

## EQUITY INJECTION REQUIREMENTS FROM SOP 50 10 6

### MINIMUM REQUIRED EQUITY INJECTION FOR START UPS

Start-Up Businesses – At a minimum, SBA considers an equity injection (Applicant contribution) of at least 10 percent of the total project costs (all costs required to become operational, regardless of the source of funds) to be necessary for a Start-Up Business to operate on a sound financial basis. SBA considers a business to be a “start-up” for the purpose of determining equity injection requirements if it has been in operation (i.e., generating revenue from intended operations) for 1 year or less.

### ELIGIBLE SOURCES OF EQUITY

- a. Cash that is **not borrowed**.
- b. Cash that is borrowed through a **personal loan to the business owner with repayment demonstrated to come from a source other than the cash flow of the business** (the salary paid to the owner by the business does not qualify). If the personal loan is made by the participating Lender, the Lender must submit the application through non-delegated 7(a) processing.
- c. **Assets other than Cash** – Lenders must carefully evaluate the value of assets other than cash that are injected by owners. An appraisal or other valuation by an independent third party is required if the valuation of the fixed assets is greater than the Net Book Value. A valuation of the fixed assets provided as part of a business valuation will not meet these requirements.
- d. Standby debt – Only **debt that is on full standby (no payments of principal or interest for the term of the SBA-guaranteed loan)** may be considered as equity for SBA’s purposes. A copy of the note must be attached to the standby agreement.

### INELIGIBLE SOURCES OF EQUITY

- a. Value or cost of education.
- b. Funds that are borrowed and do not meet the exception noted in paragraph d above.

### DOCUMENTING EQUITY INJECTION

- a. With the exception of SBA Express and Export Express loans, **Lenders must verify the injection prior to disbursing any loan proceeds** and must maintain evidence of such verification in their loan files. Lenders are expected to use reasonable and prudent efforts to verify that equity is injected and used as intended, and **failure to do so may warrant a repair or partial/full denial**. Lenders must submit with each purchase request on a loan for which the loan authorization required an equity injection, documentation to show that they verified the equity injection. Verifying a cash injection requires the following documentation.
  - i. A copy of a check or wire transfer along with evidence that the check or wire was processed showing the funds were moved into the Borrower’s account or escrow.

- ii. A copy of the two most recent statements from the account where the funds are being withdrawn (showing that funds were available).
  - iii. A statement from the Borrower's account documenting the funds were deposited or a copy of a settlement statement or HUD-1 showing the use of the cash.
- b. A promissory note, "gift letter," or financial statement is **not sufficient evidence of cash injection without corroborating evidence consistent with subparagraph a.i. through a.iii. immediately above.**
- c. If the equity injection will come from any form of borrowed funds, such as a HELOC or seller financing in excess of the minimum Borrower injection requirements outlined above, **Lender must address the proposed repayment terms as well as any Standby or Subordination terms** that will be in place.
- d. For SBA Express and Export Express loans, if a Lender requires an equity injection and, as part of its standard processes for similarly-sized, non-SBA guaranteed commercial loans verifies the equity injection, it must do so for its SBA Express and Export Express loans.