FIRST FINANCIAL BANK

SBA SOP UPDATES

WHAT SMALL BUSINESS OWNERS NEED TO KNOW

The United States Small Business Administration (SBA) plays a crucial role in supporting the growth and success of small businesses across the nation. As of the most recent updates, several notable changes have been implemented in the SBA's standard operating procedures, aiming to streamline processes, enhance accessibility, and better serve the needs of small business owners. Let's dig into some of the key modifications:

1

Revisions to Equity Injections Requirements: Small businesses often require equity injections to secure financing, whether for business acquisitions, startup capital, or expansion. The SBA's revised guidelines aim to provide more clarity and flexibility regarding the sources and structure of equity injections. By offering clearer guidelines, the SBA enables entrepreneurs to navigate the financing process more effectively. This includes allowing a wider range of acceptable equity sources, such as personal savings, contributions from partners, or investments from third-party investors.

The SBA changed the conditions for a Seller Note to be considered part of the Buyer Equity Injection (aka Down Payment). Under the former guidelines, the seller note must be on full standby (no principal or interest payments) until the SBA Loan is paid in full, meaning the seller was only paid back after the SBA loan was completely paid off.

The seller is now allowed to be repaid after 24 months and can receive interest-only payments during the first 24 months if the business can afford the payments. This allows a borrower the opportunity to ask a seller to assist them in purchasing a business without requiring the seller to wait up to 10 years to be repaid.

2

Partial Buy-Ins Facilitation: Partnerships are often integral to the growth and success of small businesses, but navigating partner buy-ins can be complex. The SBA has introduced streamlined procedures to facilitate partner buy-ins, making it easier for businesses to bring in new partners or buy out existing ones.

Under the updated regulations, buyers can now acquire less than 100% ownership of the business, known as a Partial Buy-In. This change allows sellers to remain actively involved in business operations beyond the previous 12-month consulting period.

This is particularly beneficial for business owners seeking to transition their companies, especially those with specialized licenses or intellectual property that are not easily transferred to buyers at the time of sale. Additionally, if the seller plans to stay with the company long-term, their salary and benefits will no longer be treated as add-backs when calculating business discretionary cash flow. Based on the percentage of ownership, the remaining owner may also need to guarantee the loan.

3

Adjustments to SBA Guarantee Fees: Guarantee fees play a crucial role in SBA-backed loans, impacting both borrowers and lenders. In an effort to enhance affordability and accessibility, the SBA has adjusted guarantee fees for its loan programs. This new fee structure is good news for borrowers with loan requests up to $1,000,000.

The following is a summary of the fees:

- For loans of $1,000,000 or less: 0.00%
- For loans of $1,000,001 to $2,000,000: 1.45% of the guaranteed portion of the loan up to and including $1,000,000, plus 1.70% of the guaranteed portion of the loan over $1,000,000
- For loans of $2,000,001 and greater: 3.50% of the guaranteed portion of the loan up to and including $1,000,000, plus 3.75% of the guaranteed portion of the loan over $1,000,000

4

Loan Term and Maturity: The Small Business Administration (SBA) permits lenders to extend financing for up to 25 years for loans used for and secured by commercial real estate and up to 10 years for non-real estate secured loans. The loan term may be adjusted based on the distribution of the intended use, such as commercial real estate, working capital, or equipment. Specifically, if over half (51% or more) of the funds are allocated to commercial real estate, the maturity period can be up to 25 years, given the property's remaining economic life matches or exceeds this duration. Conversely, if commercial real estate constitutes less than 51% of the loan's purpose, a blended loan term combining various durations will be necessary.

5

Increased Guaranteed Dollars: The Small Business Administration (SBA) has increased the maximum loan amount for its small loan product from $350,000 to $500,000. Loans that fall into this category are eligible for expedited and streamlined processing. This change is intended to disperse small business financing across a wider pool of applicants while making it easier and faster to obtain funds.

As a result of the changes, if you've previously been approved for an SBA 7(a) loan of $350,000, you could qualify for additional loan proceeds with the same streamlined application previously only available for smaller loans.

6

Equity Injection Verification: Previously, SBA had specific requirements for verification of equity injection. Through new guidance, the requirement for verification of equity injection is flexible. With regard to verifying the equity injection, lenders can follow their policies for similarly sized non-SBA commercial loans. This reduced the amount of documentation that lenders must collect to verify equity on 7(a) loans.

As an SBA Preferred Lender, we're here to help you understand these changes and how they could impact your business. With First Financial Bank, you get loan officers who understand your business and how to navigate the process for the loan you need. For more information or to discuss financing solutions, contact us.

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