VETBIZ RESOURCE CENTER

Basic 7(a) Loans

7(a) loans are the most basic and most used type loan of SBA's business loan programs. Its name comes from section 7(a) of the Small Business Act, which authorizes the Agency to provide business loans to American small businesses.

All 7(a) loans are provided by lenders who are called participants because they participate with SBA in the 7(a) program. Not all lenders choose to participate, but most American banks do. There are also some non-bank lenders who participate with SBA in the 7(a) program which expands the availability of lenders making loans under SBA guidelines.

7(a) loans are only available on a guaranty basis. This means they are provided by lenders who choose to structure their own loans by SBA's requirements and who apply and receive a guaranty from SBA on a portion of this loan. The SBA does not fully guaranty 7(a) loans. The lender and SBA share the risk that a borrower will not be able to repay the loan in full. The guaranty is a guaranty against payment default. It does not cover imprudent decisions by the lender or misrepresentation by the borrower.

Under the guaranty concept, commercial lenders make and administer the loans.

The business applies to a lender for their financing. The lender decides if they will make the loan internally or if the application has some weaknesses which, in their opinion, will require an SBA guaranty if the loan is to be made. The guaranty which SBA provides is only available to the lender. It assures the lender that in the event the borrower does not repay their obligation and a payment default occurs, the government will reimburse the lender for its loss, up to the percentage of SBA's guaranty. Under this program, the borrower remains obligated for the full amount due.

All 7(a) loans which SBA guaranty must meet 7(a) criteria. The business gets a loan from its lender with a 7(a) structure and the lender gets an SBA guaranty on a portion or percentage of this loan. Hence the primary business loan assistance program available to small business from the SBA is called the 7(a) guaranty loan program.

A key concept of the 7(a) guaranty loan program is that the loan actually comes from a commercial lender, not the government. If the lender is not willing to provide the loan, even if they may be able to get an SBA guaranty, the Agency can not force the lender to change their mind. Neither can SBA make the loan by itself because the Agency does not have any money to lend. Therefore it is paramount that all applicants positively approach the lender for a loan, and that they know the lenders criteria and requirements as well as those of the SBA. In order to obtain positive consideration for an SBA supported loan, the applicant must be both eligible and creditworthy.

Taken from **http://www.sba.gov/services/financialassistance/sbaloantopics/7a/index.html**