 | by Adam White and Leticia Scearce: Biltmore Bank of Arizona

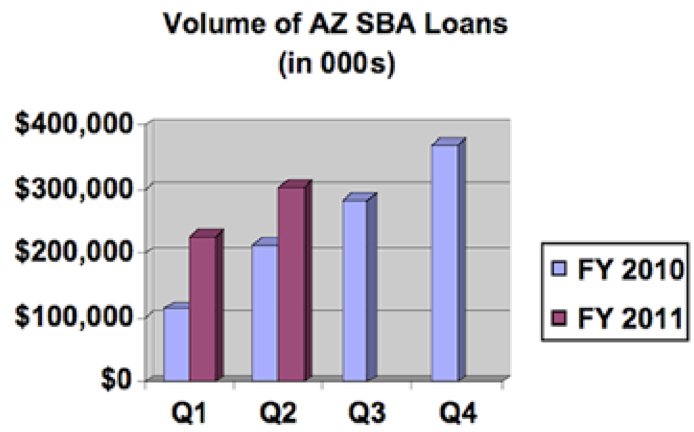
What is SBA Financing and is it Right for Your Business?

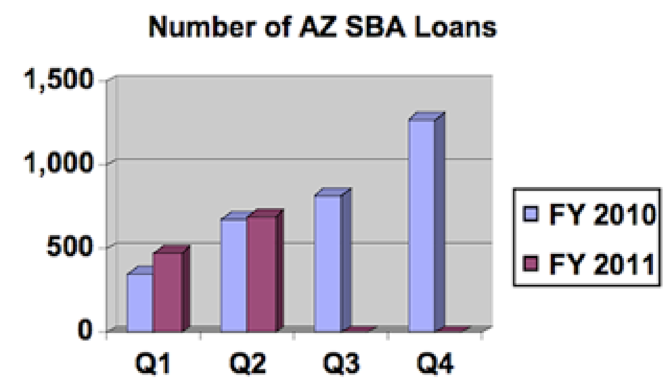
Understanding the Small Business Administration ("SBA") and its loan programs is an important first step for a small business's determination of its financing needs. The SBA offers a variety of loan programs with the most prevalent being its 7a and 504. Both programs offer distinct advantages when compared to conventional financing, whether it's the equity requirement for an acquisition, longer maturity and amortization schedule, or helping the bank mitigate other justifiable risks with the assistance of a government guarantee.

First, the SBA is a federal agency established in 1953 to help promote lending to the domestic small business community. The SBA is not a direct lender and instead provides a government guarantee on loans approved through a network of participant lending institutions. Under the current regulation for the 7a program, the guarantee is 75% of the loan amount with the potential of being 85% depending on the loan size.

A common misnomer with the 7a loan guarantee is that the SBA is subject to 100% of the potential loss up to the guaranteed amount with the bank's exposure limited to the amount thereafter should there be any. This in fact is not the case. Any potential loss is proportionately shared by the participating lender and the SBA based on the guaranteed percentage. Borrowers are often misinformed about this key point, making it difficult for them to fully understand how the bank may be underwriting the risks involved with the loan request.

On September 27, 2010, The Small Business Jobs Act of 2010 was signed into law, which expanded some of the parameters for the SBA's 7a and 504 loan programs. A couple of the objectives were to increase the SBA's size standard qualification as well as to increase the allowable loan amounts. With these changes more companies are now able meet the definition of "small business" and access the appropriate level of capital for their financial needs. Currently a company, including affiliates, with a net worth up to $15 million and average net income for the past two years of $5 million (after taxes) would meet the size standard eligibility requirement. Additionally, the act increased the aggregate loan amount from $2 million to $5 million, with an increased amount of $5.5 million available to manufacturers.

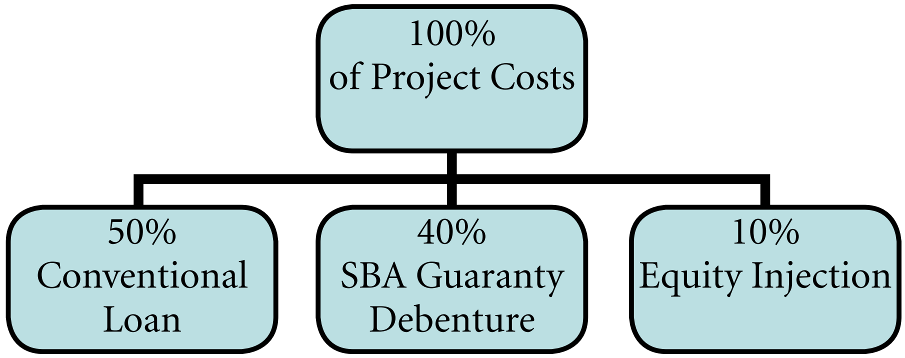




For most small business loan requests, the 7a loan program may be appropriate when considering the purchase of a commercial property, acquiring equipment, a business acquisition, working capital or refinancing existing loans for any of the previously mentioned purposes. Potential benefits include a longer amortization and a lesser amount of cash injection or equity by the borrower than would otherwise be available through a conventional loan. When reviewing a 7a loan, as with most other types of financing, a lender's primary emphasis will be on the quality and sustainability of the company's cash flow. A commonly misunderstood topic regarding 7a loans is the collateral requirement. Although the down payment or cash requirement may be less, sometimes as little at 10%, and the SBA states it will not decline a loan solely for collateral purposes, an SBA 7a loan will require the lender seek all available collateral until the loan is considered fully secured based on margined collateral requirements. An important note is to understand that the bank providing the SBA loan will likely have different internal loan policies, which may or may not be more restrictive than what is permissible by the SBA.

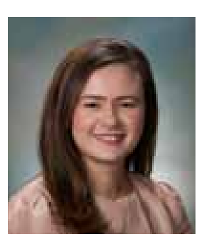
The other common SBA loan structure is under the 504 program. The 504 is primarily utilized for commercial real estate acquisitions or larger equipment purchases, and is typically best suited for a business owner with a longer term capital investment horizon. Under the 504 loan structure there are actually two loans provided. The lender provides financing for up to 50% of the project, while the SBA portion is originated by a Community Development Corporation ("CDC") for up to 40%. Depending on the risks associated with the transaction, the borrower's equity injection may be a little as 10% or 15% of the total project costs. A significant benefit with the 504 loan program is the business owner's ability to secure longer term fixed rate financing, up to 20 years, for the SBA loan component. The collateral piece can also be a benefit under the 504 loan program since the CDC typically only requires ancillary collateral to help meet the borrower's equity requirement. Historically this program has been available for new purchases only. However, regulation has recently been established based on the Small Business Jobs Act of 2010 to allow for commercial loans meeting certain criteria to also be refinanced through the 504 loan program.

SBA 504 Loan Structure



In summary, SBA financing can be beneficial to a small business by providing the necessary capital for an acquisition, expansion or refinancing existing loans, and should be considered when evaluating a company's needs. Although SBA loans may not be suitable for all parties, they do provide a key source of financing for job creating companies which are instrumental in supporting both the local and national economy.

Adam White, SVP with Biltmore Bank of Arizona, is a commercial lender with over 10 years in the Arizona market, specializing in SBA and conventional commercial lending.



Leticia Scearce, VP SBA Administrator with Biltmore Bank of Arizona, is an SBA specialist with over 9 years experience in the financial sector.