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SBA's Contract CAPLines Program

*A Presentation For The
Contractor*

SBA has a Loan Guaranty Program

To help Contractors Obtain
Financing for Contract Work
Its Called the

Contract CAPLines Loan Program

The Contract CAPLines Loan Program

Is One of Four CAPLines Loan Programs

They Are All Programs where SBA Guarantees a Revolving Line of Credit Structured with SBA Rules

All CAPLines Loan Programs
were Created Under the
Broad Authority of Section
7(a) of the Small Business Act

Section 7(a) Gives SBA the Authority to Make or Guaranty Business Loans

Since 1997 SBA has only
Guaranteed Loans, ~~not Made~~
~~them Directly~~

Since SBA only Provides
Financial Assistance through
its Guaranty Programs,
You, the Applicant, are Going to
have to
Seek Financing from a Lender

The Lender will Analyze Your Applications and make One of Three Decisions:

- Really like and Approve Themselves
 - *Without an SBA Guaranty*
- Cautiously like and Approve ---
 - *Subject to Getting an SBA Guaranty*
- Decline the Request all Together

SBA's Guaranty Covers a
Portion of the Risk a Lender
has of the Business Failing to
Repay the Loan

The Portion Equals the
Percentage of Guaranty

SBA's Guaranty is a
Conditional Guaranty for the
Lenders.

The Conditions SBA Imposes
on the Lender have to be
followed by the lender or they
could lose the guaranty

If the Lender likes Your Request
Enough that they choose to
Apply to SBA for a 7(a) Guaranty

You want to make sure the
Lender has what they need so
SBA will Approve the Guaranty

TO BE ELIGIBLE FOR A CONTRACT CAPLINE,

The applicant must qualify under Standard 7(a) requirements and:

- Be able to demonstrate an ability to operate profitably based upon the prior completion of similar contracts; and

TO BE ELIGIBLE FOR A CONTRACT CAPLINE,

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

- 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 current annual income statement; and
- A copy of the contract(s) being financed by the Contract CAPLine.

SBA Will Generally Guaranty
a Lender's Contract Line of
Credit if it is **Structured as
Required** by SBA and the
Applicant Business is **Eligible**

**SBA Does Not
Provide the Financing,
a Commercial Lender Does**

The Contract CAPLines is
1 of 4 Short Term
Non-Export Related “Formal”
Revolving Loan Programs

The CAPLines Loan Programs

Seasonal CAPLines

Builders CAPLines

Contract CAPLines

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Working Capital CAPLines

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*All Revolving, All With Their
Specific Requirements*

The CAPLines Loan Programs

Contract CAPLines

Lending Against

“What Will Be”

There also use to be 2
Asset Based CAPLines but in
2011 Changes Were Made to
the Asset Based and Contract
CAPLines Programs
Based On Lender
Recommendations

- Changes were made so SBA would not have to review the lender’s analysis on each contract loan request when submitted by high volume lenders**
- Select Lender Given Delegated Processing**
 - PLP Lenders**

Maximum line amount \$5,000,000

In 2011 the Maximum Maturity
increased from 5 to 10 years

Maximum guaranty percentage 75%
(over \$150,000)/85% if \$150,000 or
less

Establishing the Contract CAPLine Loan Amount

For Single Contract Financing,
The loan amount is equal to the
sum of the costs of the contract
(excluding profit), as evidenced
by the project cost schedules

Establishing the Contract CAPLine Loan Amount

For Multiple Contract Financing,
The master note amount is equal to the sum of the costs of all contracts (excluding profit) to be financed under the CAPLine, as evidenced by the project cost schedules

Establishing the Contract CAPLine Loan Amount

For future projects not yet identified, at the time the contract is obtained all costs by line item should be identified. The amount of the sub-note for each specific contract should equal the total costs of that contract.

Establishing the Contract CAPLine Loan Amount

A single Contract CAPLine loan may be used to fund one or multiple contracts. Once approved by SBA, the lender may advance against additional contracts without SBA approval,

Provided the borrower and lender are in compliance with the Authorization.

Application Documents From Applicant

Applicants must be able to provide the lender with a first lien position on the contract(s) and the proceeds of the contract(s) financed with the line,

Another words there needs to be an assignment of the payments so they are sent to the participating lender

There may be exceptions to when an assignment is required.

Assignment of Contract Proceeds

- Prior to initial disbursement, the entity the Contractor has entered into the contract with must agree in writing to forward all payments which the contractor would normally get
- The Contracting Authority must assign all payments to the lender
- Such assignment must be in place before any disbursement for a particular contract
- The lender must receive written acknowledgement from the third party.

Exception to the Assignment of Contract Proceeds:

An assignment is not required by SBA if at least two of the following conditions are met:

1. Term of contract is 12 months or less;
2. A successful track record between borrower and contracting authority exists based on same or reasonably similar contracts.
3. Financial analysis of historical income statements and/or tax returns and pro-forma financial statements show that the applicant has a Debt Service Coverage ratio that exceeds 1:1;

Exception to the Assignment of Contract Proceeds:

An assignment is not required by SBA if at least two of the following conditions are met:

- 4 All contract proceeds are paid directly to the lender by the contracting authority or, in the instance where a performance bond is in place, a Funds Control (or escrow or third party servicer) procedure is implemented; or
- 5 Other available and worthwhile collateral is pledged to secure the line

Contract Caplines Proceeds

Loan proceeds can only be used to finance the costs of one or more specific contracts, sub-contracts, or purchase orders.

Cost can include the overhead plus general & administrative expenses, allocable to the specific contract(s).

Contract Caplines Proceeds

Proceeds to finance the costs of:

- Direct Labor
- Direct Materials
- G&A and Overhead

- Contract CAPLine proceeds may not be used for:
 - Permanent working capital,
 - To acquire fixed assets,
 - To pay delinquent taxes or similar funds held in trust (directly or indirectly),
 - For change of ownership
 - Floor Plan financing;

- Contract CAPLine proceeds may not be used for:
 - To repay a different contract or sub-contract (No Refinancing)
 - No Other Refinancing Either
 - To finance the performance of another contract or sub-contract ???; or
 - To finance a contract in which significant performance has already begun
 - To cover any mark-up or profit;

Repaying Principal

This program is designed to lend against what will be, which is the hope of a completed contract, the hope of payments exceeding costs

Providing Funds to Perform

Loan proceeds provided the contractor before performance and during performance

Contract Payments Are Second Time Payments

When the Contracting Authority pays for satisfactorily completed work, the Contractor is getting funds for having done what the loan's proceeds already financed (except for the Profit)

Since the Contractor is getting funds for the second time when the Contracting Authority pays, the structure of this Contract Loan Program requires the Lender to get all the Contracting Authority's Payments

All Contract Payments Are Required to Go to the Lender

Since the Contractor is getting funds for the second time when the Contracting Authority pays, the structure of this Contract Loan

Program requires the Lender to get all the Contracting Authority's Payments

Also Eligible for a Contract Caplines Loan

- A Contract between a prime and subcontractor,
- A contract with Performance Bonds, and
- A Purchase Order

If Certain Conditions Are Met

Sub-Contractor Financing

A contract between Prime and Subcontractor is eligible if at least two of the following conditions are met:

- Both the Prime and the Subcontractor have favorable credit ratings based on an acceptable rating agency (e.g., Builders Industry Credit Association “BICA”);**
- There is a successful track record between the Prime contractor and the Subcontractor (borrower);**
- There is a successful track record between the Prime contractor and the contracting authority;**

Sub-Contractor Financing

A contract between a Prime and Subcontractor is eligible if at least two of the following conditions are met *continued*:

The loan amount is less than \$300,000;

The term of the contract is 12 months or less;

The financial analysis of historical income statements and/or tax returns and pro-forma financial statements show that the applicant has a Debt Service Coverage ratio that exceeds 1:1; or

There is other available and worthwhile collateral pledged by either borrower or owner/guarantor.

Contracts With 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 following conditions may be necessary to effectuate the transaction where a contract requires a bond:

1. The lender's perfected security interest in the contract proceeds will be subordinate to the cost reimbursement claim of the Surety; and
2. The Surety may require that a funds control facility be executed.

Purchase Order Financing

Purchase Orders under a Master Agreement:
Purchase Orders (PO) may be substituted for a formal contract, provided the following conditions exist:

1. The PO is issued to the borrower under a Master Agreement; and
2. The combination of the PO and the Master Agreement constitute a binding agreement.

Disbursements

Disbursements are made, when needed, to pay for the costs on a specific contract.

Disbursements will generally be made as the contract progresses, not with one lump sum disbursement to cover all costs. Only if the contract performance period was 30 days or less should only one disbursement for payroll be allowed.

Disbursements

However, if a borrowing contractor wanted to acquire all of their materials up front to take advantage of volume discounts, and/or pay for all acquired materials within 10 days to take advantage of prompt pay discounts, the Contract CAPLine Program will accommodate such a disbursement plan.

Additional Controls

The lender may invoke additional controls over the payments, provided the lender obtains the borrower's prior written consent.

If additional controls include the funding only direct material and labor, the lender must inform the borrower in writing of the percentage split arrangement regarding the allocation of progress payments received from the contracting authority.

The Contract CAPLines Program

A Presentation For The Contractor

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Proceeds Can Now be used to finance all costs (excluding profit)

- Cost of Labor (on the contracts being financed with the Loan)
- Cost of Materials (on the contracts being financed with the Loan)

Proceeds to Finance all costs (except profit)

- Overhead Cost (on the contracts being financed with the Loan)
- Cost of General & Administrative (on the contracts being financed with the Loan)
 - How Many in the Audience Own a Contracting Business?
 - How Many of You Know the G&A Factor to assign to each contract you will bid on and the G&A Factor to use on awarded Contracts?

Proceeds to Finance all costs (except profit)

- G&A plus Overhead (on the contracts being financed with the Loan)
 - How Many in the Audience Own a Contracting Business?
 - How Many of You Know the G&A Factor to assign to each contract you will bid on and the G&A Factor to use on awarded Contracts?

Sub-Contractor Financing

With the assignment of contract proceeds and direct payment in place, the lender receives all the payments the borrower would normally receive if it was internally financing the contract as performance progresses. Because all performance costs (including direct overhead and allocated general/administrative expenses) were funded under the CAPLine, all such payments received by the lender must be applied first to interest due on the CAPLine, with the remainder applied to the CAPLine balance until the balance is paid in full.