion of which was intended for relief to American workers and small business. What was the agency assigned the task of disbursing funds to American small businesses?

The United States Small Business Administration (SBA).

As an entrepreneur and small business owner in the United States, you most likely were already aware of the SBA and the wide range of services they make available to small business. You most likely also knew about SBA loans, which is why you are reading this e-book.

This e-book is intended to answer several important questions about the SBA, specifically:

- Why an SBA loan?
- What is the SBA?
- What are the SBA funding programs?
- How does the SBA define a small business?
- What is the most popular SBA loan program?
- What is the SBA's involvement in the Federal Government's response to COVID-19?

- How do you apply for an SBA loan?
- What steps can you take to prepare for the application process for an SBA 7(a) loan?

Armed with this information, it is our intention to give you the information you need to determine if you are ready to apply for an SBA loan and if you do apply, are approved to receive the funds you need to grow your business.

## **WHY AN SBA LOAN?**

First off, let us start with what an SBA loan is not. An SBA loan is not a loan issued by the SBA. They do not issue loans. Instead, it is a loan issued by a bank that is guaranteed by the SBA. They back a large percentage of the loan. Just how much, depends on the type of loan.

Since the SBA takes on much of the loan's risk, the lender has more confidence to issue the loan. The terms are also quite generous, having lengthy repayment periods and attractive rates capped by the SBA. As a result, they are very popular.

Getting an SBA loan is not easy. Not everyone who applies is approved. The main reason people can't get SBA loans is because the credit standards are so high.

The best thing you can do to increase your chances of getting an SBA loan is to prepare. Learn about the SBA, your options, the application process, and the requirements. This guide will help you do that.

As I mentioned earlier, the SBA is also playing an important role in helping small businesses navigate the fallout from COVID-19. While some of the programs have expired, I will discuss them here just in case there is another round of funding by the Federal Government.

At the time of this writing, there is discussion taking place about a second round of aid for small businesses.

Without further ado, let's get started.

## **WHAT IS THE SMALL BUSINESS ADMINISTRATION**

The U.S. Small Business Administration helps Americans start, build, and grow businesses.

Created in 1953, the SBA is an independent agency of the federal government to aid, counsel, assist, and protect small business concerns' interests. It has a second mission to preserve free competitive enterprise and maintain and strengthen the economy.

The SBA is tasked with many activities, including:

- Access to capital – The SBA provides an array of financing for small businesses from the smallest needs in microlending to substantial debt and equity investment capital.
- Entrepreneurial development – The SBA offers free counseling and low-cost training to new entrepreneurs and established small businesses in over 1,800 locations.
- Government contracting – The SBA sets goals with other federal departments and agencies to award 23 percent in prime contract dollars to small businesses.
- Advocacy – The SBA reviews congressional legislation, testifies on behalf of small businesses, and assesses the impact of small businesses' regulatory burden.

Since the pandemic, the SBA is the primary agency responsible for distributing Paycheck Protection Program (PPP) funds to small businesses.

The SBA incentivizes lenders to work with you. This is why an SBA loan is such an excellent option for startups and newer businesses. They offer a range of financing options through several loan programs.

The most popular is the SBA 7(a) program designed to provide capital to small business owners who are having difficulty acquiring it through other means.

SBA loans do not have bank quality rates and terms. They are some of the most versatile loans on the market and have minimal restrictions on how the funds can be used. The main limitation is that they must be used for business purposes, including but not limited to acquiring a business, refinancing, startup funds, equipment, the purchase of real estate, and a partner buyout.

## **SBA FUNDING PROGRAMS**

The SBA has five funding programs for small businesses, including:

1. Loans – Help entrepreneurs start and expand a business with guaranteed loans.
2. Investment Capital – Help entrepreneurs find investors and help investors make both debt and equity investments.
3. Disaster Assistance – Help with a low-interest disaster SBA loan after a disaster.
4. Surety Bonds – Helps protect your work and your clients with an SBA-guaranteed surety bond.
5. Grants – Government grants that help businesses do scientific research and development.

## HOW DOES THE SBA DEFINE A SMALL BUSINESS?

There are many definitions of a small business. The most important one is the one that applies to your business. However, it is not that straightforward.

The SBA definition for whether or not you are a small business depends on the industry you are in. Generally speaking, a small business could be defined as a business with 250 employees or a maximum of 1,500 employees. They are also privately owned corporations, partnerships, and sole proprietorships that have less revenue than large corporations.

The SBA sets numerical definitions or “[size standards](#)” for every non-profit small business in the United States based on its number of employees and average annual receipts.

The size standards are defined by the industry you are in. Depending upon your industry, a small business could range from a maximum of 250 employees to 1,500 employees. Revenue caps are also defined by the industry you are in and range from a maximum of \$750,000 to \$38.5 million in average annual receipts.

Here are some examples of the size definition by larger industries:

- Agriculture: A maximum of \$750,000 in average annual receipts
- Construction: A maximum of \$36.5 million in average annual receipts
- Finance and Insurance: A maximum of 1,500 employees (for direct property and casualty insurance carriers), and a maximum in average annual receipts ranging from \$32.5 to \$38.5 million
- Health care and social assistance: A maximum of \$7.5 million to \$32.5 million in average annual receipts.
- Information: A maximum number of employees ranging from 500 to 1,500 depending upon the sub-industry. The maximum average

annual receipts for this industry ranges from \$7.5 million to \$32.5 million.

- Manufacturing: The maximum number of employees ranges from 500 to 1,500
- Professional, scientific, and technical services: A maximum of \$7.5 million to \$20.5 million in average annual receipts, or a maximum of 1,000 to 1,500 employees.
- Real estate, rental, and leasing: A maximum of \$7.5 million to \$32.5 million in average annual receipts.
- Retail trade: For a third of all retail trade sub-industries, size standards are set at \$7.5 million in average annual receipts. Other industries are defined by 100 to 500 employee maximums.
- Transportation and warehousing: The maximum number of employees ranges from 500 to 1,500. Revenue caps will depend on your sub-industry ranging from \$7.5 million to \$37.5 million in average annual receipts.
- Wholesale trade: The maximum number of employees ranges from 100 to 250.

There are many sectors that the SBA sets exact size standards for, so be sure to check their [table size of standards](#) to see if your business makes the cut for a small business.

When you look through the different size standards defined by the SBA, you may be taken aback by just how big some small businesses are. The truth is less than [89% of all business enterprises](#) in the United States have less than 20 employees. Even more surprising, [almost 25 million businesses have no employees!](#) It is just the owner doing everything themselves or relying on a team of freelancers or outsourced tasks.

When defining a small business, the SBA also looks at the following qualifications to determine whether a company should be defined as a “small business”:

- Is the company headquartered in the United States
- Is it operating primarily in the United States?
- Is it mainly a small business?
- Whether it is independently owned and operated, and
- Whether it is a minority company in its broader industry

## **SBA FUNDING PROGRAMS**

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1. Loans – Help entrepreneurs start and expand a business with guaranteed loans.
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3. Disaster Assistance – Help with a low-interest disaster SBA loan after a disaster.
4. Surety Bonds – Helps protect your work and your clients with an SBA-guaranteed surety bond.
5. Grants – Government grants that help businesses do scientific research and development.

While the other programs are just as worthy, this e-book will be focusing on the SBA loan program.

### **SBA LOAN PROGRAM**

The SBA offers a variety of loan programs for very specific purposes.

The loan programs include:

- General Small Business Loans (7a)
- SBA Microloan Program
- Real Estate & Equipment Loans: CDC/504

#### **SBA 7(a) Loan Program**

SBA 7(a) loan program is the main program providing financial assistance to small businesses. There are several types of loans offered that vary in terms and conditions, like the guaranty percentage and loan amount.

Non-disaster related loans available through the SBA include:

- Standard 7(a) loan
- 7(a) Small Loan
- SBA Express
- Export Express
- Export Working Capital
- International Trade
- Veterans Advantage
- CAPLines

As stated earlier, the SBA does not specifically issue loans but rather guarantees loans issued to qualified small business applicants. This loan guarantee enables the lending institution to extend bank loan rates and terms to applicants who would not otherwise be able to access credit at such favorable rates.

#### SBA Standard 7(a) loan

This is the SBA's most popular loan. As a result, we will look at qualifying standards for the standard 7(a) loan later on. However, the specifics of the 7(a) loan is as follows:

<b>Maximum Loan Amount</b>	Up to \$5 million
<b>Maximum SBA Guarantee %</b>	85% for loans up to \$150,000 and 75% for loans greater than \$150,000
<b>Eligibility Decision</b>	By the SBA. Qualified lenders may be granted delegated authority to make eligibility determinations without SBA review.

<b>Interest Rate</b>	Lenders and borrowers can negotiate the interest but it cannot exceed the SBA maximum.
<b>Revolving Lines of Credit</b>	Up to 10 years, permitted only under CAPLines submission.
<b>Collateral</b>	Lenders are not required to take collateral for loans up to \$25,000. For loans above \$350,000, the SBA requires that the lender collateralize the loan to the maximum extent possible up to the loan amount. If business assets do not “fully secure” the loan, the lender may include trading assets (using 10% of current book value for the calculation) and must take available equity in personal real estate (residential and investment) of the principals as collateral.
<b>Credit Decision</b>	By the SBA. However, qualified lenders may be granted delegated authority to make credit decisions without SBA review.

### SBA 7(a) Small Loan

<b>Maximum Loan Amount</b>	Up to \$350,000
<b>Maximum SBA Guarantee %</b>	85% for loans up to \$150,000 and 75% for loans greater than \$150,000
<b>Eligibility Decision</b>	By the SBA. However, qualified lenders may be granted delegated authority to make eligibility determinations without SBA review.
<b>Interest Rate</b>	Lenders and borrowers can negotiate the interest but it cannot exceed the SBA maximum.
<b>Collateral</b>	Lenders are not required to take collateral for loans over

	\$25,000, up to and including \$350,000, the lender must follow collateral policies and procedures that it has established and implemented for its similarly-sized non-SBA guaranteed commercial loans, but at a minimum the lender must take a first lien on assets financed with loan proceeds and lender must take a lien on all of the applicant's fixed assets including real estate. The lender is not required to take a lien against the applicant's real estate when the equity is less than 25% of the fair market value. The lender may limit the lien taken against real estate to the loan amount.
<b>Credit Decision</b>	By the SBA. However, qualified lenders may be granted delegated authority to make credit decisions without SBA review.

SBA Express

<b>Maximum Loan Amount</b>	Up to \$350,000
<b>Maximum SBA Guarantee %</b>	50%
<b>Eligibility Decision</b>	Made by the lender
<b>Interest Rate</b>	Lenders and borrowers can negotiate the interest but it cannot exceed the SBA maximum.
<b>Revolving Lines of Credit</b>	Up to seven years with maturity extensions permitted at the outset.
<b>Collateral</b>	Lenders are not required to take collateral for loans up to \$25,000 and may use their existing collateral policy for

	loans over \$25,000 up to \$350,000.
<b>Credit Decision</b>	Made by the lender.
<b>Purchase</b>	Lender may request expedited SBA purchase on small loans or in situations where liquidation may be delayed?

### Export Express

The Export Express program provides exporters and lenders a streamlined method to obtain SBA-based financing for loans and line of credit of up to \$500,000. Lenders use their own credit decision processes and loan documentation.

<b>Maximum Loan Amount</b>	Up to \$500,000
<b>Maximum SBA Guarantee %</b>	90% for loans of \$350,000 or less, 75% for loans more than \$350,000.
<b>Eligibility Decision</b>	Made by the lender.
<b>Revolving Lines of Credit</b>	May not exceed seven years.
<b>Interest Rate</b>	Lenders and borrowers can negotiate the interest but it cannot exceed the SBA maximum.
<b>Collateral</b>	Lenders follow collateral policies and procedures that the lender has established for its non-SBA-guaranteed loans.
<b>Credit Decision</b>	Made by the lender.

SBA Senior International Credit Officers can provide in-house training to help lenders become proficient in the Export Express program. Additional assistance and training is available.

### Export Working Capital

Export Working Capital loans are for businesses that can generate export sales and need additional working capital to support these sales. Lenders review and approve applications and submit the request to the U.S. Export Assistance Center location servicing the exporter's region.

<b>Maximum Loan Amount</b>	Up to \$5 million
<b>Maximum SBA Guarantee %</b>	90%
<b>Eligibility Decision</b>	By the SBA with qualified lenders may be granted authorization to make eligibility decisions.
<b>Revolving Lines of Credit</b>	Terms of 12 months or less.
<b>Interest Rate</b>	Lenders and borrowers can negotiate the interest rate and is there is no SBA maximum interest rate limit.
<b>Collateral</b>	Export-related inventory and receivable generated by export sales financed with Export Working Capital Program funds. The SBA also requires personal guarantee of owners with 20% or more ownership.
<b>Credit Decision</b>	Made by the SBA.

### International Trade

International Trade loans provide long-term financing to businesses that are expanding because of growing export sales, or that have been adversely affected by imports and need to modernize to meet foreign competition.

Businesses can use International Trade loans for fixed assets for construction, building, real estate equipment, and for working capital for export transactions.

<b>Maximum Loan Amount</b>	Up to \$5 million
<b>Maximum SBA Guarantee %</b>	90%
<b>Eligibility Decision</b>	By the SBA with qualified lenders may be granted authorization to make eligibility decisions.
<b>Interest Rate</b>	Lenders and borrowers negotiate the interest rate and there is no SBA maximum interest rate limit.
<b>Loan Maturity</b>	10 years for permanent working capital, up to 10 years for machinery or equipment or the useful life of the equipment (not to exceed 15 years), and up to 25 years for real estate.
<b>Credit Decision</b>	Made by the SBA.

### Veterans Advantage

Veteran-owned businesses are one of the most significant and fastest growing segments of the U.S. economy. SBA loans made to veteran-owned small businesses come with reduced fees.

To be eligible to receive fee relief through the Veterans Advantage program, a small business must be at least 51 percent owned and controlled by someone in one of the following groups:

- Honorably discharged veterans
- Service-disabled veterans
- Active Duty Military service member eligible for the military's Transition Assistance Program (TAP)
- Reservists and/or active National Guard members
- The current spouse of any veteran, active duty service member, Reservist, National Guard Member, or the widowed spouse of a service member who died while in service or as a result of a service-connected disability.

### CAPLines

CAPLines is an umbrella program that helps small businesses meet their short-term and cyclical working-capital needs. It features four lines.

- Seasonal CAPLine – Borrowers must use the loan proceeds to finance the seasonal increases of accounts receivable and inventory – or in some cases associated increased labor costs. It can be revolving or non-revolving.
- Contract CAPLine – This line finances the direct labor and material cost associated with performing assignable contracts. It can be revolving or non-revolving.
- Working CAPLine – This is an asset-based revolving line of credit for businesses unable to meet credit standards associated with long-term credit. It provides financing for cyclical growth, recurring and/or short-term needs. Repayment comes from converting short-term assets into cash, which is remitted to the lender. Businesses continually draw from this line of credit, based

on existing assets, and repay as their cash cycle dictates. This line generally is used by businesses that provide credit to other businesses. Because these loans require continual servicing and monitoring of collateral, the lender may charge additional fees.

- Builders CAPLine – This line can finance direct labor and material costs for a small general contractor or building constructing or renovating commercial or residential buildings. The building project serves as the collateral, and loans can be revolving or non-revolving.

Builders CAPLine loans must not exceed five years while the remaining CAPLine loans have a maximum maturity of 10 years. Holders of at least 20 percent ownership in the application businesses are required to guarantee the loan.

Now that we know the different loans guaranteed by the SBA, we will now focus on the SBA 7(a) loan starting with the terms and conditions.

## **SBA 7(a) Loan Program Terms and Conditions**

The SBA sets the guidelines that govern the 7(a) loan program. These conditions determine which businesses can be lent funds and the loan types eligible for collateralization.

The specific sub-sections making up the Terms and Conditions of the SBA 7(a) program include:

- Loan amounts
- Maturity terms
- Interest rates
- Percentage of guaranty
- Fees
- Prohibited fees
- Prepayment penalties
- Eligibility requirements
- Special considerations
- Ineligible businesses

Specific terms of SBA loans are negotiated between yourself and your lender. In general, the following provisions apply to all SBA 7(a) loans.

### Loan Amounts

Most SBA 7(a) loans have a maximum loan amount of \$5 million while SBA Express loans have a maximum loan amount of \$350,000. SBA Export Express loans have a maximum loan amount of \$500,000.

The SBA's maximum exposure is \$3.75 million (however, it is \$4.5 million under the International Trade loan). If you receive an SBA-guaranteed loan for \$5 million, the maximum guaranty to your lender

will be \$3.75 million, or 75 percent. The guaranty percentage varies depending on the loan amount and the program type.

### Maturity terms

SBA loan programs are generally intended to encourage longer-term small business financing. Loan maturities are based on your ability to repay, the purpose of the loan proceeds, and the useful life of the assets financed.

The maximum maturities for SBA loans are as follows:

- 25 years for real estate
- 10 years for equipment
- 10 years of working capital or inventory loan

The maximum maturity of loans used to finance fixed assets other than real estate will be limited to the economic life of those assets, in no instance to exceed 25 years. The 25-year maximum will generally apply to the acquisition and/or improvements of land and buildings or the refinancing of debt incurred in their acquisition. Where business premises are to be constructed or significantly renovated, the 25-year maximum would be in addition to the time needed to complete the acquisition.

Significant renovation is defined as construction of at least one-third of the current value of the property.

When loan proceeds are used for a combination of purposes, the maximum maturity can be a blended maturity based on the use of proceeds or up to the maximum for the asset class comprising the largest percentage of the use of proceeds.

### Interest rates

Interest rates are negotiated between you and your lender and are subject to SBA maximums, which are pegged to the prime rate, the LIBOR rate, and an optional peg rate. Interest rates may also be fixed or variable.

The [prime rate](#) or prime lending rate is the rate that banks charge their most creditworthy customers, generally large corporations. Some variable interest rates may be expressed as a percentage above or below prime rate. In general, the prime rate runs approximately 300 basis points above the federal funds rate.

[LIBOR](#) is the London Interbank Offered Rate (LIBOR) and is a benchmark interest rate for short-term loans between banks.

The interest rate for variable rate loans is as follows:

<b>Loan Amount</b>	<b>Max Rate for loan maturities &lt; 7 years</b>	<b>Max Rate for loan maturities &gt; 7 Years</b>
\$25,000 or less	Base rate plus 4.25%	Base rate plus 4.75%
\$25,000 to \$50,000	Base rate plus 3.25%	Base rate plus 3.75%
\$50,000 or more	Base rate plus 2.25%	Base rate plus 2.75%

Variable rate loans may be pegged to the lowest prime rate, the LIBOR Rate, or the SBA optional peg rate. The optional peg rate is a weighted average of rates the federal government pays for loans with maturities similar to the average SBA loan. It is calculated quarterly and published in the Federal Register. The lender and borrower negotiate the amount of the spread, which will be added to the base rate. An adjustment period is selected which will identify the frequency at which the note rate will change. It must not be more often than monthly and it must be consistent (e.g., monthly, quarterly, semiannually, annually, or any other defined period). The maximum rate for SBA Express and Export

Express loans is Prime +6.5 for loans of \$50,000 or less. For loans of over \$50,000, it is Prime +4.5.

The Interest rate for fixed rate loans is as follows:

<b>Loan Amount</b>	<b>Prime Rate in Effect of the first business day of the month, plus</b>
\$25,000 or less	6.0% (600 basis points) plus the 2.0% (200 basis points) permitted by 13 CFR 120.215
\$25,000 to \$50,000	6.0% (600 basis points) plus the 1.0% (200 basis points) permitted by 13 CFR 120.215
\$50,000 or \$250,000	6.0% (600 basis points)
\$250,000 or more	5.0% (500 basis points)

#### Percentage of guaranty

For most 7(a) loan programs, the SBA can guarantee up to 85 percent of loans of \$150,000 or less, and up to 75 percent of loans above \$150,000. However, SBA Express loans carry a maximum of 50 percent guaranty and Export Express loans carry a maximum 90 percent guaranty. The Export working Capital Loan program and International Trade Loans carry a maximum of 90 percent guaranty, up to a guaranteed amount of \$4.5 million.

#### Fees

<b>Gross Loan Size</b>	<b>Fees (See note 1)</b>	<b>Notes</b>
Loans of \$150,000 or less (see note 2)	2% of guaranteed portion. Lender is authorized to retain 25% of the fee.	Maturities that exceed 12 months
SBA Express Loans to	Zero (When program	Maturities that exceed

qualified Veterans & Spouses up to \$350,000.	is zero subsidy)	12 months
\$150,001 to \$700,000	3% of guaranteed portion	Maturities that exceed 12 months
\$700,001 to \$5,000,000 (See note 3)	3.5% of guaranteed portion up to \$1,000,000 PLUS 3.75% of the guaranteed portion over \$1,000,000.	Maturities that exceed 12 months
Short term loans	0.25% of the guaranteed portion	Maturities of 12 months or less
SBA On-Going Guaranty Fee	A percentage of the outstanding balance of the guaranteed portion. The fee is set at the time of approval.	Paid by lender and cannot be passed on to the borrower.

Note 1: The SBA specifies the amount of certain fees each fiscal year for all loans approved during that year.

Note 2: As an example, the guaranty fee on a \$100,000 loan with an 8% guaranty would be 2% of \$85,000 or \$1,700, of which the tender may retain \$425.

Note 3: As an example, the guaranty fee on a \$5,000,000 loan with 75% guaranty (3.75 million guaranteed portion) would be 3.5% of \$1,000,000 (\$35,000) plus 3.75% of \$2,750,000 (\$103,125) with totals \$1,38,125.

### Prohibited fees

Processing fees, origination fees, application fees, points, brokerage fees, bonus points, and other fees that could be charged to an SBA loan application are prohibited. The only time a commitment fee may be charged is for a loan made under the Export Working Capital loan program.

### Prepayment penalties

For loans with maturity of 15 years or longer, prepayment penalties apply when:

- The borrower voluntarily prepays 25 percent or more of the outstanding balance of the loan.
- The prepayment is made within the first three years after the date of the first disbursement of the loan proceeds.

The prepayment fee is as follows:

- During the first year after disbursement, 5 percent of the amount of the prepayment.
- During the second year after disbursement, 3 percent of the amount of the prepayment.
- During the third year after disbursement, 1 percent of the amount of the prepayment.

### Eligibility requirements

While the vast majority of businesses are eligible for financial assistance from the SBA, some are not.

Eligible businesses must:

- Operate for profit
- Be engaged in, or propose to do business in, the U.S. or its territories

- Have reasonable owner equity to invest
- Use alternative financial sources, including personal assets, before seeking financial assistance.

### Special considerations

Special considerations apply to some types of individuals and businesses.

Franchises are eligible, except in situations where a franchisor retains the power to control operations to such an extent as to be equivalent to an employment contract. The franchisee should have the right to profit from efforts commensurate with ownership.

Recreational facilities and clubs are eligible if: (a) the facilities are open to the general public, or (b) in membership-only situations. Membership shall not be selectively denied to any particular group of individuals. The number of memberships is not restricted either as a whole or by establishing maximum limits for specific groups.

Farms and agricultural businesses are eligible; however, these applicants should first explore the Farm Service Agency (FSA) programs, particularly if they have a prior or existing relationship with FSA.

Fishing vessels are eligible. However, those seeking funds for the construction or reconditioning of vessels with a cargo capacity of five tons or more must first request financing from the National Marine Fisheries Service (NMFS), a part of the U.S. Commerce Department.

Medical facilities, including hospitals, clinics, emergency outpatient facilities, and medical and dental laboratories, are eligible. Convalescent and nursing homes are eligible, provided they are licensed by the

appropriate government agency, and services rendered go beyond those of room and board.

An Eligible Passive Company (EPC) is a small entity that does not engage in continuous and regular business activity. An EPC must use loan proceeds to acquire or lease, and/or improve or renovate a real or personal property that it leases to one or more Operating Companies for conducting the Operating Company's business. The EPC must comply with the conditions outlined in 13 CFR 120.111.

Change of ownership.

Loans for this purpose are eligible, provided the business benefits from the change. In most cases, this benefit should be seen in promoting the business's sound development or, perhaps, in preserving its existence. Loans cannot be made when proceeds would enable a borrower to purchase: (a) part of a business in which it has no present interest or (b) part of the interest of a present and continuing owner. Loans to effect a change of ownership among members of the same family are discouraged.

Undocumented workers are legible. However, consideration is given to the type of status possessed (e.g., resident, lawful temporary resident, etc.) in determining the degree of risk relating to the applicant's business continuity. The excessive risk may be offset by full collateralization. The various types of visas may be discussed in more detail with your local SBA office.

Probation or parole.

Applications will not be accepted from firms where a principal is incarcerated, on parole, or on probation; is a defendant in a criminal proceeding, or whose probation or parole is lifted expressly because it prohibits an SBA loan. This restriction would not necessarily preclude a loan to a business where a principal had responded in the affirmative to any of one question on the Statement of Personal History. These

judgments are made on a case-by-case evaluation of the nature, frequency, and timing of the offenses. Fingerprint cards are required any time a question on the form is answered in the affirmative.

### Ineligible businesses

Businesses that are not eligible for participation in the SBA 7(a) loan program are those engaged in illegal activities, loan packaging, speculation, multi-sales distribution, gambling, investment or lending, or one where the owner is on parole.

Specific types of businesses not eligible include:

Real estate investment firms, when the property is held for investment purposes as opposed to loans to otherwise eligible small business concerns for purpose of occupying the real estate being acquired.

Firms involved in speculative activities that develop profits from fluctuations in price rather than through the normal course of trade, such as wildcatting for oil and dealing in commodities futures, when not part of the regular activities of the business.

Dealers of rare coins and stamps are not eligible.

Firms involved in lending activities, such as banks, finance companies, factors, leasing companies, insurance companies (not agents), and any other firm whose stock is in trade in money.

Pyramid sales plans, where the participant's primary incentive is based on the sales made by an ever-increasing number of participants. Such products as cosmetics, household goods, and other soft goods lend themselves to this type of business.

Firms involved in illegal activities that are against the law in the jurisdiction where the business is located. Included, are activities in the

production, servicing, or distribution of otherwise legal products that are used in connection with an illegal activity, such as selling drug paraphernalia or operating a motel that permits illegal prostitution.

Gambling activities, including any business whose principal activity is gambling. While this precludes loans to racetracks, casinos, and similar enterprises, the rule does not restrict loans to otherwise eligible businesses, which obtain less than one-third of their annual gross income from either the sale of lottery tickets under a state license, or gambling activities licensed and supervised by a state authority.

Charitable, religious, or other non-profit institution, government-owned corporations, consumer and marketing cooperatives, and churches and organizations promoting religious objectives are not eligible.

## **SMALL BUSINESSES AND COVID-19**

Small businesses have borne the brunt of the economic fallout from the COVID-19 pandemic. However, this is hardly a surprise as small businesses make up a large percentage of the overall, US economy.

The impact of COVID-19 has been devastating to small businesses. According to recent small business statistics, in [May 2020, 31 percent of small businesses](#) in the US were not operational. In March 2020, when the US became the [new epicenter of the virus](#), over 70 percent of US small businesses shut down. On average, [close to 45% of small businesses](#) that closed were due to government or health authority orders. Some industries fared better than others as many businesses were deemed “essential” businesses enabling them to escape many of the restrictions placed upon small businesses as a whole.

Many small business owners have taken measures to [adapt to the new reality](#) created by coronavirus. Many businesses that have not yet built out their digital marketing channels rushed online as a result of COVID-19. Additionally, [many brick-and-mortar](#) events like fairs, flea markets, conferences, workshops, and trade shows scheduled for the second quarter of 2020 have transitioned online or were cancelled altogether. Lastly, as of the time of this writing, the COVID-19 pandemic is still in full force. As a result, many industries are still in the process of being redefined and it is not unreasonable to expect that some industries may not return at all after COVID-19 subsides.

## **FEDERAL SMALL BUSINESS RESCUE**

Of all governments around the world, the United States may have had the largest response to the COVID-19 pandemic. [The Federal Government has allocated \\$2.59 trillion in COVID-19 funding](#) to four agencies: The Treasury, The Department of Health and Human Services, The Department of Labor, and the Small Business Administration (SBA). Of these funds, roughly half, or \$1.27 trillion, were allocated to fund loan and loan guarantee programs. These funds could be used to generate \$3.92 trillion in loans and loan guarantees to businesses and individuals.

The largest of these programs was the [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#) that provides approximately \$2.09 trillion and is the largest supplemental appropriation in American History.

### **THE CARES ACT of 2020**

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (“the CARES Act” or “the Act”) authorizing more than \$2 trillion to battle COVID-19 and its economic effects, including immediate cash relief for individual citizens, loan programs for small business, support for hospitals, and other medical providers, and various types of economic relief for impacted businesses and industries.

The Act is broken down into four titles:

1. Title I – Keeping American Workers Paid and Employed Act
2. Title II – Assistance for American Workers, Families, and Businesses

3. Title III – Supporting America’s Health Care System in the Fight Against the Coronavirus
4. Title IV – Economic Stabilization and Assistance to Severely Distressed Sectors in the United States Economy

Title I provides \$349 billion for relief during the covered period from February 15, 2020 to June 30, 2020 through a number of changes to the loan program that currently exist and are administered by the Small Business Administration (SBA)

On June 5, 2020, President Trump signed into law H.R. 7010, the “Paycheck Protection Flexibility Act of 2020,” which modifies certain provisions related to forgiveness of loans under the Paycheck Protection Program and allows loan forgiveness recipients to defer their payroll taxes.

The CARES Act established several new temporary programs to address the COVID-19 outbreak. Some of these programs have been discontinued but will address them here just in case they return.

1. The Paycheck Protection Program (PPP)
2. EIDL
3. SBA Express Bridge Loans
4. SBA Debt Relief

### **The PPP Program**

The PPP program provides loan forgiveness for retaining employees by temporarily expanding the traditional SBA 7(a) loan program. The program closed on August 8, 2020 and is no longer accepting applications as of the time of this writing.

Since there has been discussion about reviving the program, I will discuss it here so you know about it just in case it comes back around .

The PPP loan was designed to provide a direct incentive for small businesses to keep their workers on payroll. The SBA will forgive loans if all employee retention criteria were met, and the funds were used for eligible expenses.

How did the CARES Act change the Section 7(a) loan program?

Loan amounts were increased to a maximum \$10 million per eligible borrower. Both borrower and lender fees for Section 7(a) loans were waived. Covered loans under the CARES Act may not provide for an interest rate above 4 percent. The CARES Act permitted complete deferment of Section 7(a) loan payments for more than six months, but not more than one year. The CARES Act eliminated the requirement for the borrower to provide collateral or a personal guarantee.

#### Loan Forgiveness

Any portion of the Section 7(a) loan used to maintain payroll, provided workers stay employed through to the end of June 2020 can be forgiven in an amount equal to the sum of the following costs incurred and payments made during the eight-week period beginning on the date of the origination of the a covered loan:

1. Payroll costs
2. Interest payments on mortgages
3. Covered rent obligations, and
4. Covered utility payments

Loan forgiveness applied only to Section 7(a) loans and do not apply to EIDLs.

## **Economic Injury Disaster Loans (EIDLs)**

The Act expands the SBA’s EIDL program. EIDLs are loans available to small business borrowers that have suffered economic injury as a result of a pandemic or other disaster. Eligibility for an EIDL is limited to small business. The small business qualification attributes discussed above for Section 7(a) loans are generally applicable to EIDLs; however it does not appear that the relief from affiliation rules (such as for borrowers in the accommodation and food services industries) for Section 7(a) loans applies to EIDLs. In addition to being a small business, the EIDL borrower must:

1. Be located in a declared disaster area
2. Have suffered “substantial economic injury” as a direct result of a declared disaster; and
3. Not own property subject to a federal judgment lien.

EIDL amounts are generally limited to \$2 million. Personal guaranty requirements are waived for loans of \$200,000 loans and less. The Act does not specify any changes to existing collateral requirements (collateral is generally required for EIDLs of more than \$25,000), so it would appear that they continue to apply.

### Advances Under the EIDL Program

The CARES Act made available an advance of up to \$10,000 to cover immediate operating costs of eligible businesses applying for EIDL assistance. This program is no longer available as of the time of this writing.

### The Limitations for Section 7(a) Loans and EIDLs

The proceeds of Section 7(a) loans and EIDLs may only be used for specified purposes – generally limited to employee payroll, continuation of health care benefits to employees on paid leave, health insurance premiums, and other operating costs such as mortgage service, rent and

utilities. EIDL proceeds specifically may not be used to refinance existing indebtedness or to pay dividends or other distributions to owners or officers, other than ordinary course compensation.

### **SBA Express Bridge Loans**

The Express Bridge Loan Pilot Program allows small businesses that currently have a relationship with an SBA Lender to access up to \$25,000 quickly. These are bridge loans to help get through difficult times will applying for a direct SBA Economic Injury Disaster Loan.

Terms are for up to \$25,000, have a fast turnaround, and will be paid in full or in part by proceeds from the EIDL loan.

### **SBA Debt Relief**

As part of a Coronavirus debt relief, the SBA paid 6 months of principal, interest, and any associated fees that borrowers owed for all current 7(a), 504, and Microloan in regular servicing status as well as all new 7(a), 504, and Microloans disbursed prior to September 27, 2020. This relief was not available for Paycheck Protection Program loans or EIDL loans. Borrowers do not need to apply for this assistance. It was automatically provided as follows:

- For loans not on deferment, SBA made payments due on the loan and will make six monthly payments.
- For loans on deferment, SBA will make payments with the next payment due date after the deferment period has ended, and will make six monthly payments.
- For loans made after March 27, 2020 and fully disbursed prior to September 27, 2020, SBA will make payments with the first payment due on the loan and will make six-month payments.

SBA has notified 7(a), 504, and Microloan Lenders that it will pay these borrowers loan payments. Lenders have been instructed to refrain from

collecting loan payments from borrowers. If a borrower's payment was collected after March 27, 2020, lenders were instructed to inform the borrower that they have the option of having the loan payment returned by the lender or applying the loan payment to further reduce the loan balance after SBA's payment.

Borrowers should contact their lender if they have any question regarding this payment relief.

## **APPLYING FOR AN SBA LOAN**

So far, we have learned about the SBA, the different programs offered through the SBA for small businesses, and SBA programs offered at small business in response to COVID-19.

### FICO SBSS Score

When it comes to consumer credit, there are three main credit reports. For small business credit scores, there is one.

The Fair Isaac Corporation (FICO) is one of the three leading credit bureaus. However, they also issue a small business credit score, the Small Business Scoring Score ([SBSS](#)) that is widely used by the SBA, banks, and other lenders.

FICO SBSS ranges from 0 to 300, with lenders preferring typically preferring scores of 140 to 180.

FICO collects data from major business and consumer credit reporting bureaus in addition to the documentation submitted by lenders. The look at a several factors but don't publicly disclose how each factor is weighted in its model.

### Personal and Business Credit History

When reviewing small business credit, FICO will look at personal and business credit scores from the major credit bureaus, including Dun & Bradstreet, Equifax, and Experian. Since small business owners are viewed as inseparable from the business, both personal and business credit histories are scrutinized. Lenders assume that if an applicant can manage their personal finances well, they should also be able to manage the finances of the business. Additionally, FICO SBSS does not consider the personal credit of only the primary business owner, but rather all of the owners and principals of the business.

When it comes to business credit, Dun & Bradstreet, Experian, and Equifax all weigh payment history. Since SBSS pulls from these bureaus, payment and trade history with suppliers and vendors are an important part of your overall score. As a result, paying your vendors and creditor on time will have a positive impact on your score.

### Business Financials

In addition to you and your business's credit score, your business's financials will also play a significant role in your SBSS score. FICO will evaluate your company's assets and liabilities, revenue, and cash flow in addition to other pieces of information.

While FICO does not disclose how factors are weighted, positive working capital, positive cash flow, and strong revenue will help your score. FICO will also consider your time in business when generating your score.

Business owners with no business credit history and limited time in business will only be able to receive a maximum score of 140 and that is only if you have excellent personal credit history and a financially sound business.

The size of your business does not factor in your SBSS score. A business with 100 employees can have the same score as a business with only one employee.

### Public Records

FICO will factor any judgments, liens, or other derogatory remarks about your business into its score. Ideally, you won't have any negative remarks but if your business does, it is better if judgment or liens are not recent or consistent and if the dollar amount associated with each is low.

### What do the different scores mean?

Unlike personal credit scores, the FICO SBSS ranges from 0 to 300, with scores above 140 to 180 being considered good to excellent.

While the FICO SBSS has been around since 1993, it didn't gain traction until the SBA began using it for its 7(a) loan program in 2014. For SBA 7(a) loans of up to \$350,000, the SBA looks for a minimum SBSS score of 140 but prefers a score of 160. Since some SBA loans allow a lender to apply its own criteria, many lenders prefer that borrowers have scores between 160 and 180.

#### How do I get my FICO SBSS score?

Your business's SBSS score is generated when you apply for a loan. Your lender will send your documents and information to FICO. They will collect the additional data and enter it into their [LiquidCredit decision engine](#). The resulting score is then sent to your lenders along with a detailed credit report.

#### What is the best way to prepare for your SBSS score?

The best way to prepare for your SBSS score is to check your personal and business credit at other bureaus. This means your [Dun & Bradstreet Paydex Score](#), your [Experian Intelliscore Plus](#) and [Equifax Business Credit Report](#) in addition to your personal FICO score. If you see any incorrect information, you should go about fixing it.

The SBA also considers your personal credit score when applying for a 7(a) loan because it is a reflection of how well you handle your personal finances.

#### What is a good SBA personal credit score?

The go-to method for lenders is generally the FICO score, the same credit-scoring provider responsible for the SBSS score. Equifax, Experian, and Transunion, each assign FICO scores between 300 and 850. The higher you are on the scale, the greater your chances of meeting the minimum credit score for an SBA loan.

The SBA itself does not assign a specific score to qualify for financing. Remember that an SBA loan goes through a lender, so it is the lender that sets the scoring criteria. For an SBA 7(a), approximately 640 is the minimum score for consideration. However, you will increase your chances for approval with a minimum credit score of 680 or higher.

## **PREPARING TO APPLY FOR AN SBA 7(a) LOAN**

To qualify for a 7(a) loan, you need to provide everything that is requested. As result, you will want to get your financial and legal documents in order, as the lender will dig into all of them.

As with life, it is better to be overprepared when it comes to your documentation as it will enable your application to be processed as quickly as possible. Prepare the following:

- Year-end Profit and Loss statement for the past three years
- Year-end balance sheet for the past three years
- Projected financial statements, including monthly cash flow projections for at least a 12-month period
- Reconciliation of net worth
- Business certificate/license
- Income tax returns for the past three years
- History of loans you have applied for
- Business overview and history, including an explanation of the how the funds will be used.
- A copy of your business lease

To qualify for a 7(a) loan, most lenders will like to see an operating history of over three years, and you should generate annual revenue of at least \$500,000. There should also not be any tax liens levied against

you. Lastly, your business's assets should be greater than your liabilities.

You should expect to provide collateral for your SBA loan. Collateral is not necessarily a deal-breaker when it comes to qualifying for an SBA loan, but it is a possibility. Collateral is another layer of security for the lender because they can be sold for cash if you can't repay the loan. [Qualifying assets include](#) "equipment, buildings, accounts receivable, and in some cases, inventory.

## SUMMARY

In this e-book, we have answered several important questions about the SBA. Specifically:

- Why an SBA loan?
- What is the SBA?
- What are the SBA funding programs?
- How does the SBA define a small business?
- What are the SBA funding programs?
- What is the most popular SBA loan program?
- What is the SBA's involvement in the Federal Government's response to COVID-19?
- How do you apply for an SBA loan?
- What steps can you take the application process for an SBA 7(a) loan?

With the answers to these questions, you should be much better equipped to go through the process of preparing and applying for an SBA loan, increasing your chances of being approved.

Because of the generous terms in which SBA loans are offered, they are very popular. Just because they are popular, doesn't mean they are easy to get. On the contrary, they are difficult to apply for, more challenging to qualify for, and even harder to be approved for.

If, after going through this e-book, you determine that you are not yet ready to apply for an SBA, we have laid out steps you can take to prepare for the application process.

## **ABOUT ZIP CAPITAL GROUP**

Zip Capital Group has provided entrepreneurs and small business owners access to capital to grow their business to meet their business goals.

As entrepreneurs and small business owners themselves, they know firsthand about the process of growing and capitalizing on a business. For that reason, they go out of their way to ensure that their clients have access to all of the information they need to make an educated financial decision.

Concerning SBA loans, the team at ZIP CAPITAL GROUP has been helping entrepreneurs and small business owners work to meet the requirements and complete the application process to secure the SBA funding that they need to meet their business goals.