



SBA Procedural Notice

TO: All SBA Employees and 7(a) Lenders

CONTROL NO.: 5000-808534

SUBJECT: Second Extension of Notice Providing Guidance on Underwriting 7(a) Loans during the COVID-19 Pandemic and Miscellaneous Related Matters

EFFECTIVE: April 14, 2021

On December 16, 2020, SBA issued [SBA Procedural Notice 5000-20071](#), Updated Guidance on Underwriting 7(a) Loans (including Community Advantage (CA) Pilot Program loans) during the COVID-19 Pandemic and Miscellaneous Related Matters, extending through March 31, 2021 the guidance on the additional credit analysis that a 7(a) Lender should conduct and include in its credit memorandum during the COVID-19 emergency previously provided in [SBA Procedural Notice 5000-20042](#), and extending through March 31, 2021 the guidance for certain miscellaneous matters related to 7(a) loans during the COVID-19 emergency as discussed in SBA Procedural Notice 5000-20042. Given the continuing adverse economic effects of the COVID-19 emergency, the purpose of this Notice is to extend and update the underwriting guidance and the guidance on certain miscellaneous related matters through June 30, 2021 and provide additional updates as described below as a result of the enactment of the Economic Aid Act on December 27, 2020.

A. Updated Underwriting Criteria for New 7(a) Loans Made During the COVID-19 Emergency:

Lenders must analyze each application in a commercially reasonable manner, consistent with prudent lending standards, and must demonstrate that the cash flow of the applicant is the primary source of repayment, not any expected recovery from the liquidation of collateral. Further, SOP 50 10 6, Part 1, Section A, Ch. 1 provides that the Lender's failure to underwrite, service, and liquidate SBA Loans in a commercially reasonable and prudent manner may result in the suspension or revocation of the authority of a Lender to conduct 7(a) program activities in accordance with the regulations under 13 CFR 120.1400-1600. The SOP also states that if the Lender'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 or outside sources of repayment. SBA recognizes that prudent underwriting during the COVID-19 emergency includes taking into consideration

the current and future effects the emergency has on business operations, cash flow and the repayment ability of 7(a) applicants.

The Lender's financial analysis of the applicant and credit memorandum must comply with the core requirements in Part 2, Section A of SOP 50 10 6, and must also comply with the detailed guidance provided for each delivery method in the applicable chapter of Part 2, Section B of the SOP. In addition, as a best practice during the COVID-19 emergency and with respect to applications received after the date of this Notice, SBA recommends that the Lender continue to consider the factors listed below to demonstrate that the Lender has performed prudent underwriting and provided an adequate financial analysis of the Applicant's ability to repay the loan.

For 7(a) loans processed on a non-delegated basis, the Loan Guaranty Processing Center (LGPC) may request additional information to facilitate the appropriate loan decision if sufficient information is not provided when the application is submitted.

These additional factors include, but are not limited to:

- 1) Does the applicant have any other loan(s), such as a First Draw or Second Draw Paycheck Protection Program (PPP) loan, Economic Injury Disaster Loan (EIDL), or other stimulus financing, 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 Section 1112 payments, EIDL or other stimulus financing, during and after any payment deferment period. With Section 1112 payments for a loan capped at \$9,000 per month, the Lender should consider the applicant's ability to timely pay any monthly amount exceeding \$9,000.
 - d. What will the lien position be on the new 7(a) loan?
- 2) Based on the sector and industry in which the applicant operates, how is the industry and the business impacted by the COVID-19 emergency? Have the applicant's business revenue and staffing levels been impacted, and has the applicant provided a plan to return to normal operations? Does the business have a contingency plan for revenues and operations for a minimum of the next 18 months (i.e., changes in products and/or service)? Did the applicant obtain a Second Draw PPP Loan (which requires a 25% reduction in gross receipts) and if so, is this reduction reflected on the applicant's financial statements?
- 3) How have any restrictions such as social distancing, travel, traffic flow, and trade limitations impacted the applicant's cost projections, clientele or access to supplies, inventory and/or equipment?

- 4) What are the other impacts to the business' operational cost(s) such as providing personal protective equipment (PPE), cleaning materials and essential costs to ensure the safety of customers and employees?
- 5) Is the historical financial information reliable based on current market conditions? Consider using month to month financial proforma with break-even analysis based on current market conditions (i.e., unemployment rates, decreased household disposable income).
- 6) How concentrated or diversified is the customer base? How reliant is the applicant on sales to or receivables from customers in those concentrations?
- 7) How concentrated or diversified is the applicant's vendor/supplier pool, and which, if any, vendors/suppliers have decreased ability to support the business?
- 8) Discussion of the impact current market conditions have on collateral adequacy.
- 9) For Change of Ownership loans, given current market conditions, does the applicant have adequate industry experience to operate the business (see *Business Valuation section below*)? Does the seller have any other loan(s) (PPP, EIDL, or other stimulus financing, etc.) that have repayment or contingent repayment requirements that could impact cash flow? If yes, the Lender must address the issues in 1. a.-d. above and follow any requirements applicable to the other loan program(s), as well as the additional procedural requirements provided in [SBA Procedural Notice 5000-20057](#) Paycheck Protection Program Loans and Changes of Ownership, effective October 2, 2020.
- 10) For any loans where 50% or more of the loan proceeds will be used for working capital, the Lender must specifically address in its credit memorandum why this level of working capital is necessary and appropriate for the subject business in light of the COVID-19 emergency.

B. SBA Express COVID-19 Update:

As described in [SBA Procedural Notice 5000-20084](#) Implementation of Modifications to the 7(a) Loan Program in the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, effective December 27, 2020 and through September 30, 2021, the maximum SBA guaranty percentage was temporarily increased to 75 percent for SBA Express loans of \$350,000 and less, and the temporary increase to the maximum SBA Express loan amount to \$1,000,000 was extended through September 30, 2021, by Section 326 of the Economic Aid Act.

Effective October 1, 2021, the maximum guaranty percentage for SBA Express loans of \$350,000 and less will automatically revert back to 50 percent, and the maximum SBA Express loan amount will permanently change to \$500,000. Loans approved prior to October 1, 2021, will retain the higher guaranty amount or loan amount, as applicable, for the life of the loan.

SOP 50 10 6, Part 2, Section B, Chapter 2, provides that to the maximum extent practicable, SBA Express Lenders may use their own forms, internal credit memoranda, notes, collateral documents, and servicing and liquidation documentation. In using their documents and

procedures, Lenders must continue to follow their established and proven internal procedures used for their similarly-sized, non-SBA guaranteed commercial loans. Therefore, in making an SBA Express Loan up to \$1,000,000, SBA expects the Lender to follow the same established and proven internal procedures that it uses for its similarly-sized, non-SBA guaranteed loans up to \$1,000,000. The SBA Office of Credit Risk Management may at any time review the Lender's commercial loan policy for compliance.

SBA Express Lenders are also reminded that SOP 50 10 6, Part 1, Ch. 1, Para. E.3.m.ii. provides that, once submitted to the LGPC, an application withdrawn by the Lender, screened-out, or declined by the LGPC may not be approved by any Lender under its SBA Express authority for a period of 12 months from the date of withdrawal, screen-out, or decline of the application. There are no exceptions to this prohibition for SBA Express loans over \$350,000.

C. Guidance Regarding Obtaining Required Documents to Close and Disburse 7(a) Loans:

SBA is aware that, due to the COVID-19 emergency, some 7(a) Lenders continue to experience delays in obtaining certain documents required for loan closings and disbursement such as appraisals, and business valuations. SBA is providing the following guidance regarding these items:

- 1) ***Verification of USCIS Status:*** As set forth in SOP 50 10 6, Part 2, Section A Ch. 3, Para. C, 7(a) Lenders must receive verification of the status of each alien required to submit USCIS documents prior to submission of the application to SBA or, for delegated processing, prior to submission of the request for loan number. The 7(a) Lender must document the findings in the loan file. If the 7(a) Lender is unable to obtain the required verification, the application cannot be submitted to SBA, or for delegated processing, the Lender cannot submit a request for a loan number.
- 2) ***Business Valuations:*** Valuations performed on businesses that have been negatively impacted by COVID-19 restrictions put in place for health and safety concerns of the public and employees may not have taken into consideration the impact of the COVID-19 emergency, which can result in an inaccurate or inflated valuation. All 7(a) Lenders should review the business valuation to ensure that it addresses the economic impact of the COVID-19 emergency, including such factors as whether the business provides essential or non-essential services, has been subject to closures or occupancy restrictions, and has incurred any additional debt as a result of the COVID-19 emergency. If the valuation does not satisfactorily address the impact of the COVID-19 emergency, the 7(a) Lender should consider requesting an updated business valuation.
- 3) ***Appraisals:*** All 7(a) Lenders must continue to follow the appraisal requirements for the delivery method under which the application will be processed in the applicable chapter of SOP 50 10 6, Part 2, Section B. 7(a) Lenders should consult with appraisers and other persons performing real estate inspections about acceptable alternative arrangements that comply with the SOP requirements if the appraiser or inspector cannot access the interior of a property due to concerns related to the COVID-19 emergency.

- 4) ***Electronic Closing Capability:*** The 7(a) Lender may use electronic signatures on SBA forms and other documents requiring signatures in connection with a 7(a) loan, provided that the Lender complies with the standards outlined in SOP 50 10 6, Appendix 10. Additionally, effective January 28, 2021, SBA extended the guidance to 7(a) Lenders for submitting documents with acceptable signatures where electronic signatures were not feasible in [SBA Procedural Notice 5000-20089](#), Extension of Previous Guidance on Acceptable Signatures for Applications and Loan Documents in the 7(a) and 504 Business Loan Programs Through April 30, 2021.

The above guidance is not intended to be a complete listing of criteria for underwriting in these unprecedented times. All 7(a) Lenders must continue to follow prudent lending practices and adhere to all parameters set by their primary regulator or, for SBA Supervised Lenders and Community Advantage Pilot Program Lenders, by SBA.

Questions

Questions concerning this Notice may be directed to the Lender Relations Specialist in the [local SBA Field Office](#).

Patrick Kelley
Associate Administrator
Office of Capital Access