



SBA Information Notice

TO: All SBA Employees and Community Advantage Lenders

CONTROL NO.: 5000-180014

SUBJECT: Extension of and Changes to the Community Advantage Pilot Loan Program

EFFECTIVE: 9-26-2018

This notice announces the extension of and changes to the Community Advantage (CA) Pilot Program that were published in the Federal Register on September 12, 2018 ([83 FR 46237](#)), and effective as of October 1, 2018. Those changes have been incorporated into an updated Community Advantage Participant Guide, along with additional updates to conform to current SBA Loan Program Requirements. The updated CA Participant Guide can be found on [SBA's website](#).

The key changes to the CA Pilot Loan Program are as follows:

- 1) Moratorium on accepting new CA Lender applications;
- 2) Extension of the pilot program to September 30, 2022;
- 3) Expanded definition of underserved markets to include Opportunity Zones and Rural Areas;
- 4) Modified requirements for refinancing non-SBA guaranteed, same-institution debt;
- 5) Modified requirements CA Lenders must meet before they may process loans under delegated authority;
- 6) Modified the method of submission for CA loans with a credit score below 140;
- 7) Increased Loan Loss Reserve requirement for CA loans sold in the secondary market;
- 8) Limitation on the total fees an applicant may be charged by a CA Lender for assistance in obtaining a CA loan;
- 9) Limitations on the compensation Lender Service Providers (LSPs) and other Agents may receive and the fees Agents may charge applicants in connection with obtaining a CA loan; and
- 10) Revised designated SBA Official for certain decisions.

Except as described in the above Federal Register Notice, the SBA Loan Program Requirements applicable to 7(a) loans also apply to CA loans (see, for example, SBA regulations at 13 CFR Part 120 and the current version of SOP 50 10).

Extension of and Changes to the CA Pilot Program

1) Moratorium on new CA Lenders

SBA has placed a moratorium on acceptance of new CA Lender applications due to the increased risk of CA loans as compared to other 7(a) loans, the intensive oversight

needed for CA Lenders because they have no other Federal regulator, and the fact that the CA Pilot Program already includes a sufficient number of geographically dispersed CA Lenders. Effective October 1, 2018, SBA will no longer accept CA Lender Applications (SBA Form 2301). Complete CA Lender Applications that are received before October 1, 2018 will be fully evaluated. Any CA Lender Applications that have been submitted to SBA but are incomplete as of October 1, 2018 will not be processed.

2) Extension of the Pilot

The CA Pilot was previously set to expire on March 31, 2020. SBA has extended the CA Pilot until September 30, 2022.

3) Definition of Underserved Markets

SBA is revising the definition of underserved markets to include Opportunity Zones and Rural Areas. An Opportunity Zone is an economically distressed community that has been nominated by the state and certified by the Secretary of the U.S. Treasury as a community in which new investments, under certain conditions, may be eligible for preferential tax treatment. More information and a list of Opportunity Zones for all states are available on the [U.S. Department of the Treasury's website](#).

A Rural Area, for purposes of the CA Pilot Program, is a county that the U.S. Census Bureau has defined as "Mostly Rural" or "Completely Rural" in its most recent decennial census report. More information on Rural Areas, including the 2010 County Classification Lookup Table, is available on [SBA's website](#) and on the [Welcome Screen for the Capital Access Financial System](#) ("CAFS"). In order to accomplish this change, SBA is waiving the definition of "Rural Area" in 13 CFR 120.10, "Definitions," for purposes of the CA Pilot Program.

4) Refinancing of Non-SBA Guaranteed, Same-Institution Debt

SBA is modifying the requirements for refinancing non-SBA guaranteed, same-institution debt to require a transcript showing the due dates and when payments were received for the most recent 12 month period, rather than six months. If there are any late payments in the most recent 12 month period, the debt may not be refinanced with a CA loan. In addition, debts on the CA Lender's books for less than 12 months may not be refinanced with a CA loan.

5) Delegated Authority

SBA is revising the eligibility requirements applicable to CA Lenders applying for delegated authority by extending the waiting period from six months to 12 months. SBA is also increasing from five to seven the number of CA loans that must be initially disbursed before a CA Lender may receive approval to process applications under delegated authority.

6) Minimum Acceptable Credit Score

SBA is modifying the method of submission for CA loans with a credit score below 140. As further described in the CA Participant Guide, all CA loan applications receive a credit score at the time of submission of the application for guaranty to SBA. A credit

score at or above the minimum acceptable credit score (140) satisfies the need to consider several required underwriting criteria, including part of the analysis to determine reasonable assurance of repayment from cash flow. If a CA Lender believes there are mitigating issues to justify making a CA loan despite an unacceptable credit score, the Lender may contact the Loan Guaranty Processing Center with a full credit write-up for consideration. Applications with credit scores below the minimum acceptable credit score (140) may not be processed under a CA Lender's delegated authority.

7) Secondary Market Reserve Requirement

SBA has determined that the current reserve requirements are insufficient with respect to CA loans sold in the secondary market; therefore, SBA is increasing the required reserve for such loans from three percent to five percent. For each CA loan approved on or after October 1, 2018, a reserve of five percent of the outstanding amount of the guaranteed portion must be deposited in the Loan Loss Reserve Account (LLRA) if the loan is sold in the secondary market. (For each CA loan approved prior to October 1, 2018, a reserve of three percent of the outstanding amount of the guaranteed portion must be deposited in the LLRA if the loan is sold in the secondary market.) All other requirements regarding the creation and maintenance of the LLRA stated in the February 18, 2011 notice and all subsequent notices remain unchanged, including the five percent reserve requirement on the unguaranteed portion of all CA loans.

8) Fees a CA Lender May Charge

For purposes of the CA Pilot Program, SBA is modifying 13 CFR 120.221(a) to limit the total fees an applicant may be charged by a CA Lender for assistance in obtaining a CA loan. Regardless of what the fee is called (e.g., a packaging fee, application fee, etc.), the CA Lender is permitted to collect a fee from the applicant that is no more than \$2,500. With the exception of necessary out-of-pocket costs such as filing or recording fees permitted in §120.221(c), this is the only fee that a CA Lender may collect directly or indirectly from an applicant for assistance with obtaining a CA loan. In addition, the CA Lender may not split a loan into two loans for the purpose of charging an additional fee to an applicant.

9) Lender Service Providers and Other Agents

In order to prevent any conflicts of interest from arising and to ensure that applicants are not improperly charged for services provided to the CA Lender, SBA is modifying 13 CFR 103.4(g) to eliminate the exception to the "two master prohibition." For purposes of the CA Pilot Program, an Agent, including an LSP, may not provide services to both the applicant and the CA Lender and be compensated by both parties in connection with the same loan application.

SBA is also modifying 13 CFR 103.5 to limit the total fees that an Agent or Agents may charge an applicant in connection with obtaining a CA loan. For purposes of the CA Pilot Program, an Agent or Agents may charge a maximum of up to 2.5% of the CA loan amount, or \$7,000, whichever is less. If an Agent provides more than one service to an applicant (e.g., packaging and referral services), only one fee is permitted for all services performed by the Agent. Further, if more than one Agent (e.g., a Packager and a Referral

Agent) provides assistance to the applicant in obtaining the CA loan, the amount of all fees that the applicant is required to pay must be combined to meet the maximum allowable fee set by SBA. (However, a fee charged to the applicant by the CA Lender in accordance with modified 13 CFR 120.221(a), as described above, will not be counted toward the maximum allowable fee for an Agent or Agents.) These maximum limits apply regardless of whether the Agent's fee is based on a percentage of the loan amount or on an hourly basis.

SBA is also modifying the last sentence in 13 CFR 103.5(c), for purposes of the CA Pilot Program, to remove the word "directly." This change clarifies that compensation paid by the CA Lender to a Lender Service Provider may not be charged to the applicant, either directly or indirectly.

10) Designated SBA Official for Certain Decisions

SBA has revised the CA Participant Guide to provide that the Director of the Office of Credit Risk Management will consult with the Director of the Office of Financial Assistance for the following decisions:

- Eligibility of a CA Lender for delegated authority;
- Renewal of a CA Lender's delegated authority;
- Approval of a CA Lender to sell CA loans on the secondary market; and
- Temporary suspension or revocation of a CA Lender's secondary market authority under 13 CFR 120.660.

Additional Updates to the CA Participant Guide to Conform to Previous Changes in Applicable Loan Program Requirements

a) Credit Memo

SBA has revised the credit memo requirements for CA loans to incorporate changes in the 7(a) Small Loan credit underwriting requirements set forth in SOP 50 10 5(J), including:

- i. The reason(s) why credit is not available elsewhere on reasonable commercial terms from non-federal sources;
- ii. For loans financing a change of ownership, the credit memo must address the experience of new management and potential impact on the business;
- iii. Whether life insurance or other insurance will be required; and
- iv. Other specifics relating to the loan as applicable, including, for example, the terms of any seller financing and standby agreements; discussion of any liens, judgments, or pending litigation including divorce proceedings; and franchise, dealer, or similar agreements.

b) Minimum Equity Injection Requirements

SBA has also incorporated into the CA Participant Guide minimum equity injection requirements for certain loans set forth in SOP 50 10 5(J) and [SBA Policy Notice 5000-17057](#) (effective April 3, 2018). For loans to start-up businesses and loans financing a change of ownership resulting in a new owner ("complete change of ownership"), an

equity injection (applicant contribution) of at least 10 percent of the total project cost is required. 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 up to one year.

For loans financing a change of ownership between existing owners (“partner buyout”), a 10 percent equity injection is required unless:

- i. The remaining owner(s) certifies that he/she has been actively participating in the business operation and held the same ownership interest in the business for at least the past 24 months; and
- ii. The business balance sheets for the most recent completed fiscal year and current quarter reflect a debt-to-worth ratio of no greater than 9:1 prior to the change in ownership.

c) Verification of Applicant’s Financial Information

To verify the applicant’s financial information, CA Lenders must submit IRS Form 4506-T to the IRS. After submission, the IRS will respond by sending the applicant’s transcripts to the CA Lender. The CA Lender must then reconcile any differences and document the loan file. In SOP 50 10 5(J), SBA changed the timing of this requirement to provide that all reconciliations be completed prior to the first disbursement, regardless of whether the loan is delegated or non-delegated. The updated CA Participant Guide incorporates this change in timing.

d) Updated Guaranty Fees

SBA has updated guaranty fees listed in the CA Participant Guide to reflect the Fiscal Year 2019 fees, as published in [SBA Information Notice 5000-180010](#) on August 16, 2018.

Additional Information

For a detailed explanation of revisions 1 through 10, please refer to the Community Advantage Federal Register Notice published on September 12, 2018 ([83 FR 46237](#)). All of the revisions have been incorporated into the revised CA Participant Guide. Questions concerning these changes may be directed to Dan Upham, Acting Director, Office of Economic Opportunity at (202) 205-7001 or email him at daniel.upham@sba.gov.

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