

SBA Contract Financing Options

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Contract Financing Options

- SBA Express Line of Credit – up to \$500,000**
 - Revolve for 5 year max with 5 year term out period**

- Contract CAPLine – up to \$5MM**
 - Max term of 10 years – usually tied to contract timeline**

Contract CAPLine Financing

- ❑ Provides financing in anticipation of what will be created
- ❑ Provides financing against **“What Will Be”** –
Collateral is the creation of assets
- ❑ It is not financing against existing receivables

Contract CAPLine Financing

- A Line of Credit type financing used to cover both the Direct and Indirect Costs of one or more specific contract(s)
- Contract CAPLine proceeds may be used to finance materials, labor, overhead, and general & administrative costs, attributable to the contract(s) being financed
- Cannot include any mark-up or profit
- Cannot include G&A and Overhead not associated with the contract(s) being financed

General Requirements

- May be revolving or non-revolving, between Contracts and within Contracts
- The funding of multiple contracts requires the use of a master note with multiple sub-notes for each contract being financed
- Recommend the proceeds from the contract receivable be assigned to the lender

General Requirements

- Interest only payments for any period exceeding the borrower's contract final date, or project completion date are not permitted
- An extraordinary servicing fee charged by the lender cannot exceed two percent
- The Contract CAPLine must have an exit strategy – Zero Balance by maturity

Eligibility Requirements

Applicants must have developed an adequate track record to assess its short-term working capital needs

- Possess the overall ability to bid accurately project costs, and perform the specific type of work required by the contract
- Have the financial capacity and technical expertise to complete the contract on time and at a profit

Eligibility Requirements

Applicants must have developed an adequate track record to assess its short-term working capital needs

- Be able to demonstrate an ability to operate profitably based upon the prior completion of similar contracts
- The Contract CAPLine is not intended for start-ups

Documentation

Prior to approval, you should obtain from applicant:

- A **project cost schedule** depicting all direct material, labor, and overhead attributable to the contract to be financed. (Profit may not be included.) The schedule must illustrate each cost by line item
a/k/a Bid Sheets
- A **month-to-month cash flow projection(s)** covering the term of each contract, subcontract, or purchase order to determine appropriate disbursement and repayment timeframe

Establishing Loan Amount

A Contract CAPLine LOC may be Used to Fund Either a Single or Multiple Contracts

- For **single contract financing** ... The loan amount is equal to the sum of the amounts identified in the project cost schedule as being needed to meet project cost requirements (excluding profit)
- For **multiple contract financing** ... The master note loan amount is equal to the sum of the costs for all contracts as evidenced by the project cost schedule for each specific contract sub-note
- **Sub-Notes** ... must not conflict with the conditions of the master note except for variances in repayment schedule

Disbursements and Repayments

- Disbursements are made, when needed, to pay for the costs on a specific contract
- Month-to-Month cash flow projections for each Contract, Subcontract, or Purchase Order are used to determine appropriate disbursement and repayment timeframe
- Progress payments are applied first to interest due on the CAPLine, with the remainder applied to the CAPLine balance until the balance is paid in full

Collateral

- First lien position on the contract(s) and the proceeds of the contract(s), by assignment to the participating lender and proper UCC filing
- Liens must be perfected prior to the initial disbursement for each contract or project
- The lender may take additional collateral in accordance with its policies and procedures governing its similarly size, non-SBA guaranteed commercial line of credit
- The requirements for personal guaranties are the same as for any other 7(a) program

Purchase Orders and Contracts with Performance Bonds

Contracts with Performance Bonds:

A contract requiring a Surety's performance bond may be eligible for a Contract CAPLine provided the lender perfects a UCC security interest in the contract proceeds

- The lender's perfected UCC security interest in the contract proceeds will be subordinate to the cost reimbursement claim of the Surety; and
- The Surety may require that a funds control facility be executed. The funds control facility would disburse directly to suppliers and laborers. The contracting authority will remit contract proceeds directly to the funds control facility, which will remit payment to the lender