3 www.eda.gov/contact.htm

4 http://en.wikipedia.org

**Small Business Administration (SBA)**4

**(1) Mission**

The Small Business Administration (SBA) is a United States government agency that provides support to entrepreneurs and small businesses. The mission to the Small Business Administration is “to maintain and strengthen the nation’s economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters.” The agency’s activities are summarized as the “3C’s” of capital, contracts and counseling.

SBA loans are made through banks, credit unions and other lenders who partner with the SBA. The SBA provides a government-backed guarantee on part of the loan. Under the Recovery Act and the Small Business Jobs Act, SBA loans were enhanced to provide up to a 90 percent guarantee in order to strengthen access to capital for small businesses after credit froze in 2008. The agency had record lending volumes in late 2010.

SBA helps lead the federal government’s efforts to deliver 23 percent of prime federal contracts to small businesses. Small business contracting programs include efforts to ensure that certain federal contracts reach women-owned and service-disabled veteran-owned small businesses as well as businesses participating in programs such as 8(a) and HUBZone.

**(2) Lending Programs**

The most visible elements of the SBA are the loan programs it administers. The SBA does not provide grants or direct loans with the exception of Disaster Relief Loans. Instead, the SBA guarantees against default certain portions of business loans made by banks and other lenders that conform to its guidelines.

These programs are not generally for persons with bad credit who can’t get bank loans. Rather, the primary use of the programs is to make loans for longer repayment periods based in part upon looser underwriting criteria than normal commercial business loans. A business can qualify for the loan even if the yearly payment approximates previous year’s profit. Most banks want annual payment for loans no more than two-thirds (2/3) of prior year’s operating profits. Lower payments, longer terms and relaxed criteria allow some businesses to borrow more money than otherwise.

One of the most popular uses of SBA loans is commercial mortgages on buildings occupied or to be occupied by small business. These programs are beneficial to small business because most bank programs frequently require larger down payments and/or have repayment terms requiring borrowers refinance every five years. They can be beneficial to the bank in that banks can reduce risk by taking a first-lien position for a smaller percentage of the project, then arranging for a SBA Certified Development Company to finance the remainder through a second-lien position.

1. **Loan Guarantee Program**
The 7(a) Loan Guarantee Program is designed to help small entrepreneurs start or expand their business. The program makes capital available to small business through bank and non-bank lending institutions. The Small Business Jobs Act of 2010 permanently increased the maximum size of these loans from $2 million to $5 million.
2. **504 Fixed Asset Financing Program**
The 504 Fixed Asset Financing Program is administered through nonprofit Certified Development Companies throughout the country. This program provides funding for the purchase or construction of real estate and/or the purchase of business equipment/machinery. Of the total project costs, a lender must provide 50% of the financing, a Certified Development Company provides up to 40% of the financing through a 100% SBA-guaranteed debenture, and the applicant provides approximately 10% of the financing. Thorough due diligence of properties purchased through this program is required. Specific SBA Level I Environmental Site Assessment guidelines apply as all properties are treated as “high risk.” The Small Business Jobs Act permanently increased the maximum size of these loans from $2 million on $5 million ($5.5 million for manufactures).
3. **Micro Loan Programs**
The Small Business Jobs Act increased the maximum amount of SBA micro loans from $35,000 to $50,000. These are offered through nonprofit micro loan financial intermediaries.
4. **Disaster Assistance Loans**
Homeowners and renters are eligible for long-term, low-interest loans to rebuild or repair a damaged property to pre-disaster condition. Before making a loan, the SBA must establish the cost of repairing or rebuilding the structure (determined by SBA’s Field Inspectors who visit the property), applicant’s repayment ability (determined by applicant’s creditworthiness and income) and whether the applicant can secure credit in the commercial market (called the credit elsewhere test). Applicants who do not qualify for disaster assistance loans are referred to the Federal Emergency Management Agency (FEMA) for grants. Although SBA won’t decline a loan for lack of collateral, the agency is statutorily required to collateralize whatever assets are available including the damaged property, a second home or other real estate.

Businesses are also eligible for long-term, low-interest loans to recover from declared disasters. Similar to the homeowner’s loan program mentioned above, small business owners pledge any available assets and acquire a similar pledge from a spouse or partner in the case of shared assets. If defaulting on the debt, the spouse or partner must surrender their value in the assets. The total value of an applicant’s assets is not considered by the SBA; therefore, a company may be approved for a loan regardless of whether that entity has little or substantial net worth.

Once an SBA loan is approved, the SBA mails closing documents to the applicant for signature. Disbursements include an initial unsecured amount of $14,000 and subsequent disbursements depending upon construction progress and continued insurance coverage. After final disbursement, the loan is transferred to one of the SBA’s servicing offices for management, or to its collections office in the case of default.

Disaster Relief Loans are often approved within 21 days. However, after Hurricane Katrina, the SBA processed applications, on average, in about 74 days.

If a business with a Disaster Relief Loan defaults on the loan, and the business is closed, the SBA will pursue the business owner to liquidate all personal assets, to satisfy an outstanding balance. The IRS will withhold any tax refund expected by the former business owner and apply the amount toward the loan balance.

**(3) Entrepreneurial Development Programs**

1. **Small Business Development Centers**
Approximately 900 Small Business Development Center sites are funded through a combination of state and SBA support in the form of matching grants. Typically, SBDCs are co-located at community colleges, state universities, and/or other entrepreneurial hubs.
2. **Women’s Business Centers**
100 Women’s Business Centers are funded through matching grants to nonprofit organizations, many of which are located in underserved, accessible areas. These centers often serve small, home-based enterprises.
3. **Service Corps of Retired Executives (SCORE)**
SBA annually grants SCORE the funds to oversee approximately 350 chapters of volunteers who provide free mentoring and counseling to entrepreneurs and small business owners.

**(4) Federal Contracting and Business Development Programs**

1. **8(a) Business Development Program**
The 8(a) Business Development Program assists in the development of small businesses owned and operated by individuals who are socially and economically disadvantaged, such as women and minorities. The following ethnic groups are classified as eligible: Black Americans; Hispanic Americans; Native Americans (American Indians, Eskimos, Aleuts, or Native Hawaiians); Asian Pacific Americans (persons with origins from Burma, Thailand, Malaysia, Indonesia, Singapore, Brunei, Japan, China, (including Hong Kong), Taiwan, Laos, Cambodia (Kampuchea), Vietnam, Korea, The Philippines, U.S. Trust Territory of the Pacific Islands (Republic of Palau), Republic of the Marshall Islands, Federated States of Micronesia, the Commonwealth of the Northern Mariana Islands, Guam, Samoa, Macao, Fiji, Tonga, Kiribati, Tuvalu, or Nauru); Subcontinent Asian Americans (persons with origins from India, Pakistan, Bangladesh, Sri Lanka, Bhutan, the Maldives Islands or Nepal). In 2011, the SBA, along with the FBI and the IRS, uncovered a massive scheme to defraud this program. Civilian employees of the U.S. Army Corps of Engineers, working in concert with an employee of Alaska Native Corporation *Eyak Technology LLC* allegedly submitted fraudulent bills to the program, totaling over 20 million dollars, and kept the money for their own use. It also alleged that the group planned to steer a further 780 million dollars towards their favored contractor.
2. **HUBZone**
HUBZone is an SBA program for small companies that operate and employ people in Historically Underutilized Business Zones (HUBZones). The HUBZone program was created in response to the HUBZone Empowerment Act created by the US Congress in 1998.
3. **(5) SBA Loan Industry**
The SBA loan industry can be divided into distinct categories:
	1. Large bank institutions, such as Chase, Bank of America and Wells Fargo, generate the bulk of their SBA loan volume by loans, especially the express loan and line of credit, offered to those who would be declined for ‘normal’ bank credit due to factors such as length of time in business or slightly more conservative underwriting factors. Banks have sophisticated computer systems that generally make this process seamless, and are quite different from other financial institutions who utilize SBA lending for separate and distinct purposes.
	2. SBA loans are used heavily by banks of all sizes to finance the purchase or construction of business owner-occupied real estate (i.e. real property purchased for commerce). Many banks offer SBA loans only for this purpose. In particular, they finance properties that a bank would consider too risky to finance conventionally, due to being of a special use [bowling alley, automobile repair] or environmentally risky nature [petroleum products storage, electrical substation] that can make their resale value limited. Some example properties include motels, gas stations and car washes.
	3. SBA loans also encourage individuals to buy existing business. Since, unlike in real estate transactions, commercial lenders can fund referral fees earned by business brokers helping people buy and sell businesses, this segment of industry is supported by smaller banks and standalone finance companies who understand this sector.

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