NGCOA

WHITE PAPER

National Golf Course Owners Association
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WHAT YOU SHOULD KNOW ABOUT THE SMALL BUSINESS ADMINISTRATION'S DISASTER LOAN PROGRAM

The SBA offers two types of loans within its Disaster Loan Program to assist an owner with financial assistance to restore their business to its prior condition: Business Physical Disaster Loans (BPDL) and Economic Injury Disaster Loans (EIDL). These loan programs become available only for areas that have been designated Federal Disaster Areas by the President of the United States.

As with other SBA loan types, to be approved for an SBA disaster loan, you need to meet certain qualifications. In general, your credit history needs to be considered acceptable by the SBA, you need to be able to repay all your loans with a cushion, and you need to provide any available collateral.

THE BASIC CREDIT QUALIFICATIONS FOR AN SBA DISASTER LOAN ARE AS FOLLOWS:

- **Credit score: 660+.** The SBA must deem your credit history as acceptable. While there are no specific requirements, credit scores typically need to be 660 or better. The SBA will review your credit reports, and you will need to have no recent bankruptcies, foreclosures, tax liens or problems with prior SBA and other federal obligations.
- **Repayment ability:** Calculated from your company's earnings, your ability to repay the loan must be sufficient to cover all of your loans and other obligations with a cushion. A debt service coverage ratio (DSCR) on your business of 1.25 times or better is generally considered sufficient. The SBA will review your financial information and credit reports using an approach similar to other SBA loan programs and also has an expedited RAPID program for smaller loan amounts.
- **Time in business:** Your amount of time in business is typically not a factor when it comes to qualifying for a disaster loan from the SBA.
- **Equity or down payment:** Requirements apply insomuch as the SBA will consider it when determining how much collateral to require. Typically, the SBA will be looking for you to pledge enough business or personal collateral to cover the full loan amount. Its preference is for you to have a loan-to-value (LTV) ratio of 100 percent or less.
- **BPDL collateral:** Collateral is always required for loans above $25,000. In the event you do not have sufficient collateral, the SBA will not decline the loan for this reason alone, but it will ask you to pledge any available collateral.
- **EIDL collateral:** Real estate collateral is required for loans above $25,000, if and when available. Business Physical Disaster Loans (BPDL)

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BUSINESS PHYSICAL DISASTER LOANS (BPDL)

BPDLs provide qualified businesses of any size and most private nonprofit organizations with funds up to $2 million to help replace damaged business property or restore it to its pre-disaster condition. Eligible business properties include:

- Real estate
- Leasehold improvements
- Inventory
- Machinery and equipment
- Supplies
- Other business assets

BPDL funds are meant to address disaster losses that are uninsured (or not covered by other types of assistance) and/or to help you relocate. The SBA will consider whether your relocation is voluntary or involuntary when deciding how much to lend to you. You can't use loan proceeds for expansions or to make upgrades unless required by current building codes or the SBA grants an exception to mitigate future damage — up to 20 percent above the repair cost.

The SBA may be able to refinance your existing real estate loans if you are unable to obtain credit elsewhere, intend to repair the damage and have suffered from substantial uncompensated disaster damage. Substantial uncompensated disaster damage is defined as at least 40 percent of the property value or 50 percent of the structure value.

ECONOMIC INJURY DISASTER LOANS (EIDL)

BEIDLs provide small businesses, small agricultural cooperatives and most private nonprofit organizations with funds up to $2 million to alleviate substantial economic injury from qualified disasters, even if there was no physical damage. Your business experienced substantial economic injury if you can't afford your normal operating expenses or meet your typical obligations because of the disaster. Examples of funding gaps caused by substantial economic injury to your business include:

- Reduced working capital: Reductions in working capital could happen for a number of reasons, including your customers not paying their accounts receivable (A/R) within agreed-upon terms or if you are unable to sell your inventory as quickly as normal. Both of these scenarios would result in increased days on hand — slower A/R and inventory turnover — resulting in reduced working capital.
- Increased expenses: A disaster could easily result in your company needing to pay extraordinary expenses, meaning expenses outside what you normally spend. Besides damage, increased expenses could also be caused by increases in labor if it is in short supply like contractors may be spending their time repairing damage and thereby unavailable to provide normal services to you or supply costs, amongst other items.

The EIDL program is available if the SBA determines you can't obtain credit elsewhere without undue hardship. Your loan amount is based on your company's financial needs and your actual economic injury, either already incurred or projected, regardless of whether you experienced physical damage. Businesses can receive funding under both the BPDL and EIDL disaster loan programs under the same application, with the maximum combined loan amount capped at $2 million.

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Final thoughts on SBA loans

While golf businesses can apply for SBA loans, they may not be the best for you. While Disaster Loans rates are capped at 4%, SBA loans are provided through commercial lenders and the standard SBA loan rates may not be as competitive as you may find with your local financial institution. Lenders and loan programs have unique eligibility requirements. In general, eligibility is based on what a business does to receive its income, the character of its ownership, and where the business operates. Normally, businesses must meet size standards, be able to repay, and have a sound business purpose. Even those with bad credit may qualify for startup funding. The lender will provide you with a full list of eligibility requirements for your loan. Most golf courses meet the small business threshold of an annual income of less than $15 million.

If you are considering an SBA loan and need assistance, contact Ronnie Miles, NGCOA's Director of Advocacy, at rmiles@ngcoa.org.