



SBA Procedural Notice

TO: All SBA Employees and Certified Development Companies

CONTROL NO.: 5000- 808433

SUBJECT: Second Extension of Guidance on Underwriting 504 Loans during the COVID-19 Pandemic

EFFECTIVE: March 31, 2021

On July 28, 2020, SBA issued SBA Procedural Notice 5000-20040 to provide guidance on the additional credit analysis that a CDC should conduct and include in its credit memorandum during the COVID-19 emergency in order to evidence that the CDC has performed prudent underwriting and provided an adequate financial analysis of the Applicant's ability to repay the loan. The guidance provided in SBA Procedural Notice 5000-20040 was in effect through December 31, 2020 and was extended through March 31, 2021 by Procedural Notice 5000-20070. Given the continuing adverse economic effects of the COVID-19 emergency, the purpose of this Notice is to extend again the underwriting guidance through June 30, 2021, as described and updated below.

SOP 50 10 6, Part 2, Section C, Ch 1, paragraph E. states that CDCs must analyze each application in a commercially reasonable manner, consistent with prudent lending standards. SBA recognizes that prudent underwriting during the COVID-19 emergency should include taking into consideration the current and future effects the emergency has on business operations, cash flow and repayment ability of 504 applicants.

This Notice provides the additional analysis that SBA recommends that the CDC should conduct and include in its credit memorandum as a best practice during the COVID-19 emergency in order to evidence that the CDC has performed prudent underwriting and has provided an adequate financial analysis of the Applicant's ability to repay the loan. SLPC may request additional information to facilitate the proper loan decision if sufficient information is not provided when the application is submitted. The guidance provided below is in effect through June 30, 2021.

For 504 loans, the cash flow of the Applicant is the primary source of repayment. If the CDC's financial analysis demonstrates that the Applicant lacks reasonable assurance of repayment in a timely manner from the cash flow of the business, the loan request must be declined, regardless of the collateral available. The CDC may consider the payments that SBA will make under

Section 1112 of the Coronavirus Aid, Relief, and Economic Security Act on a new 504 loan (adjusted to 3 months of payments due to insufficiency of funds) as part of the CDC's comprehensive review to determine the ability of the applicant to repay over the entire period of maturity of the loan.

During the COVID-19 emergency, the CDC's financial analysis of the Applicant and credit memorandum should consider the following:

- 1) Does the eligible small business concern (SBC) have any other loan(s) (First Draw Paycheck Protection Program (PPP) Loan, Second Draw PPP Loan, EIDL, or other stimulus financing, etc.) that have repayment or contingent repayment requirements that could impact cash flow? If yes:
 - a. What is the loan's status (e.g., current, on deferment, past due or, for PPP loans forgiveness application in process, etc.)?
 - b. Include in the cashflow analysis the impact of any PPP loan (i) during and after any payment deferment period, and (ii) considering whether the loan is fully, partially or not forgiven.
 - c. Include in the cashflow analysis the impact of any EIDL or other stimulus loan during and after any deferment.
 - d. Confirm the appropriate lien position for the new 504 loan.
- 2) Based on the sector and industry in which the SBC operates, how is the industry and the business impacted by the COVID-19 emergency? Have SBC's business revenue and staffing levels have been impacted, and has the applicant provided a plan to return to normal operations? Did the SBC obtain a Second Draw PPP Loan (which requires a 25% reduction in gross receipts), and if so, is this reduction reflected on the SBC's financial statements?
- 3) If the SBC is in a state with a stay-at-home order, when is the order scheduled to be lifted, and how has the order affected the SBC's ability to operate (social distancing, traffic flow, trade restrictions, inventory and equipment needs)?
- 4) How concentrated or diversified is the customer base? How reliant is the SBC on sales to or receivables from customers in those concentrations?
- 5) How concentrated or diversified is the SBC's vendor/supplier pool, and which, if any vendors/suppliers have decreased ability to support the business?
- 6) If using historical financial data, an explanation of why the data is a reliable indicator of the Applicant's ability to meet all business obligations, including the proposed loan's debt payments, in light of the current economic impact of COVID-19, or provide pro forma monthly cash flow statements for up to 2 years (based on phased reopening) with a break-even analysis.
- 7) Discussion of the impact current market conditions have on collateral adequacy.

Additional Considerations

- Feasibility and Other Studies – SBA encourages SBC’s to obtain or update these studies as necessary when appropriate. Size and scope of the Project would be the driving factor.
- Appraisal – SBA recognizes that the impact of COVID-19 on appraisals can differ by region and industry. SLPC will use its discretion to advise if a submitted appraisal is acceptable, making reasonable decisions in favor of the SBC when appropriate.
- Adverse Change after Loan Approval and Prior to Debenture Sale – If the CDC determines, after loan approval and prior to funding, that the COVID-19 emergency is the immediate and direct cause of a substantial adverse change in the Borrower’s ability to repay the Project financing, the “COVID-19 Substantial Adverse Change Remedy Certification and Agreement (Rev May 2020)” will continue to be available for the debenture sales in April, May, and June 2021. *See*, SBA Procedural Notice 5000-20098, Additional Guidance on 504 Certifications of No Adverse Change for April through June 2021 Debenture Sales during the COVID-19 Emergency and Reminder About Catch-up Plans.

Questions

Questions concerning this Notice may be directed to 504Questions@sba.gov.

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