The Working Capital Pilot Program

Bringing small business lending into the future

While SBA-backed assistance has long been a linchpin of small business lending, a recently established pilot program is poised to make this vital economic function more efficient, versatile and beneficial to those who use it.

To truly understand that small businesses are small in name only, representing a massive volume of the trade conducted in the United States, one need only look at the statistics. First, 99.9% of the nation's companies fell under the small business designation in 2023 and produced 43.5% of the country's gross domestic product. Roughly 61.7 million Americans earn their living by working for a small business, and these firms helped to create 17.3 million new jobs between 1995 and 2021. The vast impact that these organizations have on the nation's economy can't be overstated.

That's why the United States government has long made these organizations such a vital economic priority, investing in their continued growth and success through loans guaranteed by the Small Business Administration (SBA). Often, by not requiring some of the more stringent creditworthiness criteria to which many traditional lenders adhere, these loans have provided support to small businesses that would not otherwise have been able to secure needed funding.

For generations, the "gold standard" SBA resources have included, among others, the 7(a) loan, for general purposes, and the 504 loan, for investments in business-related real estate or large-scale equipment. But in August of 2024, the former program was expanded to include a pilot initiative known as the 7(a) Working Capital Pilot Program, or WCP. Set to expire in 2027, the WCP provides small businesses with accessible lines of revolving or non-revolving credit.

WCP was instituted to "create a more flexible loan product to meet the market needs of our nation's growth-oriented small businesses and give more options to SBA's network of lenders when structuring a line of credit," the head of the SBA said upon the program's launch.

But as with any new government program, those who might benefit from it likely have questions. What does the introduction of the WCP really mean for America's many small businesses? What opportunities does it provide that previous loan types did not? And what should business owners know before taking the WCP plunge? Here, we offer a road map to the particulars — and exciting possibilities — presented by this program.

What the WCP offers small business owners

One of the SBA's closest precedents for the WCP is the Export Working Capital Program, or EWPC, a type of 7(a) loan created specifically for businesses that earn revenue from export sales but need upfront funds on hand to help make those sales happen. Like the WCP, the EWPC allowed competitively priced capital to be accessed sooner in the revenue timeline than traditional lenders might have allowed.

While this, in theory, was a versatile and useful form of assistance for small exporters, in reality, the program failed to align with the ways that SBA lenders tend to operate. Thomas Huffman, Executive Vice President at Wintrust Bank, explains that while access to credit did ease operations for many small companies, renewing that credit each year made for needless hassles — and worse, an upward tick in fees with each renewal.

"The borrower might get charged a quarter-point a year from the SBA for providing that guaranty," Huffman says, "but if you went to renew it, you had to pay a higher fee, sometimes nearly three points. The SBA would say that you just have to issue a new line of credit every year. Well, that isn't really how banks work. They don't want to re-document every year, and the customer doesn't want to provide all those forms again."

Another predecessor to the WCP is the SBA Express Line of Credit, which also provides quick and accessible credit to small businesses who need it. But, Huffman explains, the amount of revolving credit that lenders are able to provide is often insufficient for business needs.

"Until recently," says Huffman, "that maximum of that line of credit was $350,000, and that was fine for a company that was only doing, say, a million in sales. But there was no way to transition a customer as they grew — now they're going up to three million in sales, now they're going to five million in sales, and so on. That whole transition wasn't seamless."

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Thomas Huffman, Executive Vice President, Wintrust Bank

The introduction of the WCP eases some of these difficulties — along with a few other common business obstacles. "This program allows the bank to continue to grow with that company," says Huffman, rather than limiting funding to their initial loan amount.

It also lets organizations pay off previous SBA Express lines of credit that were no longer suitable for their needs. And as with any line of credit, borrowers access only the funds they need at a given time, thus paying interest on the amount they use rather than on the entirety of the amount borrowed, as with a standard loan. "A company might only borrow 50 or 60 percent of a million-dollar line of credit, and they don't want to pay the fee on the full million. That becomes a very expensive proposition," Huffman says.

The WCP also makes it possible to fulfill especially large one-time orders, which may put a damper on cash flow, and to mitigate often-extensive payment periods associated with fulfilling international orders. "Business owners want to borrow money in March, then sell their product in July, then pay the credit line down in September — and this program makes that far more possible," Huffman says.

Finally, for businesses that may see seasonal slumps and surges, a line of credit can help shore up operations during slow periods and provide expansion funding during upswings, all without eating into vital-for-survival cash reserves.

To summarize, Huffman identifies the WCP's target business owner: "It's ideal for that young business that's growing, but that's maybe got more balance sheet leverage than a traditional bank might want them to have. Or it's that business that has to carry a lot of inventory relative to their balance sheet. Those are two types of business that fall squarely into the target market for this program."

THE WCP AT A GLANCE

- **Total amount of credit accessible to businesses:** $5 million
- **Repayment period:** Up to five years
- **Necessary age of business before accessing WCP:** One year of revenue generation
- **Types of WCP credit lines:** Asset-based and transaction-based
- **Interest rate:** Can be fixed or variable, and is based on loan amounts
- **Application requirements:** As with other SBA loans, businesses will need to provide financial statements, accounts receivable reports and other supporting documents.
- **Size requirements:** Obviously, a business must be small to benefit from the Small Business Administration's programs, so business owners should ensure that their company falls within the SBA's parameters

How the WCP works

To understand the finer points of this line of credit program — and how best to make use of them — business owners must first familiarize themselves with the two types of credit that the WCP offers, both of which suit different business scenarios.

Transaction-based lines of credit

This option, which can be revolving or non-revolving, is ideal for small businesses facing a particular expense or a specific upcoming project that may require extra cash to cover or execute. Huffman offers an example: "Say we have a company that does IT work," he says. "They've done IT work for a department within the government, and let's say their sales are $10 million a year. Now, suddenly, they get a contract from the government that's $20 million over the next three years, and so this company's sales are going to double overnight. Well, as the lender, we're not that comfortable providing another $4 million in credit to this company without some enhancement. So, we keep their original line of credit in place, and we enhance their financing by giving them a transactional line based on this new contract." In other words, an unexpected expense or demand on the business creates the right circumstances for a transaction-based line of credit, providing more flexibility for the business owner and less risk for the lender.

LOAN AMOUNT	INTEREST RATE
$50,000 or less	Cannot exceed base rate + 6.5%
$50,001 - $250,000	Cannot exceed base rate + 6.0%
$250,001 - $350,00	Cannot exceed base rate + 4.5%
$350,001 and greater	Cannot exceed base rate + 3.0%

Asset-based lines of credit

In this scenario, the line of credit is always revolving — generally with a one-year commitment and the option of an annual renewal — and is secured based on an accounting of the business's current accounts receivable and inventory status, against which the business is able to borrow. The terms of the line of credit are based on the monthly Borrowing Base Certificate established by the lender at the time of approval.

Another crucial aspect of the WCP is its innovative fee structure, which departs greatly from previous SBA loan products. By levying an annual guaranty fee, the lender in effect charges a fee that is proportional to the length of time the line of credit is offered. This approach buys business owners a great deal of customization and flexibility.

Huffman explains what this may look like in practical terms. "The fee structure is basically the line amount times 75%," he says, "which is a guaranty percentage, times this fee. So, if you whittle it all down, it's effectively less than 20 basis points, or 0.2% annually. That's not a huge fee to provide lower-cost capital."

Choosing the right financial partner

Thomas Huffman
Executive Vice President at Wintrust

Most banks across the country offer traditional loans to small businesses, with virtually all of them providing loans of up to $1 million and roughly half granting loans of up to $3 million. However, for the vast majority of American banks, SBA-guaranteed small business loans constitute only a small portion of the institution's lending portfolio, and many banks — roughly one in three large banks and one in five small — also sell their small business loans on the secondary market. In other words, despite being both qualified and certified to provide loans and credit under the 7(a), 504, WCP and other SBA lending programs, many banks don't make this endeavor a business priority.

When looking at a potential SBA or WCP lender, Huffman advises starting with the basics. "First," he says, "are they signed up to do this program? Then ask them if they have done any of these lines of credit." These are the most essential questions, says Huffman, but he cautions that a third consideration is also vital. "About half of all 7(a) loans are sold into the secondary market, and if a bank tends to do so, they may not be set up to participate in the WCP program. Or they may say they do, but they don't do it that well. Frankly, it's not always that easy to know if your bank is going to sell its loans on the secondary market. You can ask them, and some of them will tell you — some of them may not. But the smaller the bank, the higher the probability that the answer is going to be yes."

That's simply not the case with Wintrust, Huffman explains. "We do not sell our loans on the secondary market. With us, we're participating in the SBA loan programs to attract and retain customers long-term. We're asking ourselves how we can help our customers succeed and how we can attract future prospects. At Wintrust, the whole thought behind this is to generate relationships."

It's clear that the WCP is a valuable resource for small business owners — and a far more streamlined and simply executed product for SBA-certified lenders. But will the WCP stick around after its pilot program comes to an end in two years? Huffman says it's all about adoption levels, operational efficiency and appropriate levels of risk: If small businesses make use of this program and the system operates as it should, it's likely that the program will continue past its current 2027 expiration date. Only time will tell.

However, while the program's future may not be entirely certain, one thing is already evident: For those who wish to take advantage of the WCP for their small business, Wintrust is a sound resource and trusted leader within the SBA space — one that places a premium on performing this vital economic service for the small businesses within its purview.