

A New Path to Working Capital: Why Small Businesses Should Explore the SBA's 7(a) WCP

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While many small businesses—and the lenders who support them—are familiar with the U.S. Small Business Administration's (SBA) 7(a) Loan Program, fewer are aware of a newer initiative under the same umbrella: the 7(a) Working Capital Pilot Program (the WCP). The WCP is a specialized three-year program running through July 2027 that offers monitored lines of credit with a flexible guaranty-fee structure.

Recently, the SBA has emphasized the WCP's benefits for two key industries: home builders and small business manufacturers. More broadly, the program reflects the SBA's continued expansion into areas traditionally served by middle-market lenders, particularly asset-based lending. Under the WCP, advance rates may be tied to purchase orders, contracts or accounts receivable (foreign and domestic), inventory, transaction-specific lending and export finance—mirroring structures commonly found in commercial asset-based credit facilities.

Key Features of the SBA 7(a) Working Capital Pilot Program

A. Annual Fee Structure: The WCP uses an annual, short-term, guaranty-fee model that allows borrowers to pay only for the period during which the line is needed. Borrowers may pay a proportional fee for each year the facility remains in use.

B. Loan Limits and Terms:

- The maximum loan size is \$5,000,000, significantly higher than traditional SBA Express lines of credit under the 7(a) program.
- Loans up to \$150,000 receive an 85% SBA guaranty; loans above \$150,000 receive a 75% guaranty. Both levels exceed the guaranty percentages for standard 7(a) lines of credit.
- The maximum loan term is 60 months. Any standby letters of credit supported by a WCP facility must expire before both the stated maturity and the program's maximum authorized term.

C. Eligible Uses of Proceeds:

- Working capital supported by a Borrowing Base Certificate.
- Project- or transaction-specific working capital to fund costs prior to contract completion or product shipment.
- Working capital for government contracts.
- Post-shipment accounts receivable financing under a transaction-based facility.
- Support for performance-based letters of credit tied to short-term projects (asset-based or transaction-based).
- Support for financial standby letters of credit (asset-based).
- Debt refinancing, including same-institution SBA Express line refinancing on a delegated basis that reduces a lender's existing exposure.

Eligibility Requirements

In addition to standard 7(a) requirements, the WCP includes several program-specific criteria:

A. Business Eligibility: Applicants must have at least 12 months of operating history prior to application. For acquisition financing, the requirement applies to the buyer. Borrowers must also provide acceptable financial statements and, as applicable, accounts receivable/payable agings and inventory reports.

B. Financial Reporting: Lenders must obtain updated borrower financial statements annually and conduct a full credit analysis as part of each

renewal. Annual renewal is required for borrowers who wish to take advantage of proportional guaranty-fee payments.

C. Lender Requirements: Lenders offering WCP loans must demonstrate internal procedures consistent with industry standards for monitored, asset-based credit facilities.

Importantly, lenders with delegated authority for traditional 7(a) loans are not automatically authorized to process, close or service WCP loans.

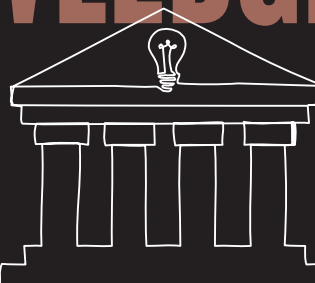
The SBA has created a separate delegated authority category, the Preferred Lender Program (PLP)-WCP. Lenders interested in offering WCP products must apply for PLP-WCP status, and small businesses seeking access to the program should confirm that their lender holds this designation.

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