Basic 7(a) Loans

The 7(a) Loan Program, the SBA's most common loan program, provides financial help for businesses with special requirements.

7(a) Loans Overview

Who Qualifies

For-profit businesses that can meet SBA's size standards, nature of business, use of proceeds, credit elsewhere, and other miscellaneous eligibility factors.

Structure

Term loans with one monthly payment of principal and interest (P&I). Borrower contribution required. Interest rate depends upon how lender applies for guaranty. Cannot revolve. No balloon or call provisions.

Maturity

Based on the use of proceeds and borrower's ability to repay. Not based on collateral. Maximum maturity: 10 years for working capital (seven years is common), 10 years for fixed assets, 25 years for real estate.

Use of Proceeds

- Acquire land
- Purchase existing building
- Convert, expand or renovate buildings
- Acquire and install fixed assets
- Acquire inventory
- Purchase supplies and raw materials
- Purchase a business
- Start a business
- Leasehold improvements
- Term working capital
- Refinance certain outstanding debts

Maximum Loan Amount

A basic 7(a) can be for as much as $5 million. SBA's limit to any one business is $3.75 million so a business can have multiple loans guaranteed by SBA but the SBA portion cannot exceed $3.75 million.

Benefit to Borrower

Obtains financing not otherwise available, fixed maturity, available when collateral is limited. Can establish or re-affirm relationship with lender.

7(a) Repayment Terms

Amortization

Most 7(a) term loans are repaid with monthly payments of principal and interest. For fixed-rate loans, the payments stay the same because the interest rate is constant, whereas for variable rate loans, the lender can require a different payment amount when the interest rate changes.

Applicants can request that the lender establish the loan with interest-only payments during the start-up and expansion phases (when eligible) to allow the business time to generate income before it starts making full loan payments. Balloon payments or call provisions are not allowed on any 7(a) loan except SBA Express loans.

The lender may not charge a prepayment penalty if the loan is paid off before maturity, but the SBA will charge the borrower a prepayment fee if the loan has a maturity of 15 or more years and is prepaid during the first three years.

Collateral

The SBA expects every 7(a) loan to be fully secured, but the SBA will not decline a request to guarantee a loan if the only unfavorable factor is insufficient collateral, provided all available collateral is offered.

This expectation means every SBA loan is to be secured by all available assets (both business and personal) until the recovery value equals the loan amount or until all assets have been pledged (to the extent that they are reasonably available).

Personal guarantees are required from all owners of 20% or more of the equity of the business, and lenders can require personal guarantees of owners with less than 20% ownership. Liens on personal assets of the principals may be required.

7(a) Fees, Interest Rates, Guarantee & Lenders

Fees

Loans guaranteed by the SBA are assessed a guarantee fee. This fee is based on the loan's maturity and the dollar amount guaranteed, not the total loan amount.

< $150,000 = 0%

> $150,000 = 0.25%

> $150,000 & Maturity > 1 year = 3.00%

> $700,000 & Maturity > 1 year = 3.5%

Any portion > $1,000,000 = +0.25%

Interest Rates

The actual interest rate for a 7(a) loan guaranteed by the SBA is negotiated between the applicant and the lender and subject to the SBA maximums.

Rate = Base Rate + Allowable Spread

3 Acceptable Base Rates:

- Prime rate published in a daily national newspaper
- London Interbank One Month Prime plus 3%
- SBA Peg Rate

Maximum Allowable Spread:

- Maturity < 7 years = 2.25%
- Maturity > 7 years = 2.75%

Percent of Guaranty

SBA can guarantee up to:

- 85% of a loan up to $150,000
- 75% of a loan greater than $150,000

Maximum SBA Exposure: $3,750,000

Finding a Lender

SBA's Leveraging Information and Networks to Access Capital (LINC) tool provides a simple way for small business owners to connect with prospective SBA lenders based on your business needs.

https://www.sba.gov/tools/linc