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**Business Loans-Government Guaranteed
Programs**

SBA 7(a) Term Loans

and

SBA 504 Term Loans

FDIC Insured



The Small Business Administration (SBA), established in 1953 under President Eisenhower, works with private lenders as well as a variety of regional nonprofit groups, to make business loans for various small business uses. Since its inception, the SBA has helped make billions in loans, more than any other single lender in the country during that time. **Our SBA business borrowers benefit in that generally: (1) qualifying standards are more flexible than other types of conventional loans; (2) less of your own money is needed to get an SBA loan; and (3) longer loan terms (7 to 25 years, avoiding untimely large balloon payments or calls).**

Currently, there are two main programs which the International Bank of Chicago offers.

- SBA 7(a) Term Loan
- SBA 504 Term Loan

SBA 7(a) Term Loan

The 7(a) program, the government's biggest small-business loan operation, makes loans up to \$5 million.

Typical uses

This type of loan can be used for a variety of business purposes. For an existing business or start-up to:

- ✓ Purchase real estate
- ✓ Purchase of machinery and equipment
- ✓ Make leasehold improvements
- ✓ Purchase inventory
- ✓ Finance a change of ownership
- ✓ Refinance existing business debt
- ✓ Purchase furniture and fixtures
- ✓ Provide your business with working capital

Applicants' eligibility is based upon average business sales, tangible net worth, ability to repay the loan from cash flow, collateral, management capability and owner's equity contribution. Affiliated businesses are also included in eligibility determination.

In addition to the main 7(a) loan, there are several aligned niche loans including specific financing for exporters, pollution-control efforts and employee stock ownership plans (ESOPs). There are also a number of types of credit lines, including lines for small general contractors, auto dealers and seasonal needs to purchase inventory for peak business cycles.

Loan sizes

Through International Bank of Chicago, borrowers typically make a down payment of anywhere from 10% to 25% of the total project cost or show equity ownership in the case of a non-SBA loan refinance. The lender then finances the remainder and in return receives a guarantee from the government on a portion of the loan — currently

about 75% to 85% up to \$5 million, depending on the loan amount.

Typical costs

Interest rates are typically higher than prime, but by no more than 2.25 to 4.75 percentage points, depending on the loan term and size. There are also fees: the primary one is the guarantee fee, which is applied only against the portion of the loan that the SBA guarantees. The fee rises with the loan amount: for instance, loans up to \$150,000, currently cost 2% (i.e. \$1,700 on a \$100,000 loan with an 85% guarantee). Between \$150,000 and \$700,000, the fee rises to 3%; on loans above that it increases to 3.5%.

SBA 504 Term Loan

The 504 is intended to serve as an economic-development catalyst, so funds are narrowly restricted to expenditures that will ignite job creation or retention. The maximum loan amount varies, rising if a project meets certain public-policy or manufacturing goals. The size of a project can range from roughly \$200,000 to \$10 million. **The benefits for the Small businesses are typically less of their own money is needed to get a 504 than other loans and longer loan terms (10 to 20 year term with 20 year amortization of principal).**

Typical uses

The 504 loan is ideal for long-term, fixed-rate financing for major fixed assets such as land, buildings and machinery. Funds can be used for such investments as real estate purchase and construction of new facilities, as well as renovations or modernizations of existing ones. To qualify, business tangible net worth and average net income for the preceding two years must be within SBA defined ranges to be considered a small business.

Applying

In combination with the International Bank of Chicago, borrowers work with a Certified Development Company -- a nonprofit company that works with the SBA and private-sector lenders to put the project money together. There are hundreds of CDCs nationwide, listed on the SBA's Web site.

Typically, borrowers invest 10%-15% of the total 504-project amount needed. A CDC then lends an additional 35%-40% at a fixed, low interest rate (generally 0.5 to 0.75 percentage points below market pricing) for 10 to 20 years, an amount fully backed by an SBA-guaranteed bond offering. International Bank of Chicago provides the remaining 50% of the money, generally at market rates.

Typical costs

Fees total about 2.5% of the total amount financed (which includes the portion guaranteed by the SBA, SBA charges are approximately 3% of the amount they guaranty). Closing costs for appraisal, EPA and title work will apply.