This presentation will provide a general overview of the Small Business Administration’s programs that assist small businesses in obtaining access to capital on terms that are otherwise not considered reasonable.

How the SBA Loan Process Works

- Borrower applies for loan to Lender
- Lender approves loan subject to SBA Guaranty
- Lender submits guaranty request to SBA

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What to Take to Your Lender

- Business Plan and Business History
- Resumes of Key Management
- Purpose for the Loan
- Cost Estimates for Loan Proceeds
- Financial Statements (P&L, B/S, Aging, T/R)
- Cash Flow Projections
- Legal Documents
- Personal Financials & Tax Returns
- Proof of Equity investment (Start-ups)

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Eligibility Issues

- **Borrower must:**
  - be for profit
  - be "small"
  - Have utilized outside sources of capital
  - have an eligible purpose:
    - no investment
    - no speculation
    - no lending
    - must be a legal activity

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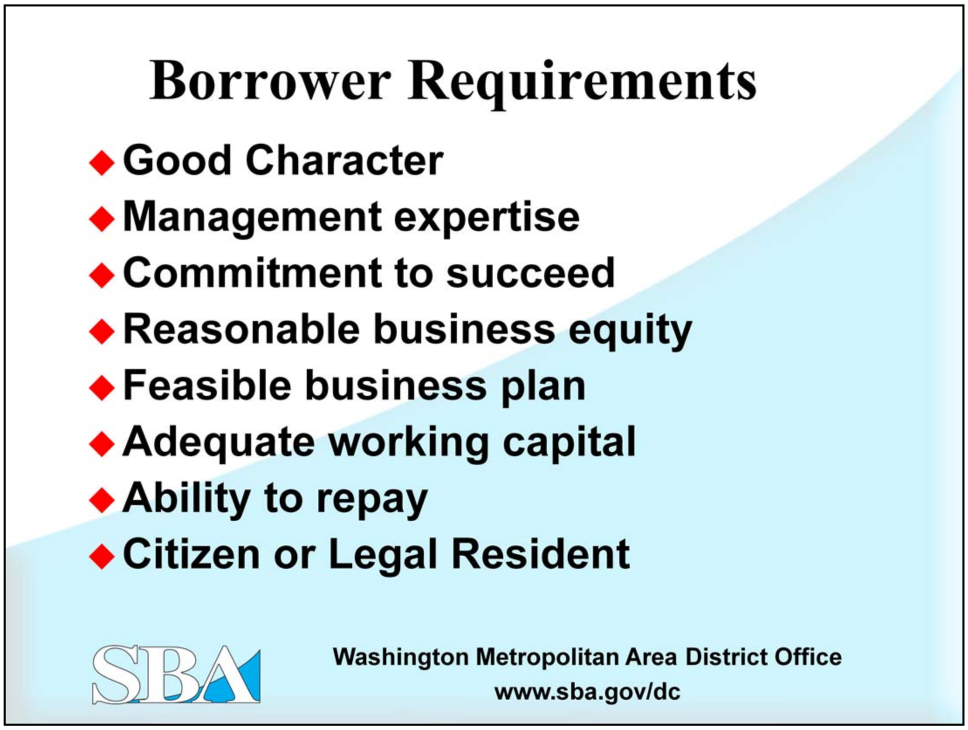

SBA must determine if the principals of each applicant firm have historically shown the willingness and ability to pay their debts and whether they abided by the laws of their community. The Agency must know if there are any factors which impact on these issues. Therefore, a "Statement of Personal History" is obtained from each principal.

In assessing the management ability, SBA considers factors such as education, experience and motivation.

The principals also must inject a reasonable amount of equity into the project financing, and have a reasonable debt to equity position after the loan. SBA generally will not provide 100 percent financing for a firm.

The business must have a feasible business plan. This is especially important for start-up businesses.

Adequate working capital is of major importance to most SBA borrowers. Many firms have failed before reaching their potential due solely to inadequate working capital.

The most important requirement is that the borrower have sufficient cash flows from the historic financial statements and/or provide realistic cash flow projections of future earnings sufficient to repay the anticipated debt service.

Utilization of Personal Resources

- Funds are not available from the personal resources of any owner (and spouse & minor children) of 20% or more
- Personal Liquid Assets Test
- Excess liquid assets? Injected into the business and loan request is reduced by the same.

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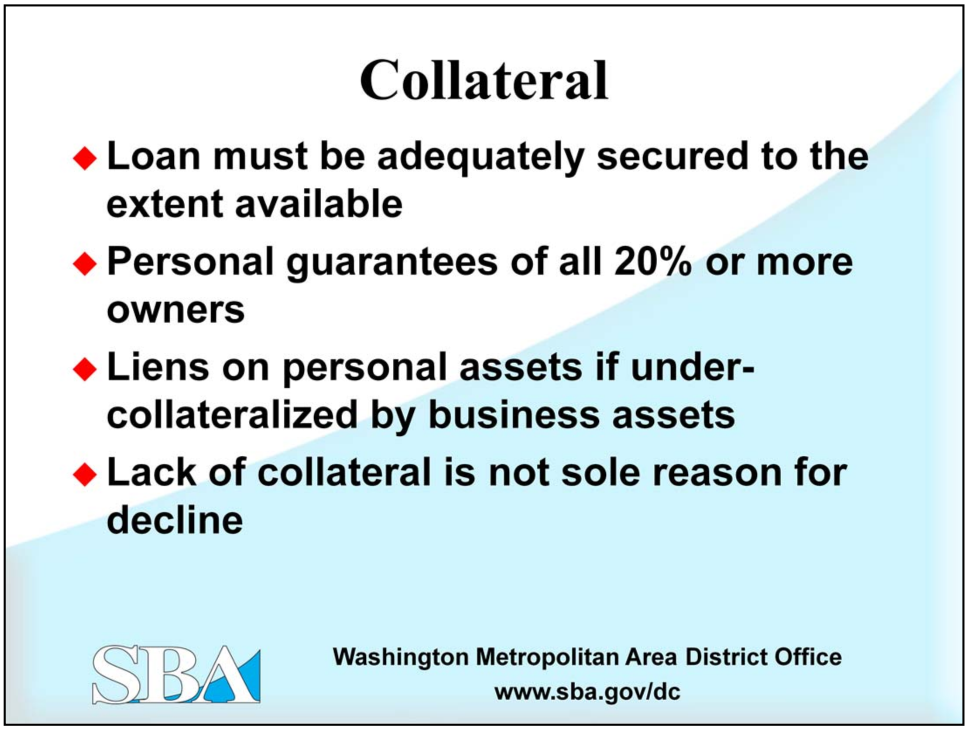


SBA is considered a cash flow lender, not a collateral lender, and does not routinely apply loan-to-value criteria in deciding whether or not to approve or decline a loan guaranty request. However, the lender must ensure that the borrower has pledged adequate collateral, both business and personal, to protect the interests of the Government. If the business assets do not fully secure the loan, personally-owned assets of the principals should be pledged.

The lack of available collateral in and of itself, is not a reason to for SBA to decline the request.

- If a loan is under-collateralized and additional collateral is available, SBA would require it to be pledged for the loan.

- When equity exceeds 25%of FMV we are required to take a lien

USE OF PROCEEDS:

7(a) loan proceeds may be used to establish a new business or to assist in the operation, acquisition or expansion of an existing business. These may include (non-exclusive):

To purchase land or buildings, to cover new construction as well as expansion or conversion of existing facilities;

To acquire equipment, machinery, furniture, fixtures, supplies, or materials;

For long term working capital including the payment of accounts payable and/or for the purchase of inventory;

To refinance existing business indebtedness which is not already structured with reasonable terms and conditions;

For short term working capital needs including: seasonal financing, contract performance, construction financing, export production, and for financing against existing inventory and receivable under special conditions; or

To purchase an existing business.

There are certain restrictions for the use of SBA loans. The following is a list of purposes which SBA loans can not finance:

To refinance existing debt where the lender is in a position to sustain a loss and SBA would take over that loss through refinancing;

To effect a partial change of business ownership or a change that will not benefit the business;

To permit the reimbursements of funds owed to any owner. This includes any equity injection, or injection of capital for the purposes of the businesses continuance until the loan supported by SBA is disbursed;

To repay delinquent state or federal withholding taxes or other funds that should be held in trust or escrow; and

For a non sound business purpose.

MATURITY:

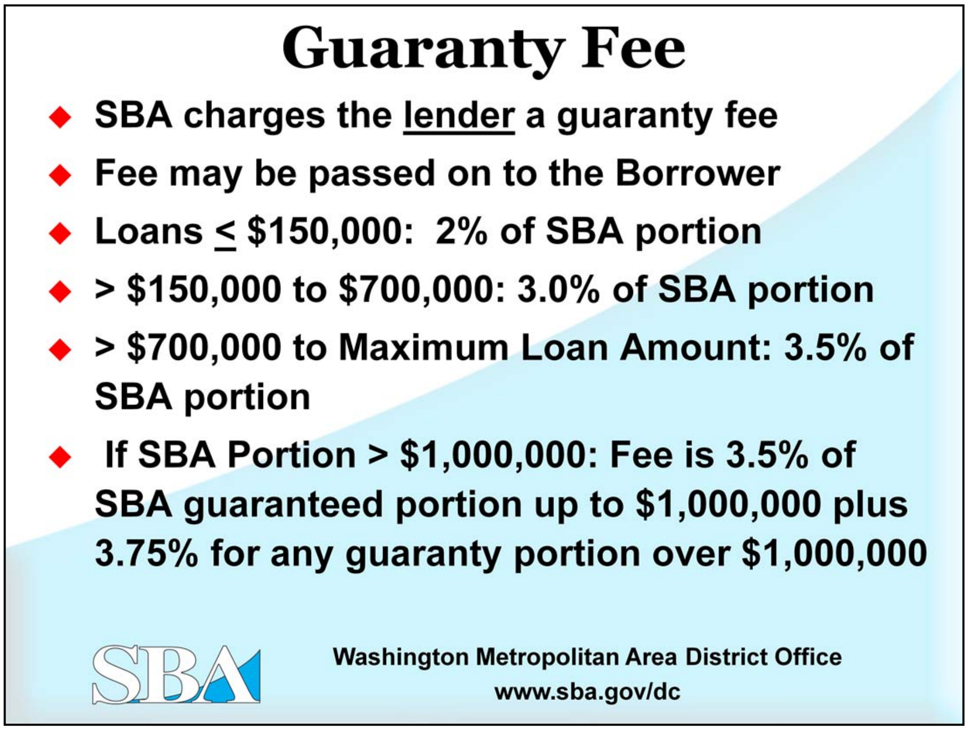
SBA loan programs are generally intended to encourage longer term small business financing but actual loan maturities are based on: the ability to repay, the purpose of the loan proceeds, and the useful life of the assets financed. However, maximum loan maturities have been established: twenty-five (25) years for real estate and equipment; and, generally seven (7) years for working capital.

Loans for working capital purposes will not exceed seven (7) years, except when a longer maturity (up to 10 years) may be needed to ensure repayment. The maximum maturity of loans used to finance fixed assets other than real estate will be limited to the economic life of those assets - but in no instance to exceed twenty-five (25) years. The 25-year maximum will generally apply to the acquisition 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 construction. (Significant renovation means construction of at least one-third of the current value of the property.)

When loan proceeds will be used for a combination of purposes, the maximum maturity can be a weighted average of those maturities, which results in level payments. Or, it can be the sum of equal monthly installments on the allowable maturities for each purpose, which results in unequal payments, with a higher requirement for repayment during the initial term of the loan.

GUARANTY PERCENTS

For those applicants that meet the SBA's credit and eligibility standards, the Agency can guaranty up to 85 percent of loans of $150,000 and less, and up to 75 percent of loans above $150,000 up to the maximum $1,500,000 guaranty limit. This standard applies to most variations of the 7(a) Loan Program. However, SBAExpress loans carry a maximum guaranty of 50 percent guaranty. The Export Working Capital Loan Program carries a maximum of 90 percent guaranty, up to a guaranteed amount of $1,500,000.



To offset the costs of the SBA's loan programs to the taxpayer, the Agency charges lenders a guaranty fee and a servicing fee for each loan approved and disbursed. The amount of the fees are based on the guaranty portion of the loans. The lender may charge the upfront guaranty fee to the borrower after the lender has paid the fee to SBA and has made the first disbursement of the loan. The lender's annual service fee to SBA cannot be charged to the borrower.

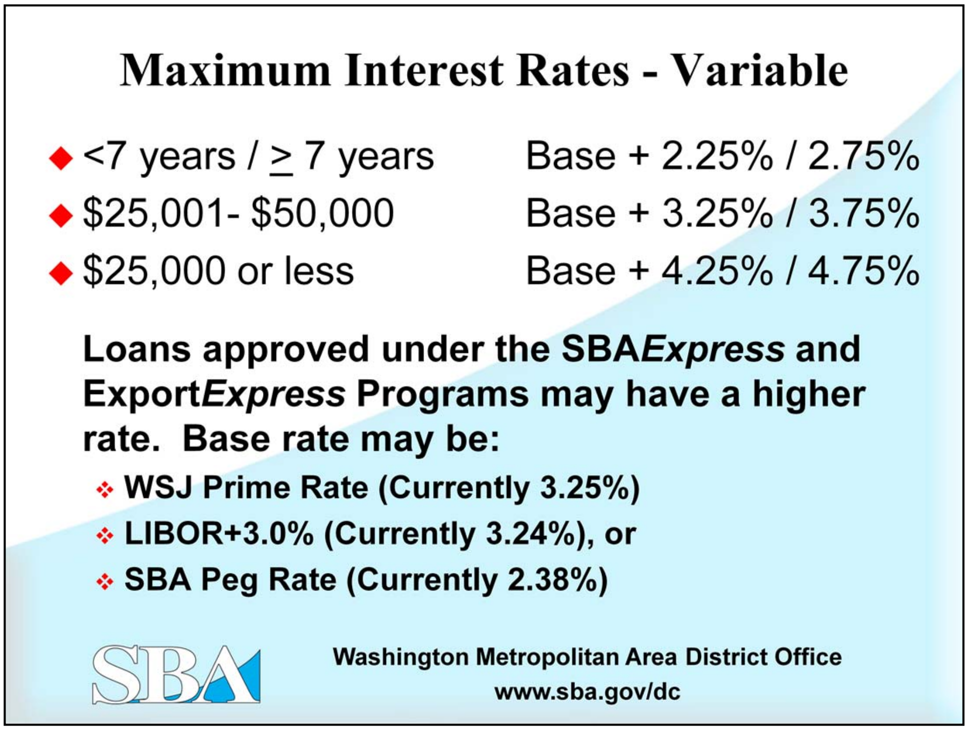
For loans of $150,000 or less, a 2 percent guaranty fee will be charged. Lenders are again permitted to retain 25 percent of the up-front guarantee fee on loans with a gross amount of $150,000 or less.

For loans more than $150,000 but up to and including $700,000, a 3 percent guaranty fee will be charged.

For loans greater than $700,000, a 3.5 percent guaranty fee will be charged.

For loans greater than $1,000,000, an additional .25 percent guaranty fee will be charged for that portion greater than $1,000,000. The portion of $1,000,000 or less would be charged a 3.5 percent guaranty fee. The portion greater than $1,000,000 would be charged at 3.75 percent.

The annual on-going servicing fee for all 7(a) loans approved on or after October 1, 2004 shall be 0.5 percent of the outstanding balance of the guaranteed portion of the loan. The legislation provides for this fee to remain in effect for the term of the loan.



INTEREST RATES APPLICABLE TO SBA 7(a) LOANS

Interest rates are negotiated between the borrower and the lender but are subject to SBA maximums, which are pegged to the Prime Rate as published in the Wall Street Journal.

Interest rates may be fixed or variable. Fixed rate loans of $50,000 or more must not exceed Prime Plus 2.25 percent if the maturity is less than 7 years, and Prime Plus 2.75 percent if the maturity is 7 years or more.

For loans between $25,000 and $50.000, maximum rates must not exceed Prime Plus 3.25 percent if the maturity is less than 7 years, and Prime Plus 3.75 percent if the maturity is 7 years or more.

For loans of $25,000 or less, the maximum interest rate must not exceed Prime Plus 4.25 percent if the maturity is less than 7 years, and Prime Plus 4.75 percent, if the maturity is 7 years or more.

Maximum Interest Rates - Fixed

SBA Allows higher rate for Fixed-Rate loans:

◆ < 7 years / $\geq$ 7 years	7.09% / 7.59%
◆ $25,001- $50,000	8.09% / 8.59%
◆ $25,000 or less	9.09% / 9.59%

These are the Published rates as of May 1, 2012

Does not apply to SBA*Express* or Community Advantage

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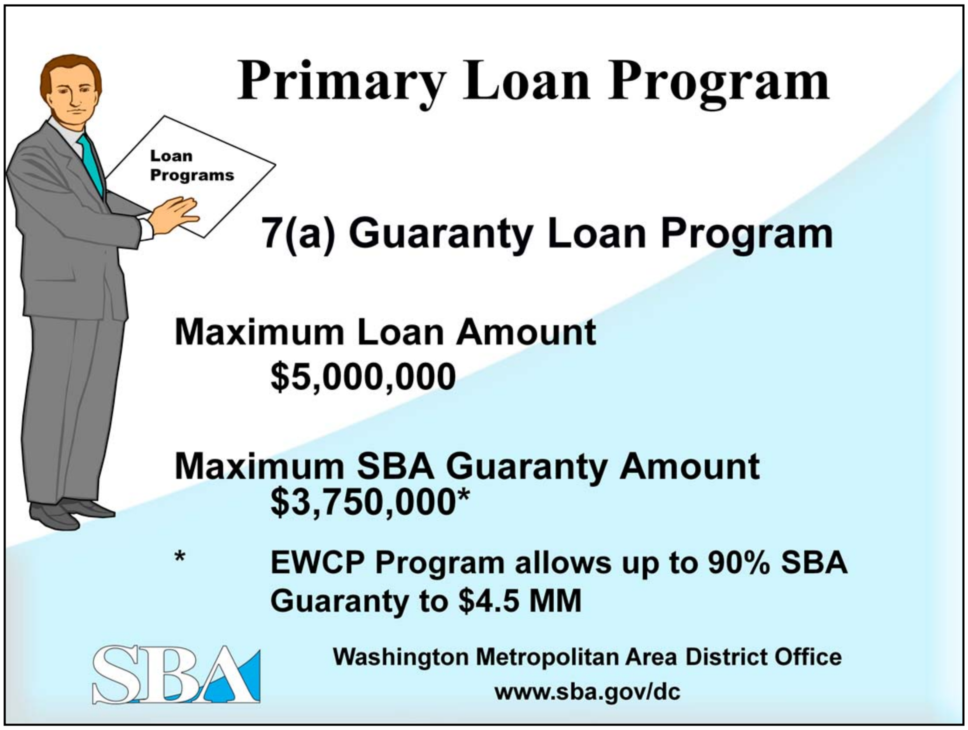
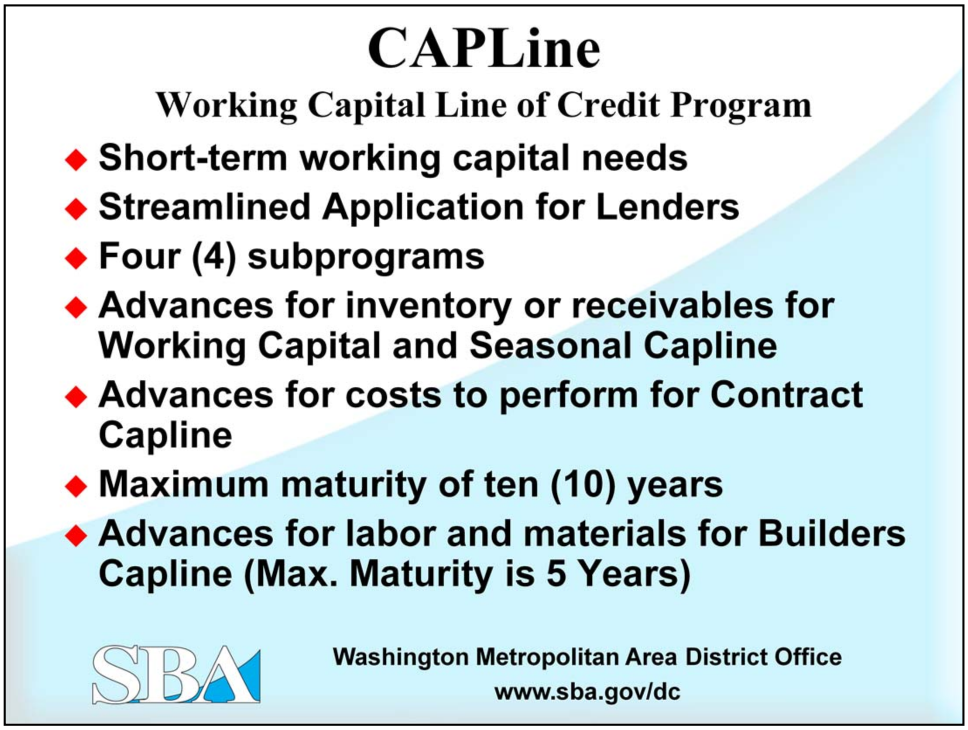


SBA's authority to guarantee loans comes from Section 7(a) of the Small Business Act - hence the 7(a) program

A maximum loan size of $2,000,000 has been established for 7(a) loans. Loans greater than this amount can no longer be approved. No change in the authorization Wizard is necessary to accommodate this change.

Any one small business borrower (together with its affiliates) may obtain a loan or loans with a total SBA-guaranteed amount of up to $1,500,000 outstanding. The 7(a) and 504 Loan Programs are combined when determining the maximum SBA guarantee amount that one borrower (including any affiliates) is permitted to have approved and outstanding.

There are a number of sub-programs under the 7(a) Guaranty Loan Program. We will now so over some of the more popular sub-programs.



CAPLines is the umbrella program under which the SBA helps small businesses meet their short-term and cyclical working-capital needs.

There are five short-term working-capital loan programs for small businesses under the CAPLines umbrella:

THE SEASONAL LINE: These are advances against anticipated inventory and accounts receivable help during peak seasons when businesses experience seasonal sales fluctuations. There is a required 30 day zero-balance period at the end of each season under the line. The seasonal line can be revolving or non-revolving.

THE CONTRACT LINE: Finances the direct labor and material cost associated with performing assignable contract(s). The contract line can be revolving or non-revolving.

THE BUILDERS LINE: If you are a small general contractor or builder constructing or renovating commercial or residential buildings, this can finance direct labor-and material costs. The building project serves as the collateral, and loans can be revolving or non-revolving.

THE STANDARD ASSET-BASED LINE: 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. Draws are generally limited to 80% of eligible receivables and/or 50% of eligible inventories. This line generally is used by businesses that provide credit to other businesses. Because these loans require continual servicing and monitoring of collateral, additional fees may be charged by the lender.

THE SMALL ASSET-BASED LINE: This is an asset-based revolving line of credit of up to $200,000. It operates like a standard asset-based line except that some of the stricter servicing requirements are waived, providing the business can consistently show repayment ability from cash flow for the full amount.

MAXIMUM LOAN AMOUNTS

Except the Small Asset-Based Line, CAPLine loans follow SBA's maximum loan amounts. The Small Asset-Based Line has a maximum loan amount of $200,000.

ELIGIBILITY

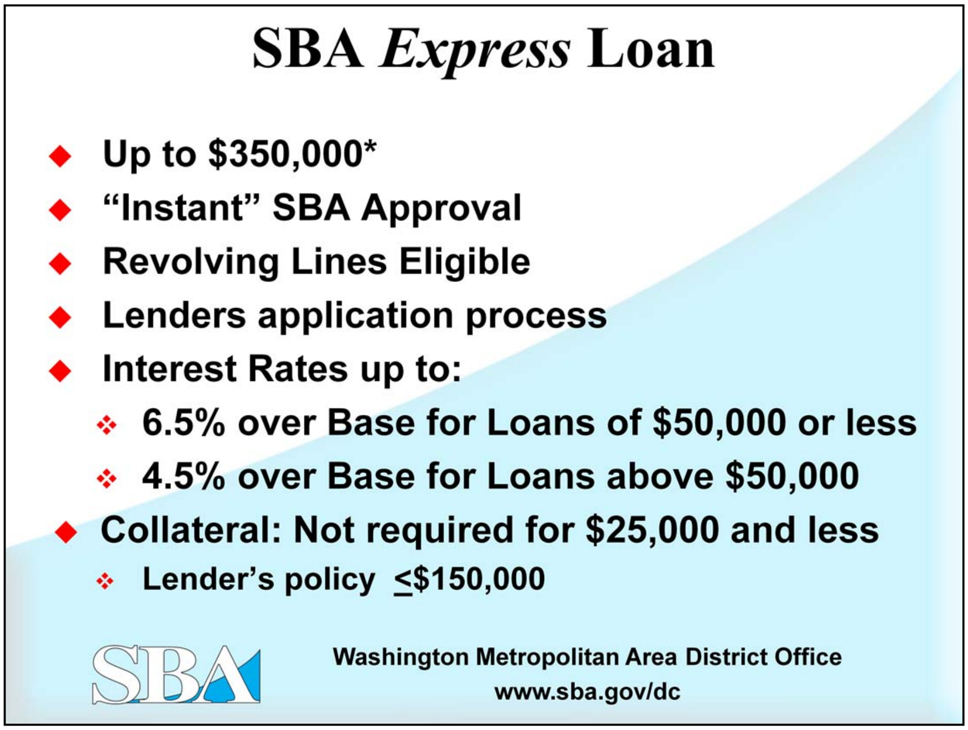
Although most small businesses are eligible for SBA loans, some types of businesses are ineligible and a case-by-case determination must be made by the Agency.

LOAN MATURITIES

Each of the five lines of credit has a maturity of up to five (5) years, but, because each is tailored to an individual business's needs, a shorter initial maturity may be established. CAPLines funds can be used as needed throughout the term of the loan to purchase assets, as long as sufficient time is allowed to convert the assets into cash at maturity.

COLLATERAL

Generally, the current assets being financed will be pledged as collateral. Holders of at least 20% ownership in the business are generally required to guaranty the loan. Although inadequate collateral will not be the sole reason for denial of a loan request, the nature and value of that collateral does factor into the credit decision.



The SBAExpress loan carries a maximum loan amount of $350,000 and a maximum SBA guaranty to the lender of 50%.

Lenders and borrowers can negotiate the interest rate. Rates are tied to the prime rate (as published in the Wall Street Journal) and may be fixed or variable, but they may not exceed SBA maximums:

Lenders may charge up to 6.5 percent over prime rate for loans of $50,000 or less and up to 4.5 percent over the prime rate for loans over $50,000

SBA decisions on SBAExpress applications are made usually the same day as the application.

SBA*Express* allows revolving loans up to 7 years with maturity extensions permitted at the outset

Lenders utilize their own forms and lending procedures in providing SBAExpress loans.

Lenders and borrowers can negotiate the interest rate. Rates are tied to the prime rate (as published in the Wall Street Journal) and may be fixed or variable, but they may not exceed SBA maximums:

Lenders may charge up to 6.5 percent over prime rate for loans of $50,000 or less and up to 4.5 percent over the prime rate for loans over $50,000

SBA does not require Lenders to take collateral for loans up to $25,000. Lenders may use their existing collateral policy for loans over $25,000 up to $150,000.

For Loans greater than $150,000, the lender must follow SBA's general collateral policy.

SBAExpress loans cannot be made to:

(a) Agricultural and farm businesses
(b) Fishing and shore operations (including commercial fishing activities and the construction of new fishing vessels)
(c) Medical facilities involving any type of extended care/assisted living situation. (These could be eligible for standard 7(a) loan processing, but additional analysis would be required, which would preclude SBAExpress's expedited handling.) Routine medical laboratories/facilities, physician/dental offices, veterinarians, etc., are eligible for SBAExpress processing
(d) Mines (including sand and gravel pits)
(e) Applicants with operations, facilities, or offices located overseas (other than those strictly associated with the

marketing and/or distribution of products exported from the U.S.)
(f) Businesses engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting (Businesses engaged in moderate such activity could be eligible for standard 7(a) loan processing, but additional analysis would be required, which would preclude SBAExpress's expedited procedures.)
(g) A business deriving directly or indirectly more than de minimis gross revenue through the sale of products or services, or the presentation of any depiction or displays, of a prurient sexual nature or that presents any live performances of a prurient nature.

Patriot Express

- Up to $500,000
- “Instant” SBA Approval
- Lenders application
- Interest Rates NTE SBA maximums
- Collateral: Lender’s policy ≤ $350,000
- Who is Eligible?

Business owned by veteran, service-disabled veteran, active-duty service member eligible for military’s TAP, reservist, National Guard members, current spouse of above, widowed spouse of service member or veteran who died during service or of a service-connected disability.

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The Export Working Capital Program (EWCP) was designed to provide short-term working capital to exporters.

The SBA's Export Working Capital Program (EWCP) supports export financing to small businesses when that financing is not otherwise available on reasonable terms. The program encourages lenders to offer export working capital loans by guaranteeing repayment of up to $1.5 million or 90 percent of a loan amount, whichever is less. A loan can support a single transaction or multiple sales on a revolving basis.

Designed to provide short-term working capital to exporters, the EWCP is a combined effort of the SBA and the Export-Import Bank. The two agencies have joined their working capital programs to offer a unified approach to the government's support of export financing. The EWCP uses a one-page application form and streamlined documentation with turnaround usually 10 days or less. A letter of prequalification is also available from the SBA.

ELIGIBILITY:

The proceeds of an EWCP loan must be used to finance the working capital needs associated with a single or multiple transactions of the exporter.

Proceeds **may not** be used to finance professional export marketing advice or services, foreign business travel, participating in trade shows or U.S. support staff in overseas, except to the extent it relates directly to the transaction being financed. In addition, "proceeds may not be used" to make payments to owners, to pay delinquent withholding taxes, or to pay existing debt.

The applicant must establish that the loan will significantly expand or develop an export market, is currently adversely affected by import competition, will upgrade equipment or facilities to improve competitive position, or must be able to provide a business plan that reasonably projects export sales sufficient to cover the loan.

Export Working Capital Program (EWCP) Maturities

SBA guarantees the short-term working capital loans made by participating Lenders to exporters. An export loan can be for a single or multiple transactions. If the loan is for a single transaction, the maturity should correspond to the length of the transaction cycle with a maximum maturity of 18 months. If the loan is for a revolving line of credit, the maturity is typically twelve (12) months, with annual reissuances allowed two times, for a maximum maturity of three years.

Four Unique Requirements of the EWCP Loan

An applicant must submit cash flow projections to support the need for the loan and the ability to repay.

After the loan is made, the loan recipient must submit continual progress reports. SBA does not prescribe the Lender's fees.

SBA does not prescribe the interest rate for the EWCP.

SBA guarantees up to ninety (90) percent of an EWCP loan amount up to $1.5 million.

Guaranty Percents

For those applicants that meet the SBA's credit and eligibility standards, the Agency can guaranty up to ninety (90%) percent of loans (generally up to a maximum guaranty amount of $1.5 million).

Export Working Capital Program Loans (EWCP) Collateral

A borrower must give SBA a first security interest equal to 100% of the EWCP guaranty amount. Collateral must be located in the United States.

All EWCP loans are processed through the US Export Assistance Center.

SBA Export Express combines the SBA's small business lending assistance with its technical assistance programs to help small businesses that have traditionally had difficulty in obtaining adequate export financing. The pilot program is available throughout the country and is expected to run through September 30, 2005.

SBA Export Express helps small businesses that have exporting potential, but need funds to buy or produce goods, and/or to provide services, for export. Loan proceeds may be used to finance export development activities such as:

• Participation in a foreign trade show;
• Translation of product brochures or catalogues for use in overseas markets;
• General lines of credit for export purposes;
• Service contracts from buyers located outside the United States;
• Transaction-specific financing needs associated with completing actual export orders; and/or
• Purchase of real estate and equipment to be used in production of goods or services which will be expansion,
• Provide term loans and other financing to enable small business concerns, including export trading companies and export management companies, to develop foreign markets; and
• Acquire, construct, renovate, modernize, improve or expand productive facilities or equipment to be used in the United States in the production of goods or services involved in international trade.

Who Can Use this Program?

SBA Export Express loans are available to persons who meet the normal requirements for an SBA business loan guaranty. Loan applicants must also –

- demonstrate that the loan proceeds will enable them to enter a new export market or expand an existing export market, and

- have been in business operation, though not necessarily in exporting, for at least 12 months.

How Does the Program Work?

Any lender that is authorized to participate in the SBA Express loan program may participate in SBA Export Express. SBA Export Express lenders use streamlined and expedited loan review and approval procedures to process SBA guaranteed loans. The lender uses its own loan analyses, loan procedures and loan documentation. Completed loan applications are submitted for approval to the SBA's processing center in Sacramento, California. The SBA provides the lender with a response, typically within 36 hours.

What is the SBA Guaranty?

The SBA guaranty encourages lenders to make loans to small business exporters that they might not make on their own. The SBA's Export Express guaranty is 85 percent for loans up to $150,000 and 75 percent for loans more than $150,000 up to a maximum loan amount of $250,000. The maximum loan amount under Export Express is $250,000.

Terms, Interest Rates and Fees

Interest rates are negotiated between the borrower and the lender. Rates can either be fixed or variable, and are tied to the prime rate as published in The Wall Street Journal. Lenders may charge up to 6.5 percent over prime rate for loans of $50,000 or less and up to 4.5 percent over the prime rate for loans over $50,000.

Like most 7(a) loans, the maturity of an SBA Export Express term loan is usually five to 10 years for working capital, 10 to 15 years for machinery and equipment (not to exceed the useful life of the equipment), and up to 25 years for real estate. The maturity for revolving lines of credit may not exceed five years.

The guaranty and servicing fees under SBA Export Express are the same as for regular SBA 7(a) guaranty loans. (Link to Fees)

Technical Assistance

Because many small business exporters face unique problems and challenges, the SBA Export Express Program also includes technical assistance in the form of marketing, management and planning assistance.

Technical assistance is provided by SBA's U.S. Export Assistance Centers, in cooperation with SBA's network of resource partners, including the Small Business Development Centers (SBDCs) and Service Corps of Retired Executives (SCORE).

On approval of an SBA Export Express loan, a U.S. Export Assistance Center representative will contact the borrower to offer appropriate assistance. This assistance may include training offered through the SBA's Export Trade Assistance Partnership, SBDC International Trade Center, SCORE, District Export Council, or Export Legal Assistance Network.

If your business is preparing to engage in or is already engaged in international trade, or is adversely affected by competition from imports, the International Trade Loan Program is designed for you.

SBA can make such a loan to assist the concern in:

(i) the financing of the acquisition, construction, renovation, modernization, improvement, or expansion of productive facilities or equipment to be used in the United States in the production of goods and services involved in international trade; or

(ii) the refinancing of existing indebtedness that is not structured with reasonable terms and conditions.

International Trade Loan Eligibility
The applicant must establish that the loan will significantly expand or develop an export market, is currently adversely affected by import competition, will upgrade equipment or facilities to improve competitive position, or must be able to provide a business plan that reasonably projects export sales sufficient to cover the loan.

Although most small businesses are eligible for SBA loans, some types of businesses are ineligible and a case-by-case determination must be made by the Agency. Eligibility is generally determined by four factors:

USE OF LOAN PROCEEDS

The proceeds of a SBA International Trade loan may be used to acquire, construct, renovate, modernize, improve or expand facilities and equipment to be used in the United States to produce goods or services involved in international trade; or the refinancing of existing indebtedness (incurred for previously stated purposes) that is not structured with reasonable terms and conditions. There can be no working capital as part of an IT loan or as part of any refinancing.

A small business concern is engaged in international trade if, as determined by SBA, "the small business concern is in a position to expand existing export markets or develop new export markets."

A small business concern is adversely affected by international trade if, as determined by SBA, "the small business concern (i) is confronting increased competition with foreign firms in the relevant market; and (ii) is injured by such competition."

International Trade Loan Maturities

Loans for facilities or equipment can have maturities of up to 25 years.

International Trade Loan Maximum Loan Amount
The maximum gross amount ($2 million) and SBA-guaranteed amount ($1.5 million) for an IT loan is the same as a regular 7(a) loan. However, there is an exception to the maximum SBA 7(a) guaranty amount to one borrower

(including affiliates).

Section 7(a)(3)(B) of the SBAct provides for a maximum SBA guaranty to a small business (including affiliates) of $1,750,000 under the following circumstances: (1) The small business has been approved for an IT loan, and (2) the business has applied for a separate working capital loan (or loans) under EWCP and/or other 7(a) loan programs. When there is an IT loan and a separate working capital loan, the maximum SBA guaranty on the combined loans can be up to $1,750,000 as long as the SBA guaranty on the working capital loan does not exceed $1,250,000. In all cases, to receive the maximum SBA guaranty amount of $1,750,000, the financing package for the small business must include an IT loan that was approved after December 7, 2004.

International Trade Loan Guaranty Percent
For the International trade Loan, SBA can guaranty up to 85 percent of loans of $150,000 and less, and up to 75 percent of loans above $150,000. The maximum guaranteed amount is $1,250,000.

Loan Program Collateral
Only collateral located in the United States, its territories and possessions is acceptable as collateral under this program. The lender must take a first lien position (or first mortgage) on items financed under an international trade loan. Additional collateral may be required, including personal guarantees, subordinate liens, or items that are not financed by the loan proceeds.

Small Loan Advantage

- Provided through Preferred Lenders (PLP)
- Up to $250,000
- SBA approval "within minutes"
- Two-page application
  - One page for Borrower
  - One Page for Lender

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Community Advantage

- Provided by Mission-Focused Lenders
  - CDFI, CDC, Micro-Lenders
  - SBA is now accepting applications to become an approved CA lender
- Three-year pilot program
- Loans up to $250,000
- SBA processing time: Generally 5–10 days
- Two-page application

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Other SBA Financing Programs

- 7(m) Microloan Program
- 504 Fixed Asset Financing
- Disaster Loan Program
- Small Business Investment Companies
- Surety Bonding

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Micro-Loans

The MicroLoan Program provides very small loans to start-up, newly established, or growing small business concerns. Under this program, SBA makes funds available to nonprofit community based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to a maximum of $35,000. The average loan size is about $10,500. Applications are submitted to the local intermediary and all credit decisions are made on the local level.

TERMS, INTEREST RATES AND FEES:
The maximum term allowed for a microloan is six years. However, loan terms vary according to the size of the loan, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower. Interest rates vary, depending upon the intermediary lender and costs to the intermediary from the U.S. Treasury.

COLLATERAL
Each intermediary lender has its own lending and credit requirements. However, business owners contemplating application for a microloan should be aware that intermediaries will generally require some type of collateral, and the personal guarantee of the business owner.

TECHNICAL ASSISTANCE

Each intermediary is required to provide business based training and technical assistance to its microborrowers. Individuals and small businesses applying for microloan financing may be required to fulfill training and/or planning requirements before a loan application is considered.

504 Fixed-Asset Financing

- Typical project funding is 50/40/10
  - 50% Bank financing required for eligible project costs
  - Up to 40% financing from CDC/SBA
    - + 5% If "Start-Up" Business
    - + 5% If Project is a Special Use Facility
    - + 10% If both Start-up and Special Use Facility
  - Borrower provides the balance (10, 15, or 20%) of project costs
- No limit on total project amount
- CDC/SBA portion limit is $5,000,000, unless loan is provided to a small manufacturer or certain energy related projects ($5,500,000)

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The CDC/504 loan program is a long-term financing tool for economic development within a community. The 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings or heavy machinery. A Certified Development Company is a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. There are about 270 CDCs nationwide. Each CDC covers a specific geographic area.

Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

Maximum Debenture

The maximum SBA debenture is $1,500,000 for meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every $50,000 provided by the SBA.

The maximum SBA debenture is $2,000,000 for meeting a public policy goal.

The public policy goals are as follows:
• Business district revitalization
• Expansion of exports
• Expansion of minority business development
• Rural development
• Enhanced economic competition
• Restructuring because of federally mandated standards or policies
• Changes necessitated by federal budget cutbacks
• Expansion of small business concerns owned and controlled by veterans
• Expansion of small business concerns owned and controlled by women

The maximum SBA debenture is $4,000,000 for small manufacturers.

WHAT FUNDS MAY BE USED FOR:

Proceeds from 504 loans must be used for fixed asset projects such as: purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping; construction of new facilities, or modernizing, renovating or converting existing facilities; or purchasing long-term machinery and equipment.
The 504 Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.

TERMS, INTEREST RATES AND FEES:

Interest rates on 504 loans are pegged to an increment above the current market rate for five-year and 10-year U.S. Treasury issues. Maturities of 10 and 20 years are available. Fees total approximately three (3) percent of the debenture and may be financed with the loan.

COLLATERAL:

Generally, the project assets being financed are used as collateral. Personal guaranties of the principal owners are also required.

ELIGIBLE BUSINESSES:

To be eligible, the business must be operated for profit and fall within the size standards set by the SBA. Under the 504 Program, the business qualifies as small if it does not have a tangible net worth in excess of $7 million and does not have an average net income in excess of $2.5 million after taxes for the preceding two years. Loans cannot be made to businesses engaged in speculation or investment in rental real estate.

504 Fixed-Asset Financing

New Construction

- Borrower may be the Operating Company, or an "Eligible Passive Concern" (EPC).
  - If Borrower is an EPC, Borrower must lease 100% of rentable property to OC;
  - OC must immediately occupy at least 60% of the rentable property
  - OC will lease long term no more than 20% of the rentable property to one or more occupants
  - OC must plan to occupy within three years some of the remaining rentable property not immediately occupied or leased long term
  - OC must plan to occupy within ten years all of the rentable property not leased long term.

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504 Fixed-Asset Financing
Existing Building

- Borrower may be the Operating Company, or an "Eligible Passive Concern" (EPC)
- If an EPC:
  - If Borrower is an EPC, Borrower must lease 100% of rentable property to OC
  - OC must immediately occupy at least 51% of the rentable property
  - OC will lease long term no more than 49% of the rentable property to one or more occupants

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504 Fixed-Asset Financing

For Leased Property Situations

- When leasing part of an existing building to another business, the cost of interior finishing of space to be leased out are not eligible project costs
- Third-party loan proceeds used to renovate leased space do not count towards the 504 first mortgage requirement or the borrower's contribution

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504 Fixed-Asset Financing Benefits

- Low down payment (as little as 10%) preserves cash for working capital and business growth
- Competitive, 20 year fixed interest rate helps cap occupancy costs and provide a consistent payment
- 20 year fully amortizing loan reduces monthly cash requirements
- Project financing can include both hard and soft costs (banks typically require that you fund soft costs out-of-pocket)
- Low risk for first trust lender allows for competitive pricing on that portion of the transaction

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Certified Development Companies

- **Business Finance Group (Formerly Virginia Asset Financing Co)**
  (703) 352-0504
  Services: Washington DC , Maryland, and Virginia
- **Chesapeake Business Finance Corporation**
  (202) 625-4373
  Services: Washington DC , Maryland, and Virginia
- **Mid-Atlantic Business Finance Company**
  (800) 730-0017
  Services: Washington DC , Maryland, and Virginia
- **Prince George's Financial Services Corporation**
  (301) 429-3044
  Services: Prince George's and Montgomery Counties in Maryland
- **Rappahannock Economic Development Corporation (REDCO)**
  (540) 373-2897
  Services: Virginia

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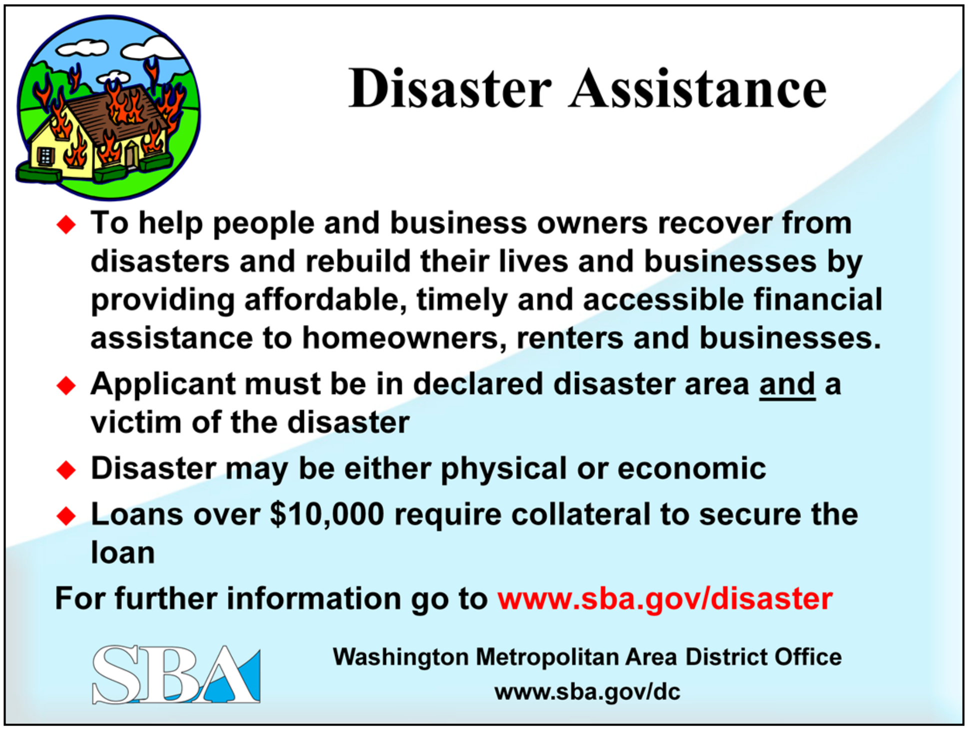
There are five Certified Development Companies operating in the Washington Metropolitan Area District Office's trade area. They are Virginia Asset Financing Company; Chesapeake Business Finance Corporation; Mid-Atlantic Business Finance Company, Prince George's County Financial Services Corporation, and the Rappahannock Economic Development Corporation.



The Facts About...Disaster Assistance Loans for Homes & Personal Property

If you are in a declared disaster area and are the victim of a disaster, you may be eligible for financial assistance from the U.S. Small Business Administration - even if you don't own a business. As a homeowner, renter and/or personal-property owner, you may apply to the SBA for a loan to help you recover from a disaster.

This brochure describes the type of assistance available and answers the most frequently asked questions about the SBA's disaster-assistance program for individuals. Where practical, assistance with completing the application will be available.

Assistance Available
As an individual, there is one basic loan, with two purposes, available to you:

Personal Property Loan: This loan can provide a homeowner or renter with up to $40,000 to help repair or replace personal property, such as clothing, furniture, automobiles, etc., lost in the disaster. As a rule of thumb, personal property is anything that is not considered real estate or a part of the actual structure. This loan may not be used to replace extraordinarily expensive or irreplaceable items, such as antiques, collections, pleasure boats, recreational vehicles, fur coats, etc.

Real Property Loan: A homeowner may apply for a loan of up to $200,000 to repair or restore their primary home to its pre-disaster condition. The loan may not be used to upgrade the home or make additions to it. If, however, city or county building codes require structural improvements, the loan may be used to meet these requirements. Loans may be increased by as much as 20 percent to protect the damaged real property from possible future disasters of the same kind.

Note: A renter may apply only for a personal property loan.
Insurance Proceeds: If you have insurance coverage on your personal property/home, the amount you will receive from the insurance company will be deducted from the total damage to your property in order to determine the amount for which you are eligible to apply to the SBA.

If you are required to apply insurance proceeds against an outstanding mortgage, the amount applied can be included in your disaster loan. If, however, you voluntarily apply insurance proceeds against an outstanding mortgage, the amount applied cannot be included in your disaster loan.

If you have not made a settlement or are having trouble reaching an agreement with your insurance company, you may apply for a loan in the full amount of your damages and assign any insurance proceeds to be received to the SBA.

Interest Rates on Loans: The law requires a test of your ability to obtain funds elsewhere in order to determine the rate of interest that will be charged on your loan. This credit-elsewhere test also applies to applicants for both personal property and real property loans.

Applicants Who Can Obtain Credit Elsewhere: The interest rate to be charged is based on the cost of money to the U.S. government, but will not be more than 8 percent per year.

Applicants Determined Unable to Obtain Credit Elsewhere: The interest rate to be charged will be half of the interest rate charged to applicants determined to be able to obtain credit elsewhere, but will not be more than 4 percent per year.

Term of Loan: The maximum maturity, or repayment term of an SBA loan, is set at 30 years. However, the SBA will determine repayment terms on a case-by-case basis according to your ability to repay.

Equity capital or financing is money raised by a business in exchange for a share of ownership in the company. Ownership is represented by owning shares of stock outright or having the right to convert other financial instruments into stock of that private company. Two key sources of equity capital for new and emerging businesses are angel investors and venture capital firms.

Typically, angel capital and venture capital investors provide capital unsecured by assets to young, private companies with the potential for rapid growth. Such investing covers most industries and is appropriate for businesses through the range of developmental stages. Investing in new or very early companies inherently carries a high degree of risk. But venture capital is long term or "patient capital" that allows companies the time to mature into profitable organizations.

Angel and venture capital is also an active rather than passive form of financing. These investors seek to add value, in addition to capital, to the companies in which they invest in an effort to help them grow and achieve a greater return on the investment. This requires active involvement and almost all venture capitalists will, at a minimum, want a seat on the board of directors.

Although investors are committed to a company for the long haul, that does not mean indefinitely. The primary objective of equity investors is to achieve a superior rate of return through the eventual and timely disposal of investments. A good investor will be considering potential exit strategies from the time the investment is first presented and investigated.

Differences Between Debt and Equity Capital

Debt Capital: Debt capital is represented by funds borrowed by a business that must be repaid over a period of time, usually with interest. Debt financing can be either short-term, with full repayment due in less than one year, or long-term, with repayment due over a period greater than one year. The lender does not gain an ownership interest in the business and debt obligations are typically limited to repaying the loan with interest. Loans are often secured by some or all of the assets of the company.

Equity Capital: Equity capital is represented by funds that are raised by a business, in exchange for a share of ownership in the company. Equity financing allows a business to obtain funds without incurring debt, or without having to repay a specific amount of money at a particular time.

Angel Investors

Business "angels" are high net worth individual investors who seek high returns through private investments in start-up companies. Private investors generally are a diverse and dispersed population who made their wealth through a variety of sources. But the typical business angels are often former entrepreneurs or executives who cashed out and retired early from ventures that they started and grew into successful businesses. These self-made investors share many common characteristics:

They seek companies with high growth potentials, strong management teams, and solid business plans to aid the angels in assessing the company's value. (Many seed or start ups may not have a fully developed management team, but have identified key positions.)

They typically invest in ventures involved in industries or technologies with which they are personally familiar.

They often co-invest with trusted friends and business associates. In these situations, there is usually one influential lead investor ("archangel") whose judgment is trusted by the rest of the group of angels.

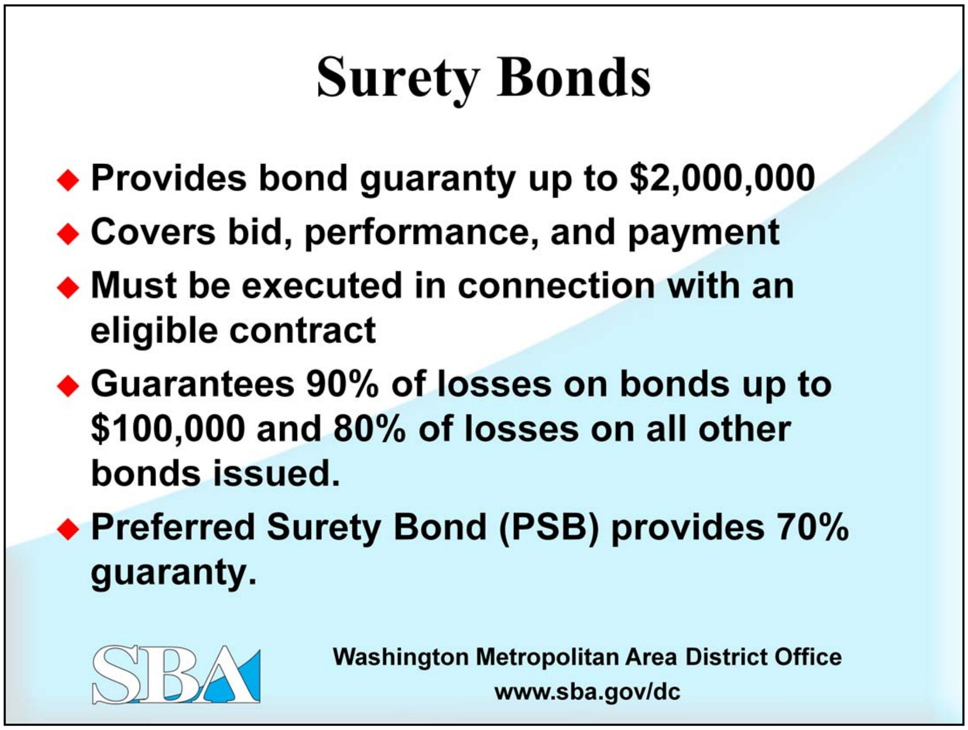
Because of their business experience, many angels invest more than their money. They also seek active involvement in the business, such as consulting and mentoring the entrepreneur.

They often take bigger risks or accept lower rewards when they are attracted to the non-financial characteristics of an entrepreneur's proposal.

Venture Capital

Successful long-term growth for most businesses is dependent upon the availability of equity capital. Lenders generally require some equity cushion or security (collateral) before they will lend to a small business. A lack of equity limits the debt financing available to businesses. Additionally, debt financing requires the ability to service the debt through current interest payments. These funds are then not available to grow the business.

Venture capital provides businesses a financial cushion. However, equity providers have the last call against the company's assets. In view of this lower priority and the usual lack of a current pay requirement, equity providers require a higher rate of return/return on investment (ROI) than lenders receive.



A surety bond is a three-party instrument between a surety, the contractor and the project owner. The agreement binds the contractor to comply with the terms and conditions of a contract. If the contractor is unable to successfully perform the contract, the surety assumes the contractor's responsibilities and ensures that the project is completed. Below are the four types of contract bonds that may be covered by an SBA guarantee:

1. Bid - Bond which guarantees that the bidder on a contract will enter into the contract and furnish the required payment and performance bonds.

2. Payment - Bond which guarantees payment from the contractor of money to persons who furnish labor, materials equipment and/or supplies for use in the performance of the contract.

3. Performance - Bond which guarantees that the contractor will perform the contract in accordance with its terms.

4. Ancillary - Bonds which are incidental and essential to the performance of the contract.

SBA's Role

The U.S. Small Business Administration (SBA) can guarantee bonds for contracts up to $2 million, covering bid, performance and payment bonds for small and emerging contractors who cannot obtain surety bonds through regular commercial channels. SBA's guarantee gives sureties an incentive to provide bonding for eligible contractors, and thereby strengthens a contractor's ability to obtain bonding and greater access to contracting opportunities. A surety guarantee, an agreement between a surety and the SBA, provides that SBA will assume a predetermined percentage of loss in the event the contractor should breach the terms of the contract.

Eligibility A contractor applying for an SBA bond guarantee must qualify as a small business, in addition to meeting the surety's bonding qualifications. Businesses in the construction and service industries can meet SBA's size eligibility standards if their average annual receipts, including those of their affiliates, for the last three fiscal years do not exceed $6 million. Local SBA offices can answer questions dealing with size standard eligibility.

Types of Eligible Bonds Bid bonds and final bonds are eligible for an SBA guarantee if they are executed in connection with an eligible contract and are of a type listed in the "Contract Bonds" section of the current Manual of Rules, Procedures and Classifications of the Surety Association of America (SAA). Ancillary bonds may also by eligible for SBA's guarantee. [For further information and clarification, please contact our nearest field office.] Size of Eligible Contracts The SBA can guarantee bonds for contracts up to $2 million.

SBA Guarantee The SBA reimburses a participating surety (within specified limits) for the losses incurred as a result of a contractor's default on a guaranteed bid bond, payment bond, performance bond or any bond that is ancillary with such a bond. Activity is accomplished through the Prior Approval program or the Preferred Surety Bond (PSB) program. Under the Prior Approval program, the agent reviews the application package and recommends it to the surety company for approval. If the surety company agrees to issue a bond with the SBA guarantee, the package is forwarded to the appropriate SBA/SBG Area Office and evaluated by SBG personnel. If the applicant is determined to be qualified and approval is reasonable in light of the risk, SBA may issue a guarantee to the surety company. The surety then issues the bond to the contractor. SBA's guarantee agreement is with the surety company not with the small business contractor. Any surety company certified by the U.S. Treasury to issue bonds may apply for participation in the Prior Approval program, but its bonds are subject to SBA's prior review and approval. Contractors bonded under this program are generally smaller and less experienced than contractors bonded under the Preferred Surety Bond (PSB) program. To compensate surety companies for the risk associated with bonding Prior Approval contractors, SBA guarantees 90 percent of the losses incurred on bonds up to $100,000 and on bonds to socially and economically disadvantaged contractors, and 80 percent of the losses incurred on all other bonds under this program.

The Preferred Surety Bond (PSB) program was established by P.L. 100-590 in November, 1988. The PSB program provides a 70 percent guarantee to participating sureties, but in exchange, prior SBA approval for each bond is not required. Under this program, the SBA gives selected sureties the authority to issue, monitor and service bonds without our prior approval. Each participating company has a guarantee limit with the SBA. The PSB program was created to encourage the larger surety companies to expand their efforts to help small businesses obtain bonds. Sureties participating in this program cannot participate in the Prior Approval program.

Fourteen major sureties have become participants in the PSB program. PSB surety companies serve more experienced contractors that demonstrate the potential for growth and consistently have more active work programs. PSB sureties expect the contractors to graduate from the program in approximately three years. This program is managed by SBA's Office of Surety Guarantees in Washington, DC. Current authority for the program will expire on September 30, 2003. The following major factors guide, but do not limit, SBA's selection process of sureties to participate in the PSB program: A PSB surety must have an underwriting limitation of at least $2,000,000, as determined by the U.S. Treasury Department Circular 570 or "T-list" of acceptable sureties.

Rates charged by a PSB surety are to be no greater then the Surety Association of America's (SAA) advisory premium rates in effect on August 1, 1987.The premium income from contract bonds guaranteed by SBA and any other government agency shall not exceed one-quarter of its total contract bond premium income.

Underwriting authority for SBA guaranteed bonds is vested only in employees of the surety.

Final settlement authority for claims and recovery under PSB is vested only in employees of the surety's permanent claims department.

The rating or ranking assigned to the surety by a recognized authority.

The PSB surety shall execute a Preferred Surety Bond Guarantee Agreement with SBA.

Interested surety companies should send a letter formally requesting participation in the program to: Associate Administrator, Office of Surety Guarantees, U.S. Small Business Administration, Suite 8600, 409 Third Street, SW, Washington, D.C., 20416.

Duties of Contractor Contractors should apply for a specific bond with an agent or surety company of their choice, providing background, credit and financial information required by the surety company and the SBA. The contractor must complete the following forms, which are available from participating agents (a list of agents is available from your local SBA district office) SBA Form 994: Application for Surety Bond Guarantee Assistance SBA Form 912: Statement of Personal History (on first application and once every two calendar years thereafter) SBA Form 994F: Schedule of Uncompleted Work on Hand (required initially and then at least quarterly) SBA Form 1624: Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion Lower Tier Covered Transactions SBA Form 1261: Statement of Laws and Executive Orders Duties of Surety Company After the contractor completes the forms and furnishes the surety company with sufficient underwriting information, the surety company processes and underwrites the application in the same manner as any other contract bond application. The surety company decides whether to: Execute the bond without the SBA's guarantee; Execute the bond only with the SBA's guarantee; or Decline the bond even with the SBA's guarantee. If the surety company determines an SBA guarantee is required in order to provide the bond, it completes an SBA Form 994B: Underwriting Review and the SBA Form 990: Guarantee Agreement. If the guarantee is given under the Prior Approval program, these forms - and supporting documents - are submitted along with the Forms 994, 912, 994F, 1624 and 1261 to the appropriate SBA/SBG Area Office. If the guarantee is given under the PSB program, the forms are collected by the surety. Duties of the SBA Under the Prior Approval program the SBA determines an applicant's ability to complete the contract based on the information, documentation and underwriting rationale provided by the surety company. If the review establishes performance capacity, and all other aspects of the application are approved, an authorized SBA official signs a guarantee agreement and returns it to the surety company. If the review fails to establish performance capacity, the SBA seeks clarification from the surety underwriter. If performance capacity cannot be reasonably assured, the SBA rejects the application. Cost of an SBA Guaranteed Bond The SBA charges fees to both the contractor and the surety company, as described in the most recent edition of 13 CFR 115 : SBA does not charge contractors an application or bid bond guarantee fee. If SBA guarantees a final bond, the contractor must pay a guarantee fee equal to a certain percentage of the contract amount. The percentage is determined by SBA and is published in notices in the Federal Register from time to time. When the bond is issued, the small business pays the surety company's bond premium. This charge cannot exceed the level approved by the appropriate state regulatory body. The surety company pays the SBA a guarantee fee on each guaranteed bond (other than a bid bond) in the ordinary course of business. The fee is a certain percentage of the bond premium, determined by SBA and is published in notices in the Federal Register from time to time.

Credit Reporting Agencies

Equifax

www.equifax.com

1-800-685-1111

or write

P.O. Box 740241

Atlanta, GA 30374-0241

Experian

www.experian.com

1-888-Experian (397-3742

or write

P.O. Box 2104

Allen, TX 75013

Trans Union

www.tuc.com

1-800-916-8800

or write

P.O. Box 1000

Chester, PA 19022

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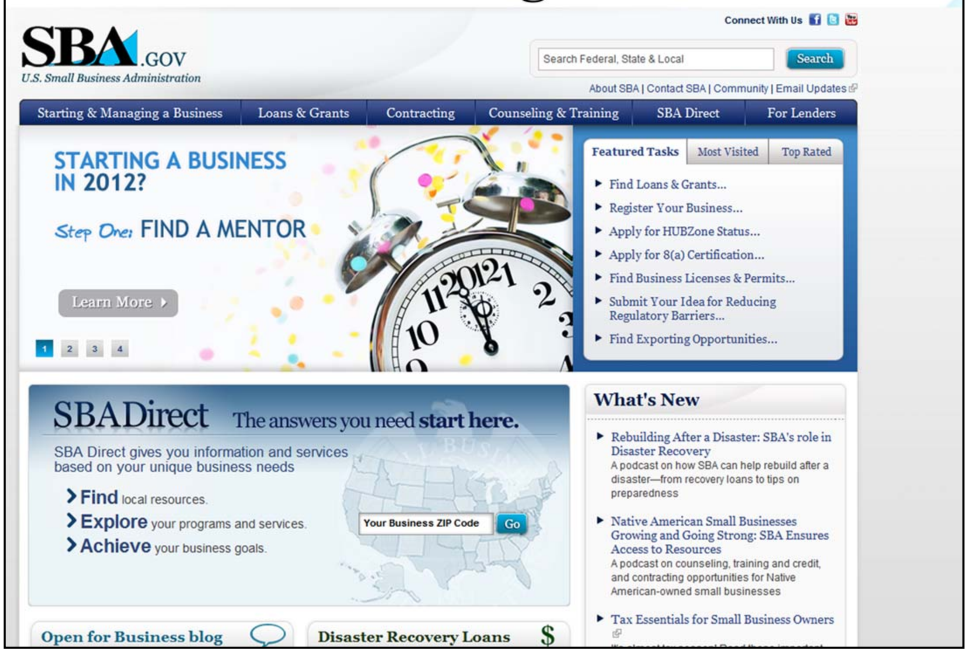

You can find more information on all of SBA’s programs and services at the SBA’s website located at www.sba.gov

Thank you for taking interest in SBA and our programs and services. If you have any questions concerning information provided in this presentation, please contact the Washington Metropolitan Area District Office.