



Introducing the Working Capital Pilot Program

May 7, 2024

Introducing the Working Capital Pilot (WCP) Program

- The WCP is a **new pilot loan program** developed as part of the 7(a) Loan Program.
- As the first new 7(a) program since 2010, WCP has been designed to serve as the SBA's premier working capital program, engineered to meet the needs of modern small businesses.
- Offering an **annual fee structure** modeled after the Export Working Capital Program (EWCP), the SBA guaranty fee is assessed in annual increments, allowing Lenders the ability to tailor the loan to the specific need of their clients.
- The WCP will provide **75%** guaranteed lines of credit **up to \$5 million** that can **support both domestic and international transactions.**
- Lenders will be able to use the WCP to issue revolving lines of credit with the flexibility to structure both asset-based **and** transaction-based facilities.
- WCP will be fully supported by the SBA's team of Export Finance Managers.

Key Benefits of the WCP

- WCP provides additional flexibilities that bridge the gap between the various rules and limitations of the legacy 7(a) guaranteed line of credit products.
- Access to working capital is critical for growing small businesses and is most economically and efficiently delivered through a revolving line of credit.
- A WCP line of credit allows businesses to take on new opportunities in a way that a term loan is not designed to support.
- The revolving nature of a line of credit provides an efficient means for businesses to manage cash flow and interest expense.
- The addition of the WCP to the 7(a) program provides greater flexibility for lenders to structure comprehensive loan solutions for their clients.
- Establishes the first government guaranteed facility specifically designed to support both domestic and international sales.

Types of WCP Loans

Transaction-Based Loan:

- A line of credit that can support a single or multiple transactions during the term of the loan
- A Transaction-Based WCP may be established on a revolving or non-revolving basis based on the needs of the business
- Monitored pre-shipment financing allows a business to purchase materials, components, or other related expenses necessary to start a project
- Lender establishes a cash collateral account to monitor for payment, applying all receipts against the outstanding principal balance.

Asset-Based Loan (ABL):

- ABL loans are revolving lines of credit supported by a Borrowing Base Certificate (BBC) which measures the collateral position, normally accounts receivable and inventory, of the loan
- ABL loans are typically committed for 12 months and then renewed or re-issued annually
- The Lender must obtain updated financial statements on the Borrower annually and perform a full credit analysis annually, coinciding with any applicable renewal.

Key Benefits of Transaction-Based Lending

For the Lender

- Transaction-based allows lenders to extend capital at an earlier point than they would using traditional lines of credit
- Transaction-based lending allows lenders to advance in support of upcoming projects or orders before any asset or billing is created

For the Borrower

- Ability to access working capital to fund the direct costs (materials and labor) related to a project or order
- Can support significant increases in working capital needs that are not otherwise supported by existing assets

Example: Transaction-Based WCP

This example highlights two of the challenges facing a small business engaged in a large contract that the Transaction-Based WCP can help solve:

1. The need to access funding before billing revenue is received; and
2. A small business that has a large concentration of revenues from a single buyer

Business Need:

XYZ Engineering has won a large government contract in which they will provide custom-fabricated components for a multi-stage infrastructure project. XYZ is having the components produced by a leading contract manufacturer in the Midwest but needs funding to begin production.

Solution:

Utilizing a Transaction-Based WCP line of credit, XYZ can draw on the line to fund payments to their contract manufacturing partner and cover the direct labor involved with the project before installment payments begin to be received in four months.

Key Benefits of Asset-Based Lending

For the Lender

- Asset-based loans allow Lenders to extend working capital against a pool of assets while monitoring using a Borrowing Base Certificate to ensure the loan always remains in margin.
- With the support of a BBC to monitor the facility, the Lender can issue larger lines of credit with increased advance rates on accounts receivable and inventory.

For the Borrower

- Asset-based loans allow the borrower to obtain a greater amount working capital than what is typically available under an open revolving facility.
- Asset-based loans provide the flexibility to meet the current and future needs of a business.
- An ABL loan allows borrowers to monetize their otherwise illiquid assets (account receivables and inventory) to help fund upcoming purchases and overhead expenses.

Example: Asset-Based WCP

Business Need:

ABC Company manufactures and distributes medical devices throughout the United States and Latin America. Due to occasional shortages in surgical-grade stainless steel, management has been increasing their purchases of raw materials to ensure they have enough stockpiled for use throughout the year. As a result, ABC is carrying more inventory on its balance sheet, which has strained their cash position.

Solution:

An Asset-Based WCP line of credit allows ABC to access liquidity against their accounts receivable and inventory. Without the assistance of the WCP, ABC would not be able to borrow as much against their accounts receivable and inventory, due to collateral requirements.

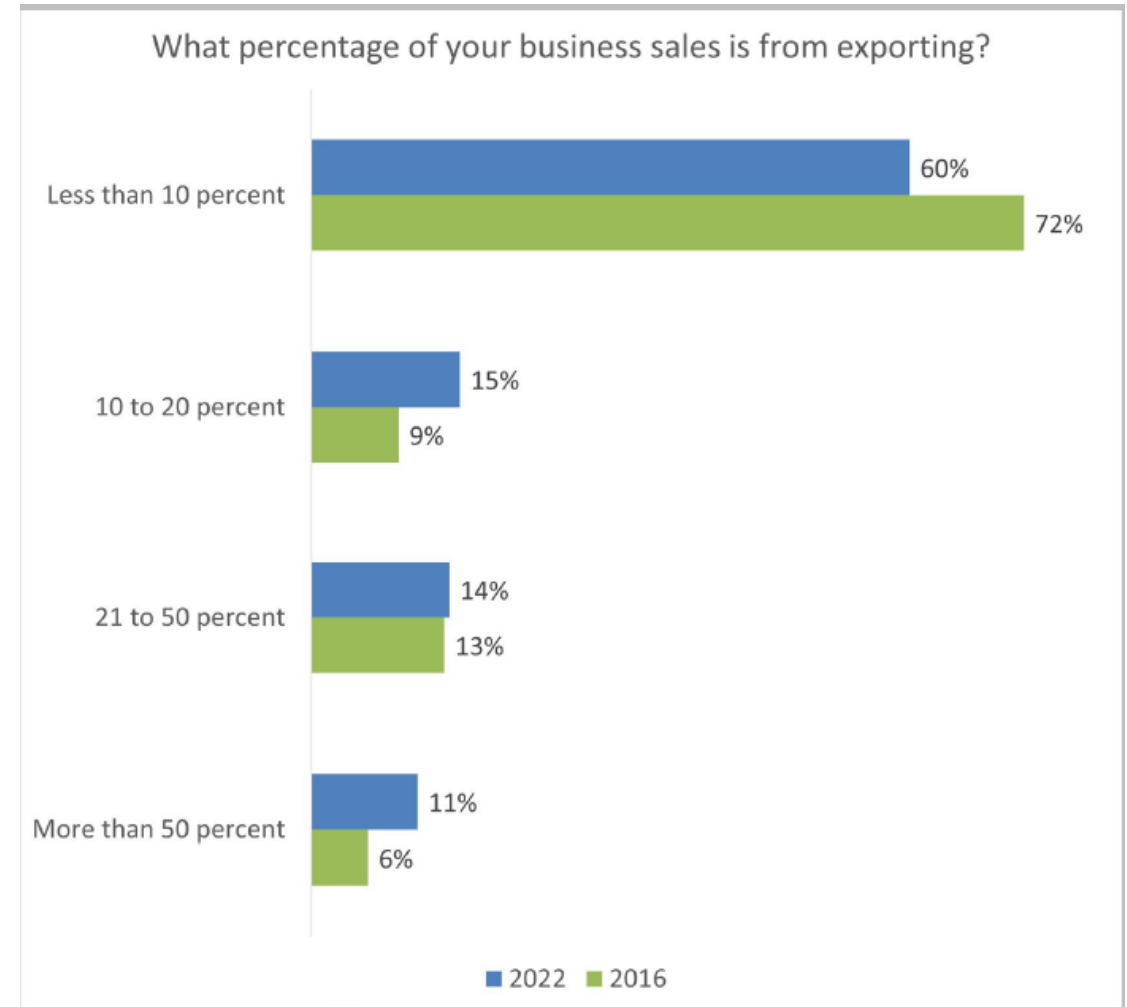
In this example, the Lender can advance more funds against ABC's larger inventory position with the support of the SBA's guaranty, allowing the business to access the working capital necessary to support the Company's growth.



Why WCP?

Financing Exporters, Not Just Exports

- This chart comes from 2022 Small Business Exporting Survey prepared by the EXIM Bank & National Small Business Association.
- The survey highlights how the vast majority of small business exporters derive a modest portion of their revenue from export sales.
- Leveraging the framework of the SBA's 7(a) program, we have created the WCP to serve as a hybrid trade finance solution.
- This solution will support an exporter's domestic & international sales under one facility.



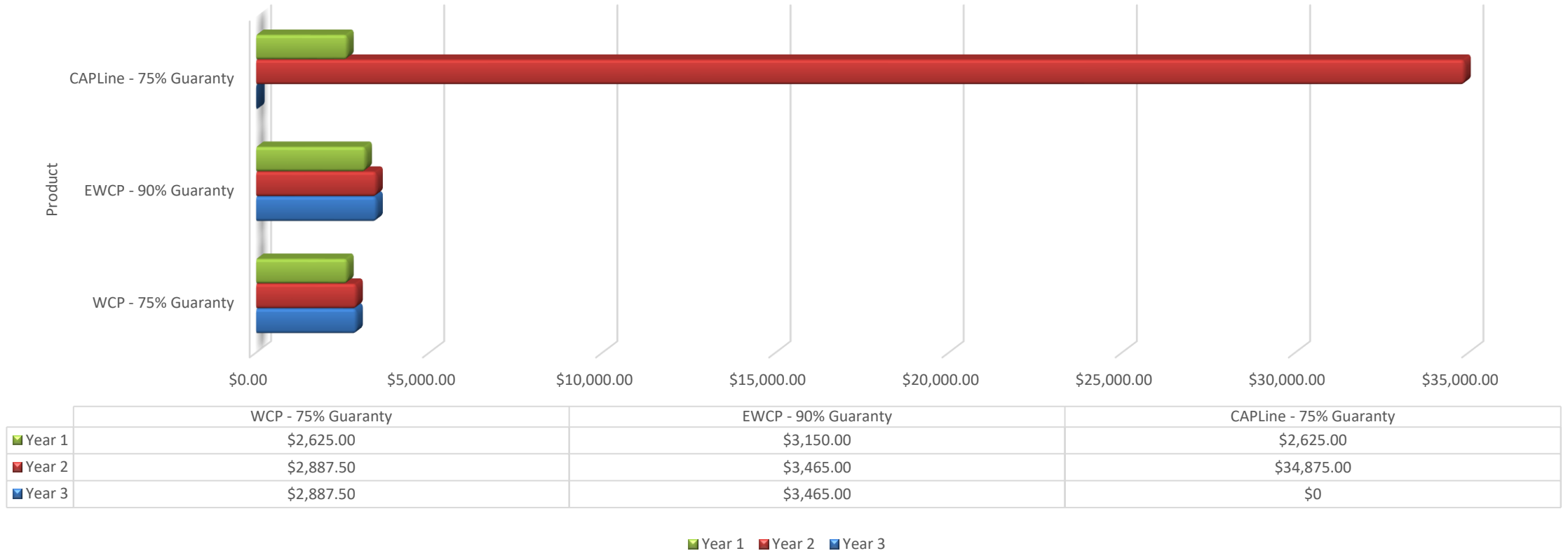
Current 7(a) Guaranteed Lines of Credit Delivery Methods

- The 7(a) Loan Program currently offers four delivery methods for making 7(a) guaranteed lines of credit; SBA Express, Export Express, CAPLine, and the EWCP program, each having its own unique rules and limitations
 - For example:
 - 7(a) SBA Express and Export Express loans are limited to a maximum loan size of \$500,000
 - CAPLines and EWCP loans can be approved up to \$5 million
 - CAPLines offer a wide range of structures; however, the guaranty fee structure is cost prohibitive, and the four subprograms can be confusing to administer successfully
 - EWCP is a potent program but is limited exclusively to export transactions
- The different rules across the 7(a) Loan Program creates a challenge for Lenders, who must learn and manage four separate programs for the delivery of their small business working capital. This can negatively affect Lender participation and reduce the availability of working capital for small businesses
- SBA is establishing the Working Capital Pilot (WCP) Program to **allow participating 7(a) Lenders to make working capital loans more efficiently and effectively**

SBA 7(a) Guaranty Fee Cost Comparison

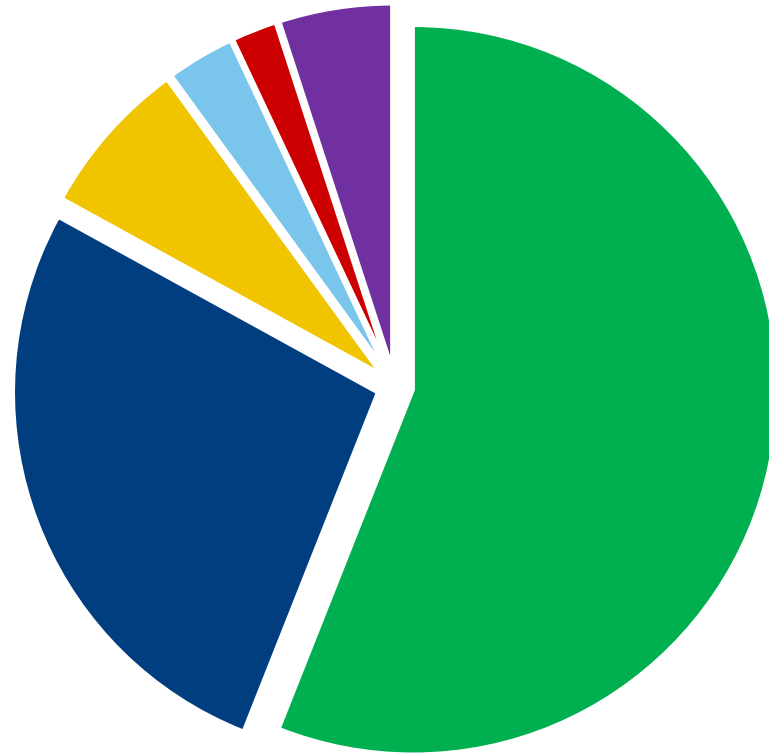
- This chart outlines the annual guaranty fee for the CAPLine, EWCP and WCP 7(a) loan programs based on an average facility size of \$1.4 million (the average size of a CAPLine & EWCP loan between FY22 & FY24).
- The CAPLine program utilizes the Standard 7(a) guaranty fee (upfront fee), which in this scenario would cause a 1,200% increase in the annual guaranty fee in year 2.

\$1,400,000 Line of Credit



FY2023 EWCP Portfolio Analysis

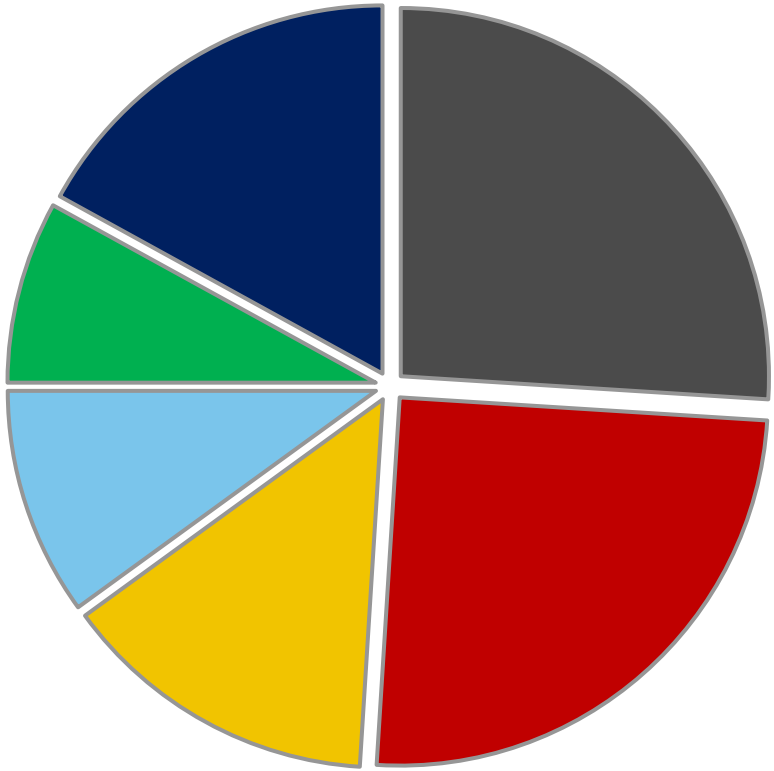
Industries Served



■ Wholesale Trade (56% Δ+1%) ■ Manufacturing (27% Δ+4%)
■ Professional (7% Δ+2%) ■ Agriculture (3% Δ+1%)
■ Construction (2% Δ-1%) ■ Other (5% Δ-6%)

FY2023 CAPLine Portfolio Analysis

Industries Served



- Construction (26%)
- Manufacturing (25%)
- Wholesale Trade (14%)
- Professional (10%)
- Retail Trade (8%)
- Other (5%)

Why the WCP?





WCP Program Overview

Basic Terms and Conditions

Maximum Loan Amount	\$5,000,000
Loan Guarantee	85% \$150,000 or less 75% Greater than \$150,000
Maximum Loan Maturity	60 Months
Processing	Non-delegated Authority Preferred Lender Program (PLP)-WCP Delegated Authority
Interest Rates	\$50,000 or less: Cannot exceed base rate + 6.5% \$50,001 - \$250,000: Cannot exceed base rate + 6.0% \$250,001 - \$350,000: Cannot exceed base rate + 4.5% \$350,001 and greater: Cannot exceed base rate + 3.0%

Eligible Uses of Proceeds

- Working capital based on a Borrowing Base Certificate (Asset-Based WCP)
- Working capital to support a qualified project or transaction by funding the related direct costs prior to shipment (Transaction-Based WCP)
- Pre-shipment working capital to support based on qualified purchase orders (Transaction-Based WCP)
- Post-shipment Accounts Receivable financing (Transaction-Based WCP)
- Performance standby letters of credit related to short-term projects (Both)
- Temporary advance against a Federal or state tax rebate (Transaction-Based WCP)
- Debt refinancing (See WCP Program Guide for full details)

WCP SBA Guaranty Fee (Upfront Collected Fee)

- WCP Guaranty Fee will be published on [SBA's Website](#)
- FY24 WCP Guaranty Fee Structure:
 - Loans <\$1 million with loan term up to 60 months = 0% fee
- For WCP Loans >\$1 million, the following fee schedule applies if the Lender collects the total fee at the time of origination:
 - Loan term of ≤ 12 months = 0.25% of the guaranteed portion
 - Loan term of 13-24 months = 0.525% of the guaranteed portion
 - Loan term of 24-36 months = 0.80% of the guaranteed portion
 - Loan term of 36-48 months = 1.075% of the guaranteed portion
 - Loan term of 48-60 months = 1.35% of the guaranteed portion

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*Please note that the SBA guarantee fees are subject to change annually



Contact Your Export Finance Manager for Support

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U.S. Small Business
Administration

**SBA Office of
International Trade**



**Daniel Pische
Director of Trade Finance**





U.S. Small Business
Administration

ATLANTA

serving Alabama, Georgia, Kentucky, Tennessee
David.Leonard@sba.gov 404-730-2706

CALIFORNIA

IRVINE

Martin.Selander@sba.gov 949-660-8935

LOS ANGELES

Pellson.Lau@sba.gov 213-894-8267

SAN FRANCISCO

serving Northern California
Michael.Fazio@sba.gov 202-322-3352

CHARLOTTE

serving North Carolina, South Carolina,
Temporarily Vacant, Contact Atlanta or Miami

CHICAGO

serving Illinois, Wisconsin
Keith.Schlegel@sba.gov 312-353-4540

West Director

Gayle.Roenbaugh@sba.gov 312-886-0409

CLEVELAND

East Director

Patrick.Hayes@sba.gov 216-522-4731

DENVER

serving Colorado, Montana, Utah, Wyoming
Patricia.Brewer@sba.gov 202-798-7521

Network of Export Finance Managers

DETROIT

serving Michigan, Indiana, Northern Ohio
Romualdo.Ancog@sba.gov 313-226-3038

MIAMI

serving Florida, Puerto Rico, Virgin Islands
Sandro.Murtas@sba.gov 727-464-7177

HARTFORD

serving Connecticut, Maine, Massachusetts, New Hampshire,
Rhode Island, Vermont
Joseph.Raycraft@sba.gov 860-241-5573

HOUSTON

serving Texas, Oklahoma, New Mexico
Jeremy.Foreman@sba.gov 202-868-0461

MINNEAPOLIS

serving Minnesota, North Dakota, South Dakota
Carlos.Sosa@sba.gov 612-348-1642

NEW ORLEANS

serving Louisiana, Arkansas, Mississippi
Reginald.Harley@sba.gov 202-906-0217

NEW YORK CITY

serving New York, New Jersey
Abigail.Martinez@sba.gov 202-631-0992

PITTSBURGH

serving Pennsylvania, Delaware, south & central Ohio
Edward.Schick@sba.gov 202-941-1191

PORTLAND

serving Oregon, SW Washington, southern Idaho, northern
Nevada, Hawaii & Guam
James.Newton@sba.gov 503.326.5498

SEATTLE

serving Washington, Alaska, northern Idaho
John.Brislin@sba.gov 202-798-7531

ST. LOUIS

serving Iowa, Kansas, Missouri, Nebraska
Temporarily Vacant. Contact, New Orleans

Washington, DC

serving Virginia, Maryland, District of Columbia, West Virginia
Temporarily Vacant, Contact Pittsburgh