



National Marine Manufacturers Association



Fact Sheet

Small Business Administration Financing Options for Marine Businesses

Summary: Small Business Administration (SBA) **7(a) Business Loan** guarantee program may be a viable option for marine businesses to consider when seeking financing for their operations. The SBA works with lenders who structure their own loans by SBA's requirements and who apply to receive a guaranty on a portion of the loan. The maximum loan amount is \$2 million of which 75% is guaranteed by the SBA. The interest rate and guaranty fee vary depending upon an array of factors. The National Marine Bankers Association (NMBA), the National Marine Manufacturers Association (NMMA), and the Marine Retailers Association of America (MRAA) urge marine businesses to contact their bankers for additional information.

Eligibility: To be eligible for a SBA 7(a) guaranteed loan a marine business must:

1. Have a need for SBA loan guarantee assistance, *e.g.*, must be unable to secure conventional commercial financing on reasonable terms; and
2. Be a "small business."

For a Marine Dealer (NAICS 441222) "small" means having total annual receipts under \$7 million OR under new interim rules *effective on May 5, 2009* any business is now eligible as "small" if it has **tangible net worth not in excess of \$8.5 million and average net income after Federal income taxes** (excluding any carry-over losses) for the preceding two completed fiscal years **not in excess of \$3.0 million** (13 CFR § 120.301(b)).

For a Boat Builder (NAICS 336612) "small" means having **less than 500 employees** OR under new interim rules *effective on May 5, 2009* any business is now eligible as "small" if it has **tangible net worth not in excess of \$8.5 million and average net income after Federal income taxes** (excluding any carry-over losses) for the preceding two completed fiscal years **not in excess of \$3.0 million** (13 CFR § 120.301(b)).

Approval of an SBA 7(a) guaranteed loan application will depend on the availability of funds, an applicant's particulars, and the financial decisions of the participating lender and of SBA. Please note that *eligibility does not mean automatic application approval*.

Uses: SBA 7(a) guaranteed loan proceeds may be used for any worthwhile business purpose, including working capital and the refinancing of existing indebtedness, with very few limitations. Financing a dealership total change in ownership is permissible if the aim is

to preserve the dealership or ensure its continued operational success. Proceeds may also be used to pay the guaranty fee. SBA guaranteed loan proceeds cannot as of this date of this *Fact Sheet* be used for floor plan or inventory financing.

Floor Plan Lending: SBA is currently considering allowing SBA 7(a) loans to be used on a temporary basis for floor plan financing. Marine dealers are advised to find an SBA participating banker and **begin discussions now** so that they have a relationship in place if and when a floor plan lending program is announced. NMBA, NMMA and MRAA will alert the marine industry when a floor plan lending program is available.

Terms: SBA's 7(a) loan guaranty may not exceed the lesser of \$1.5 million or 75% of the total loan. (SBA's guaranty may be 85% for loans up to \$150,000.) Generally, the maximum repayment period is 7 years for working capital and 25 years for real estate and equipment. Interest rates are negotiated between the lender and the borrower, up to the applicable maximum allowable SBA interest rate and may be fixed or variable. Repayment terms may be arranged to suit the borrower.

Collateral: A borrower should expect to pledge whatever collateral is reasonably requested and to give such personal guaranties as may be required. The SBA provides guidance to lenders on collateral adequacy.

Financial Statements: The standardized, comprehensive financial statements used by the marine industry along with balance sheets, income and retained earnings statements, and subsidiary accounting reports are generally acceptable to SBA participating lenders. In certain situations, lenders may require other financial statements. A discussion of a dealer or boat builder's operations and a plan that demonstrates an ability to repay the loan must be included in the application. While three years of successful business is a general measure of sound prior operations, dealers or boat builders with less than three years experience may still demonstrate reasonable repayment ability.

Other Funds: Personal and/or business assets must be used to the fullest extent possible. Private credit must be used if obtainable at reasonable rates and on reasonable terms. If working capital standards are imposed by a manufacturer on a dealer, formulae that compute the minimum acceptable net working capital should be completed by the dealer and may be used to guide loan amounts.

How to Apply: The application process begins with a commercial lender. Dealers and boat builders may apply to any financial institution that makes SBA 7(a) guaranteed loans and can get a list of participating lenders from SBA field offices located around the country. The link to the list of SBA-approved 7(a) lenders for most states is available online at: <http://www.sba.gov/localresources/index.html>, choose your state, then click 'financing.'

For more information, contact the SBA at (800) 827-5722.

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