

**Community Advantage Participant Guide**

**Version 7.0**

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COMMUNITY ADVANTAGE (CA) PARTICIPANT GUIDE

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# Chapter 1: Introduction

The Community Advantage (CA) Pilot Loan Program was introduced by the U.S. Small Business Administration (SBA) to meet the credit, management, and technical assistance needs of small businesses in underserved markets. CA provides mission-oriented lenders, primarily nonprofit financial intermediaries focused on economic development, access to 7(a) loan guaranties for loans of $350,000 or less. CA’s goals are to:

* + Increase access to credit for small businesses located in underserved markets;
  + Expand points of access to the SBA 7(a) loan program by allowing non- traditional, mission-oriented lenders to participate;
  + Provide Management and Technical Assistance (M&TA) to small businesses as needed; and
  + Manage portfolio risk.

CA is authorized through September 30, 2024, unless extended or made a permanent part of SBA’s financial assistance programs.

The purpose of this Community Advantage Participant Guide (Guide) is to provide information to mission-oriented lenders that participate, or wish to participate, in the CA Pilot Program. An organization that participates in the CA Pilot Program is designated as a Community Advantage Lender (CA Lender). A CA Lender is not permitted to make 7(a) loans other than those specifically authorized in the CA Pilot Program. Mission-oriented organizations (such as housing-focused CDFIs, community development corporations, faith–based institutions, etc.) that wish to provide new sources of capital to small businesses in their communities, but may not qualify or be eligible to participate as a CA Lender, may participate in the CA Pilot Program as a type of loan referral agent called a [Community Advantage Network Partner (CA Network Partner)](#CA_Network_Partner).

## What Types of Organizations Participate as CA Lenders?

Organizations that participate in the CA Pilot Program are limited to:

* + SBA-Authorized Certified Development Companies (CDCs);
  + SBA-Authorized Microloan Program Intermediaries;
  + SBA-Authorized Intermediary Lending Pilot (ILP) Program Intermediaries; and
  + Non-federally regulated Community Development Financial Institutions (CDFIs) certified by the U.S. Treasury Department.

See [Appendix A](#Appendix_A_CA_Orgs)for additional information regarding organizations participating as CA Lenders.

See [Appendix B](#Appendix_B_How_to_Apply) for information on how to apply to become a CA Lender and how SBA will evaluate your application. The CA Application with all applicable supporting documents should be emailed to D/OCRM or designee at [CAloans@sba.gov](mailto:DelegatedAuthority@sba.gov). OCRM notifies the lender and the SBA District Office of SBA’s final decision.

Lenders who already participate in SBA’s 7(a) Loan Program as evidenced by an executed Loan Guaranty Agreement (SBA Form 750) are not eligible to participate in the CA Pilot Program and should continue to use the 7(a) Loan Program in their current capacity.

## Special Lending Requirements for CA Lenders

Organizations approved to participate as CA Lenders are required to make at least 60% of the total number of their CA loans in underserved markets. Applications for CA loans must indicate which category(ies) of underserved market the loan meets, if applicable. Underserved markets are defined as:

* + Businesses located in [Low-to-Moderate Income](#LMI_definition) (LMI) communities; Empowerment Zones and Enterprise Communities (EZ/EC); Historically Underutilized Business Zones (HUBZones); Promise Zones; Opportunity Zones; or Rural Areas;
  + New businesses (those in operation for less than two years);
  + Businesses that are 51 percent or more owned and controlled by one or more [Veterans](#Veteran_owned_definition); and
  + Businesses where more than 50% of the full time workforce is low-income or resides in LMI census tracts.

## Community Advantage Basic Requirements

**Community Advantage loans are 7(a) loans and are subject to all 7(a) Loan Program Requirements except where noted otherwise in this Guide.** For further information on 7(a) Loan Program Requirements, see the Code of Federal Regulations (CFR), Parts [103](https://www.ecfr.gov/current/title-13/chapter-I/part-103), [105](https://www.ecfr.gov/current/title-13/chapter-I/part-105), [120](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.110), and [121](https://www.ecfr.gov/current/title-13/chapter-I/part-121). Additionally, see SBA Standard Operating Procedures (SOP) [50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs-0), Lender and Development Company Loan Programs, and SOP [50 57](https://www.sba.gov/document/sop-50-57-7a-loan-servicing-and-liquidation), 7(a) Loan Servicing and Liquidation. SOP 50 10 describes important terms and conditions of 7(a) loans, including but not limited to the use of loan proceeds, loan maturities, interest rates, the disclosure of fees and other expenses, and SBA guaranty fees. SOP 50 57 sets out the policies and procedures for the administration of 7(a) loans that have been fully disbursed and are in regular servicing or liquidation status.

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| --- | --- |
| Key Community Advantage Loan Terms and Conditions | Description |
| Percent of Guaranty | 85% guaranty for loans of $150,000 or less;  75% guaranty for loans greater than $150,000  See Chapter 4, [Paragraph B, 2.](#Maximum_Guaranty_Percentages) for more information. |
| Maturity | Maximum 10 years or the useful life of machinery and equipment;  Maximum 10 years for working capital;  Maximum 25 years for real estate  See Chapter 4, [Paragraph B, 3.](#Loan_Maturities) for more information. |
| Program Fees (on the guaranteed portion of the loan) | For loans approved in FY 2022, no guaranty fee, and no annual servicing fee  SBA reviews these fees annually based on subsidy costs. Changes to guaranty fees are announced by [SBA Notice](https://www.sba.gov/document). Fees for future fiscal years may differ from rates displayed above. |
| Fees a CA Lender or an Agent may charge a Borrower | See [Chapter 8](#_Chapter_8:_) for more information. |
| Maximum Loan Size | $350,000  The aggregate balance of all CA loans to a single Borrower, including the Borrower’s affiliates, may not exceed a total amount of $350,000.  If more than one CA Lender makes a loan to a single Borrower, then the maximum aggregate balance to that Borrower remains $350,000.  See Chapter 4, [Paragraph B, 1.](#Maximum_Loan_Amount) for more information. |
| Maximum Interest Rate | $50,000 or less: Prime + 6.5 %  Greater than $50,000 up to and including $250,000:  Prime + 6.0%  Greater than $250,000 up to and including $350,000: Prime + 4.5%  See Chapter 4, [Paragraph B, 4.](#Interest_Rates) for more information. |
| Revolving Lines (Only CA Lenders approved by SBA to make revolving lines of credit may make these types of loans) | Subject to a term out feature.  See [Chapter 3](#_Chapter_3:_) for information on how to apply to make CA revolving lines of credit.  See Chapter 4, [Paragraph B, 3.](#Loan_Maturities) For information on making CA revolving lines of credit. |
| Loan Loss Reserve Requirements | A minimum of 5% of the unguaranteed portion of the CA Lender’s CA loan portfolio; must be deposited in Loan Loss Reserve Account no later than 45 calendar days after the date of each CA loan disbursement;  PLUS,  for CA loans approved on or after October 1, 2018, a minimum of 5% of the guaranteed portion of each such CA loan that is sold into the secondary market[[1]](#footnote-2); must be deposited in Loan Loss Reserve Account no later than 10 calendar days after the CA loan has been sold into the secondary market. |
| Markets Served | 60% of the lender’s CA loans must be in [underserved markets](#Underserved_definition). |
| Provision of Management and Technical Assistance (M&TA) | The CA Lender must disclose on the loan application what, if any, management and technical assistance has been or will be provided by the CA Lender to the Borrower.  While SBA encourages CA Lenders to provide M&TA, it is not required. |

Note: SBA Microloan Intermediaries and SBA ILP Intermediaries may not use their SBA intermediary loans to fund CA loans. SBA does not, however, prohibit the use of other Federal funds to support CA lending if permitted by those governmental organizations.

# Chapter 2: How Does Delegated Authority Work in Community Advantage?

In a Federal Register Notice published April 29, 2022, [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)], SBA modified the regulations at 13 CFR §§ [120.410](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.410) and [120.440](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.440) for lender participation in the CA Pilot Program and the conditions under which SBA will grant delegated authority to CA Lenders to make CA loans without prior SBA review of eligibility or creditworthiness. Additionally, subject to SBA’s review and prior approval, SBA may authorize certain CA Lenders to make CA revolving lines of credit, as described more fully in Ch. 3 of this Guide.

**New Lenders:** A lender that is not an existing CA Lender as of April 1, 2022, must be approved by SBA to participate in the CA Pilot Program before it can begin making CA loans. A new lender applying to participate as a CA Lender must demonstrate at the time of its application that it has made and is currently servicing at least 20 similarly-sized commercial or small business loans in its portfolio. All new CA Lenders will be granted delegated authority upon approval to participate in the CA Pilot Program. See [Appendix B](#Appendix_B_How_to_Apply), “How to Apply to Become a CA Lender Participant and How SBA Will Evaluate the Application” for information on how to apply.

**Existing CA Lenders that have delegated authority:** These CA Lenders do not have to take any further action and may use the procedures in this updated CA Participant Guide.

**Existing CA Lenders that do not have delegated authority as of March 30, 2022:** These CA Lenders must continue to submit loan applications through the Loan Guaranty Processing Center (LGPC) using nondelegated authority until such time as they apply for and are approved by SBA for delegated authority. For these CA Lenders, SBA will grant delegated authority under the rules that were in effect at the time the CA Lender was approved to participate in the CA Pilot Program. This would include a minimum of 10 CA loans disbursed while in the program.

CA Lenders determined to be eligible for delegated authority must make an initial disbursement on at least 10 non-delegated CA loans before they can process CA loan applications under their delegated authority. In reviewing and approving the 10 non-delegated CA loans, the LGPC will evaluate the CA Lender’s knowledge of [CA Loan Program Requirements](#CA_Loan_Program_Requirements) and its ability to adequately underwrite small business loans.

The LGPC will make the information on individual CA loans approved available to OCRM. Once a minimum of 10 non-delegated loans are initially disbursed with no significant deficiencies in the underwriting/credit analysis of the loan, the LGPC will make a recommendation to OCRM who will make the final decision to approve the CA Lender’s ability to process loans under its delegated authority.

Alternatively, a CA Lender may apply for delegated authority at any time if it can demonstrate that it currently has at least 20 similarly-sized commercial or business loans in its portfolio, which may include its CA loans.

CA Lenders granted delegated authority will be required to execute an Addendum to the Lender’s SBA Form 750CA. Once the Addendum and the SBA Form 750CA have been executed and returned to SBA, the CA Lender may begin originating CA loans under its delegated authority. Note: The CA Lender may decide on a loan-by-loan basis whether to submit CA loans to the LGPC for non-delegated processing or to process the CA loan under its delegated authority. See Chapter 4, Para. C.1., “[Processing Method](#Processing_Method),” for restrictions on processing a loan under delegated authority once a CA Lender submits a loan to the LGPC for processing under non-delegated authority.

**Delegation Period:** The initial delegation of authority will be for a period of two years (but not to exceed the remainder of the term of the CA Pilot). Prior to the end of the two-year period, OCRM will conduct a delegated authority review to further assess a CA Lender’s understanding of the program and its ability to process, close, service and liquidate CA loans. See [**Appendix E: Renewal Requirements for Delegated Authority**](#Appendix_E_Renewal_Reqs) for additional information.

# Chapter 3: How Does a CA Lender Qualify to Make CA Revolving Lines of Credit?

Subject to SBA’s review and prior approval, SBA may authorize certain CA Lenders to make CA revolving lines of credit (RLOCs). Until a CA Lender receives written authorization from SBA, the CA Lender will not be permitted to approve revolving lines of credit, under either delegated or non-delegated authority. A lender may request permission to make CA RLOCs at the same time it makes its initial application to participate in the CA Pilot Program or at any time after being approved as a CA Lender. A lender applying for authority to make RLOCs must demonstrate at the time of its request that it has made and is currently servicing at least 20 similarly-sized commercial or small business loans in its portfolio.

A lender that currently makes and services non-CA RLOCs must submit its RLOC origination and servicing policies along with its current RLOC portfolio noting date of origination, loan size, and status (e.g. current, delinquent) with its request for authority to make CA RLOCs. SBA may request additional information at its discretion.

A lender that does not currently make and service RLOCs must submit a plan evidencing its capacity to make CA RLOCs, including detailed information on the lender’s RLOC origination and servicing policies, accounting systems, number of staff and their experience and training, etc. This plan may include use of an experienced third party (i.e., Lender Service Provider or a technology provider). SBA may request additional information at its discretion.

To apply for authorization to make CA RLOCs, the lender must submit the above information (as applicable) by email to [CAloans@sba.gov](mailto:CALoans@sba.gov). SBA will notify the CA Lender of its final decision. See Chapter 4, Paragraph B.3.a.i., “[CA Revolving Lines of Credit](#RLOCs)” for more information on making CA RLOCS.

# Chapter 4: Making CA Loans

Community Advantage Pilot Program Loans are 7(a) loans, and unless specifically stated otherwise in this Guide, CA Lenders must follow all Loan Program Requirements for 7(a) loans. CA Lenders must always start by reviewing the contents of SOP 50 10 6, Part 2, Section A, Core Requirements for all 7(a) loans.

**Eligibility:** The loan eligibility requirements for CA loans are the same as for 7(a) loans as set forth in 13 CFR Parts 120 and 121, and SOP 50 10 6, Part 2, Section A, Chs. 1-3. CA Lenders should consult the CFR, SOP, and Federal Register Notices to determine if the Small Business Applicant is eligible. In addition, some CA loans may involve complicated eligibility factors, such as affiliates, refinancing, citizenship, etc. CA Lenders should contact SBA to discuss specialized support and assistance in assessing a Small Business Applicant's eligibility if such factors arise. These types of complicated eligibility factors are good examples of a loan that a CA Lender may choose to submit to the LGPC for processing under non-delegated authority.

It is important to note that, for CA loans made on or after the effective date of this Guide, CA Lenders must follow the Loan Program Requirements for SBA Express, unless otherwise specified in this Guide. (Previously, CA Lenders were required to follow 7(a) Small Loan Program Requirements when making CA loans.)

In the Federal Register Notice published April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)], SBA modified 7(a) Loan Program Requirements for the Community Advantage Pilot Program:

1. Modification of 13 CFR [120.410](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.410) and [120.440](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.440) for participation in and use of delegated authority (see Chapters 2 and 3 for more information).
2. Modification of 13 CFR 120.150 relating to lending criteria (see [Chapter 4](#_Chapter_4:_) for more information).
3. Modification of 13 CFR [120.110 (n)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#p-120.110(n)): For the CA Pilot Program, SBA is modifying 13 CFR 120.110(n) to remove restrictions that make ineligible any business with an Associate who is incarcerated, on probation, on parole, or has been indicted for a felony or a crime of moral turpitude. CA Lenders may continue to conduct background checks and make risk-based lending decisions in accordance with their own policies for similarly-sized, non-SBA-guaranteed commercial loans.
4. Modification of 13 CFR [120.221(a)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.221) to revise maximum allowable fees a CA Lender is permitted to charge a Borrower (see [Chapter 8](#Fee_Limitations_Applicable_to_Lender_Ser), “Fees,” for more information).
5. Modification of 13 CFR [120.151](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.150) to increase maximum allowable CA loan size from $250,000 to $350,000 (see Chapter 4, [Paragraph B, 1.](#Maximum_Loan_Amount) for more information).
6. Modification of 13 CFR [120.213](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.213), 120.214, and 120.215 to revise maximum allowable interest rates a CA Lender may charge (see Chapter 4, [Paragraph B, 4](#Interest_Rates). for more information).
7. Modification of collateral requirements for CA (see Chapter 4, [Paragraph C, 3.](#Collateral) for more information).
8. Modification of 13 CFR [120.160(c)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.160) to revise the requirement for hazard insurance for CA loans: CA Lenders must follow the hazard insurance policies and procedures they have established and implemented for their similarly-sized, non-SBA-guaranteed commercial loans. CA Lenders must continue ensuring that Borrowers obtain flood insurance per 13 CFR 120.170 when required under the Flood Disaster Protection Act of 1973 (Sec. 205(b) of Pub. L. 93-234; 87 Stat. 983 (42 U.S.C. 4000 et seq.)).
9. Modification of 13 CFR [120.130(c)](https://www.ecfr.gov/current/title-13/section-120.130) to allow certain CA Lenders to make revolving lines of credit (see [Chapter 3](#_bookmark8), “How Does a CA Lender Qualify to Make CA Revolving Lines of Credit? and Chapter 4, Para. B.3., “[Loan Maturities](#Loan_Maturities),” for more information).
10. Modification of 13 CFR [121.301(f)](https://www.ecfr.gov/current/title-13/chapter-I/part-121#p-121.301(f)) to modify the affiliation principles for Applicants for CA loans (see [Appendix G](#Appendix_G_Affiliation_Rules), “CA Affiliation Rules,” for more information).
11. Eligible Uses of Proceeds for CA Loans

CA Lenders must apply and comply with all of SBA’s Loan Program Requirements, including but not limited to the Core Requirements in SOP 50 10 6, Part 2, Section A, except as modified by all of the published Federal Register Notices governing the CA Pilot Program and in this Guide.

CA loan proceeds must be used exclusively for business-related purposes subject to 13 CFR §§ 120.120 and 120.130, as modified for the CA Pilot Program.[[2]](#footnote-3)

In addition to the uses of proceeds identified in SOP 50 10 6, Part 2, Section A, Chapter 4, CA loan proceeds may be used for:

1. Debt Refinancing

Loan proceeds may not be used to pay a creditor in a position to sustain a loss (including the same institution’s debt). The CA Lender may not refinance a debt that would not have been eligible for a 7(a) loan. 13 CFR §§ [120.140(j)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#p-120.140(j)) and [120.201](https://www.ecfr.gov/current/title-13/section-120.201)

1. A CA Lender may refinance an existing non-SBA-guaranteed loan (or other Borrower debt) from another lender if:
2. The CA Lender determines that the existing loan no longer meets the needs of the Applicant (for example, if the current loan is a term loan and a revolver is needed); and
3. The new loan meets the SBA 10 percent improvement to debt service coverage requirement in paragraph e. below; however, a new CA loan is not subject to SBA’s 10 percent improvement to debt service coverage requirement if the debt to be refinanced is a revolving line of credit.
4. A CA Lender may refinance its own non-SBA guaranteed debt to the Applicant if:
5. The conditions in a.i) and a.ii) above are met;
6. The debt to be refinanced was made, and has been current for at least the last 12 months or for the life of the loan, whichever is longer. (SBA Form 1920 includes the relevant Lender certification.) “Current” means that a required payment has not remained unpaid for more than 29 days. A loan that has matured and not been paid within 29 days of the maturity date is not current and is not eligible for refinancing;
7. The CA Lender’s credit exposure to the Applicant will not be reduced; and
8. The loan is not an SBA Microloan Intermediary’s microloan.
9. CA Lenders are permitted to make a short-term interim loan in anticipation of refinancing it within 120 days with a permanent CA loan under the following terms.
10. The CA loan application to refinance the interim loan must be submitted to the LGPC for non-delegated processing and may not be approved under a CA Lender’s delegated authority. The extension of an interim loan by a CA Lender is made entirely at the CA Lender’s risk as there is no assurance that the interim loan will be eligible to be refinanced with a CA loan.
11. The sole purpose of the interim loan must have been to refinance debt that was not on reasonable terms. If the interim loan improved the Applicant’s cash flow by at least 10%, the interim loan will be considered to meet this test. Examples of unreasonable terms may include high compound interest rates, high draw fees, high late fees, or substantial prepayment penalties, as determined by the LGPC.
12. The Annual Percentage Rate (“APR”) on the interim loan must not exceed the maximum interest rate allowable under the CA Pilot Program.
13. The CA Lender must provide a transcript showing the due dates and when payments were received for the entire term of the interim loan. If there are any late payments and/or late charges on the interim loan, the CA Lender must document in the loan file the late payments and late charges and substantiate how the CA Lender has determined that SBA will not be in a position to sustain a loss from refinancing the interim loan.
14. The CA Lender may not charge any fees on the interim loan except for necessary out-of-pocket costs associated with closing the loan, such as filing or recording fees. There must be no prepayment penalty or other charge for prepayment of the interim loan.
15. A CA Lender may refinance an existing SBA-guaranteed loan from another lender only if:
16. The transaction is the purchase of an existing business that has an existing SBA loan with the other lender; or
17. The Applicant needs additional financing, and the existing lender is unable or unwilling to increase the existing SBA loan or make a second loan, and the new loan will meet the 10 percent improvement to debt service coverage requirements in paragraph e. below.
18. A CA Lender may not refinance its own existing SBA-guaranteed debt under CA.
19. Ten Percent Payment Improvement. When refinancing debt, the new installment amount must be at least 10 percent less than the existing installment amount, except where the debt to be refinanced is: (i) structured with a demand note or balloon payment, (ii) credit card debt used for business purposes, (iii) a revolving line of credit where the original lender is unable or unwilling to renew the line, or (iv) has a higher interest rate or shorter term than the refinanced loan. If other debt is being refinanced at the same time, such debt may be included in the cash flow improvement calculation. However, no debt(s) on reasonable terms may be refinanced. If the note terms of the debt to be refinanced include an escalating payment structure, the new installment amount must be at least 10 percent less than the expected installment amount within the next 12 months.
20. CA Lenders must avoid any circumstances that could create a possible conflict of interest. Also, in refinancing debt, particularly credit card debt, CA Lenders must take reasonable steps to ensure Applicants are aware and certify that the amount being refinanced only comprises business-related debt. (SBA Form 1919, Borrower’s Information Form, contains such a certification.)
21. The Authorization must include:
22. In the Use of Proceeds section, the refinancing must be specifically identified;
23. An itemization of all debts being repaid by loan proceeds when the individual creditor is to be paid $10,000 or more; and/or
24. The loan number and dollar amount of any existing SBA-guaranteed debt being refinanced.
25. Other conditions that apply to debt refinancing:
26. A CA loan may not be used to refinance a debt owed to a Small Business Investment Company (SBIC).
27. The payment of trade payables is not considered to be debt refinancing.
28. Change of Ownership

([13 CFR § 120.202](https://www.ecfr.gov/current/title-13/section-120.202))

1. A Borrower(s) (and any individual Co-Borrower as permitted under this paragraph), may use loan proceeds for a change of ownership, whether the change of ownership is accomplished through a stock purchase (including a stock redemption) or an asset purchase, only under the circumstances described under this paragraph. An asset purchase will be deemed a change of ownership and must comply with all the requirements of this paragraph if the Applicant(s) is purchasing all or substantially all of the assets of the seller’s business and is continuing the operations of the seller’s business. The following requirements apply:
2. The change of ownership must promote the sound development and/or preserve the existence of a small business. See [Paragraph C.2.h.](#Equity_Injection_Requirements) below for requirements on equity injections for changes of ownership;
3. Change of Ownership Between Existing Owners: A change of ownership between existing owners may be financed under the following circumstances:
4. One or more current owners is purchasing the entire interest of another current owner, resulting in 100% ownership of the business by the remaining owner(s);
5. The small business is redeeming the ownership interest of an owner(s), resulting in 100% ownership of the small business by the remaining owner(s).
6. Change of Ownership Resulting in a New Owner: A change of ownership resulting in a new owner may be financed using a CA loan under the following circumstances:
7. A small business is purchasing 100% of the ownership interest in another business.
8. An individual(s) who is not an existing owner is purchasing 100% of the ownership interest in the small business.
9. A small business is acquiring another small business through an asset purchase.
10. The seller may not remain as an officer, director, stockholder, or Key Employee of the business. If a short transitional period is needed to assist the business, the small business may contract with the seller as a consultant for a period not to exceed 12 months including any extensions.
11. An SBA-guaranteed loan cannot be made solely to an individual. The small business must be either the Borrower or a Co-Borrower as follows:
12. In a change of ownership under section 2.a.ii.a) or 2.a.iii.b) above, the small business and the individual owner(s) who is acquiring the ownership interest must be Co-Borrowers. In addition, the Note must be executed, jointly and severally, by both the individual(s) who acquires the ownership interest(s) and the small business whose ownership interest is being acquired. If the small business denies liability for the debt based on an alleged failure of consideration under applicable state law, SBA may deny liability on its guaranty.
13. In a change of ownership under section 2.a.ii.b) above, the small business must be the Borrower and the remaining owner(s) are subject to the requirements for personal guaranties in SOP 50 10 6, Part 2, Section A, Ch. 6, Para. A, Guaranties.
14. In a change of ownership under section 2.a.iii.a) or 2.a.iii.c) above, the Borrower will be the acquiring entity. If, however, the small business being acquired will remain in existence, the acquiring entity and the small business being acquired must be Co-Borrowers. All owners of the Applicant business, and the business being acquired if it is a Co-Borrower, are subject to the requirements for guaranties in SOP 50 10 6, Part 2, Section A, Ch. 6, Para. A., Guaranties.
15. The CA Lender must comply with the SBA Express requirements in SOP 50 10 6, Part 2, Section A, Ch. 6, Para. B., IRS Tax Transcript/Verification of Financial Information.[[3]](#footnote-4)
16. If the Applicant will be acquiring the small business’s real estate in a separate transaction with a non-SBA guaranteed loan, the CA loan must receive a shared lien position (pari passu) on the real estate with the non-SBA guaranteed loan. The non-SBA guaranteed loan may not have a maturity that is shorter than the CA loan. This provision does not apply if the business real estate is being financed as part of a 504 project.
17. The following changes of ownership are not eligible for CA:
18. A non-owner who is purchasing less than 100% of the ownership interests in the business;
19. An existing owner who is purchasing the ownership of another existing owner that will not result in 100% ownership of the business by the purchasing owner;
20. Loans to an Employee Stock Ownership Plan (ESOP) or equivalent trust to purchase a controlling interest (51% or more) in the employer small business or to the employer small business to re-lend the funds to an ESOP to acquire a controlling interest (51% or more) in the employer concern; or
21. Loans to a cooperative to purchase a controlling interest (51% or more) in the employer small business.
22. SBA considers a change of ownership to be a “new” business because it will result in new, unproven ownership/management and increased debt unrelated to business operations.
23. The CA Lender’s loan documentation must include:
24. A current business valuation (not to include any real estate) that meets SBA requirements in SOP 50 10 6, Part 2, Section B, Chapter 2, Paragraph C.3.c, SBA Express Real Estate Appraisal and Business Valuation Requirements (page 288).
25. A site visit of the business being acquired. The CA Lender must document in its loan file the date of the site visit as well as comments.
26. An analysis as to how the change of ownership will promote the sound development and/or preserve the existence of the business. If the analysis cannot support that the change of ownership will be in the best interests of the business and its continued, successful operations, the loan is not eligible for an SBA guaranty.
27. Business, stock, and asset purchase agreements, as applicable.
28. Evidence that all assets, including transferable licenses (e.g., liquor licenses, software licenses, etc.) conveyed as a result of purchase are properly secured as collateral by Lender.
29. The “purchase price of the business” includes all assets being acquired such as real estate, machinery and equipment, and intangible assets.
30. Intangible Assets: A CA loan may be used to finance a change of ownership that includes intangible assets (including, but not limited to, goodwill, client/customer lists, patents, copyrights, trademarks, intellectual property, and agreements not to compete) as long as it is supported by an independent business valuation that complies with SOP 50 10 6, Part 2, Section B, Chapter 2, Paragraph C.3.c, SBA Express Real Estate Appraisal and Business Valuation Requirements (page 288).
31. If any of the loan proceeds will be used to finance intangible assets, the amount must be specifically identified in the Use of Proceeds section of SBA Form 1920 and the Authorization.
32. The value of the intangible assets is determined by either the book value as reflected on the business’s balance sheet, a separate appraisal for the particular asset, or the value of the business as identified in the business valuation minus the sum of the working capital assets and the fixed assets being purchased.
33. 7(a) International Trade Loans

CA Lenders may make CA loans to businesses located in the US engaged in international trade. To receive the higher guaranty percentage applicable to 7(a) International Trade loans, CA Lenders must ensure the CA loan is made in accordance with the requirements for International Trade loans in SOP 50 10 6, Part 2, Section B, Chapter 4, Paragraph C. NOTE: CA Lenders are ***not*** permitted to make EWCP or Export Express loans.

1. Other Restrictions on CA Loans

The following types of loans are not eligible under CA delegated processing and must be submitted to the LGPC for non-delegated processing (Note: CA Lenders may not make CAPLines loans):

1. Disabled Assistance Loans (DAL);
2. Loans to an ESOP (under 13 CFR §§ [120.350](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.350) through [120.354](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.354)) or to an eligible small business owned or controlled by an ESOP (see SOP 50 10 6, Part 2, Section A, Ch. 2, Para. B., Employee Stock Ownership Plans, for more information);
3. Loans to a cooperative or to an eligible small business owned or controlled by a cooperative (see SOP 50 10 6, Section A, Ch. 2, Para. C, Cooperatives, for more information);
4. Loans involving a Single Employer 401(k) plan, including a ROBS plan, unless the only investment held by the 401(k) plan is the equity in the Applicant business (see SOP 50 10 6, Part 2, Section A, Ch.2, Para. D, 401(k) Plans Including Rollover as Business Start-Ups (ROBS) Plans, for more information);
5. Loans involving a Multiple-Employer 401(k) plan (i.e., a plan that holds in trust the assets of other businesses), including a ROBS plan (see SOP 50 10 6, Section A, Ch. 2, Para. D, 401(k) Plans Including Rollovers as Business Start-Ups (ROBS) Plans, for more information); and
6. Pollution Control Program Loans.
7. Loan Terms and Conditions for CA

Unless otherwise stated in this Guide, CA Lenders must comply with the requirements in SOP 50 10 6, Part 2, Section A, Ch. 5, Para. D., 7(a) Loan Program and Use of Agents. See [Chapter 8](#Fee_Limitations_Applicable_to_Lender_Ser) of this Guide for restrictions on fees CA Lenders and Agents may charge an Applicant.

1. Maximum Loan Amount
2. The maximum aggregate loan amount is $350,000, (gross) inclusive of all outstanding CA loans, SBA Express, Community Express, and Patriot Express loans the Applicant and its affiliates may have.
3. Maximum Loans to Businesses with Affiliates. CA Lenders must determine whether the Applicant has any affiliates and document the results in their credit analysis. If affiliation exists, the CA loan maximums apply to the Applicant, including all affiliates, as if all were a single business. See [Appendix G](#Appendix_G_Affiliation_Rules), “CA Affiliation Rules,” for more information.
4. Maximum Loan Amount for multiple loans approved within 90 days of each other – “90 Day Rule.”
5. If two SBA-guaranteed loans (including CA loans) to any one business (including affiliates) are approved within 90 days of each other, the maximum gross amount of all such loans in that time frame cannot exceed $5,000,000. The maximum gross amount includes the subject CA loan and any other SBA-guaranteed loans, regardless of what Lender made the loan.
6. Two SBA-guaranteed loans approved within 90 days of each other may impact the maximum guaranty percentage available to the Borrower and its affiliates as well as the guaranty fee.
7. Maximum Guaranty Amounts and Percentages
8. The maximum dollar amount outstanding of SBA’s guaranty to any one business (including affiliates) must not exceed $3,750,000. When calculating the maximum guaranty percentage available to a Borrower and its affiliates, the CA Lender must include the approved loan amount for a revolving line of credit. The SBA’s guaranty is also known as the “SBA share” or “guaranteed portion.”
9. Multiple CA loans are allowed up to $350,000 in the aggregate, inclusive of all outstanding CA loans, SBA Express, Community Express, and Patriot Express loans the Applicant and its affiliates may have. The guaranteed amount of all CA loans counts toward the $3,750,000 maximum SBA exposure that may be outstanding for all SBA loans to a Borrower and its affiliates at any one time.
10. The maximum guaranty percentage is (Note: See SOP 50 10 6 for guaranty percentages on International Trade Loans):
11. 85% for loans of $150,000 or less
12. 75% for loans over $150,000.
13. Combination of 7(a) and 504 loans.
14. When an Applicant applies for any combination of 7(a) and 504 loans, the order in which the loans are approved determines the maximum loan and guaranty amount available. Because the 7(a) loan has a lower maximum guaranteed amount, the 7(a) loan should be processed and approved first.
15. CA Lenders must advise the SBA processing centers that there is a companion 504 application to ensure that the 7(a) loan is processed and approved prior to the 504 loan application being processed and approved.
16. The 90-day rule is only for those situations where a Borrower is approved for multiple 7(a) loans, including CA loans, within a 90-day period. It does NOT apply if the Borrower is receiving a 7(a) loan and a 504 loan.
17. Zero Percent Guaranty Cannot be Provided for Ineligible Purposes:

A CA loan cannot include proceeds for an ineligible purpose or have any portion of the loan made to an ineligible business and no part of a CA loan may be guaranteed at zero percent.

1. Loan Maturities
2. CA loans must have a stated maturity. The loan term must be the shortest appropriate term based on the use of proceeds and the Borrower's ability to repay.
3. CA Revolving Lines of Credit (RLOCs): (**Upon prior written approval by SBA**, certain CA Lenders may approve CA lines of credit. Note that RLOCs may not be sold on the secondary market. See [Chapter 3](#_bookmark8) for information on how a CA Lender may qualify to make revolving lines of credit.)
4. May not exceed 10 years inclusive of a term-out period.
5. Revolving loans:
6. Revolving loans of more than 12 months must be structured with a term-out period that is not less than the draw period, with no draws permitted during the term-out period. Under no circumstances may there be any advances after the initial 60 month period.

For example, the loan can have an 8 year maturity with a 2 year draw period and a term-out period of 6 years. Conversely, a loan with an 8 year maturity cannot have a draw period of 6 years and term-out period of 2 years.

1. May be established as renewable each year, provided they do not exceed the maximum maturity. Lender may not charge an annual / renewal fee. If the original maturity was for 12 months or less, and the new maturity exceeds 12 months, an additional guaranty fee will be due. See SOP 50 10 6, Part 2, Section A, Ch. 5, Para. C.1.a.v., Additional Guaranty Fee for Extensions of Short-Term Loans.
2. Revolving loans with maturities of 12 months or less may be initially structured without a term-out; however, if the loan is renewed or the maturity extended beyond 12 months, the requirements in paragraph b)i) above will apply.
3. CA Term Loans:
4. Working capital or inventory loans and the financing of intangible assets (including goodwill) must not exceed 10 years.
5. Generally, equipment, fixtures, or furniture loans should not exceed 10 years. However, the term may be up to 15 years if the IRS asset class useful life supports the term. The Lender must document in its credit memorandum justification of any term that exceeds 10 years.
6. Real estate loans (including acquisition, rehabilitation, renovation, or construction) must not exceed 25 years unless a portion of the loan is used for construction or renovation of the real estate. If the use of proceeds on a real estate loan includes construction or renovation, the construction or renovation period may be added to the 25 year maximum maturity.
7. Loans for leasehold improvements may not exceed 10 years, plus an additional period reasonably necessary to complete the leasehold improvements, as determined based on the specific nature of the leasehold improvements, but in no case more than 12 months.
8. Mixed purpose loans (including change of ownership): When loan proceeds are used for multiple purposes (land and building, working capital, machinery & equipment, or the refinancing of any of these purposes), the maturity may be a blended maturity; or, if 51% or more of the use of proceeds are for real estate, the maximum maturity may be up to 25 years.
9. The term of a loan may not exceed the period of the SBA guaranty commitment.
10. Establishing the Repayment Period (13 CFR [120.212](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.212)):

When CA Lenders establish a repayment schedule and loan maturity, they must consider the following:

1. The Borrower’s ability to repay;
2. Use of loan proceeds;
3. Useful life of the assets being financed; and
4. The appropriate maturity for mixed purpose loans (including change of ownership). The CA Lender may use a blended maturity or the maturity up to the maximum for the asset class comprising 51% or more of the use of proceeds. CA Lenders must include the calculation used to determine the maturity in the credit memorandum.
5. For loans to farm enterprises:
6. Where land and structures (including poultry houses) comprise 51% or more of the use of proceeds, the maximum maturity is 20 years.
7. Where machinery and equipment comprise 51% or more of the use of proceeds, the maximum maturity is the useful life of the machinery and equipment, not to exceed 15 years, plus an additional period reasonably necessary for installation, which may not exceed 12 months.
8. SBA has instructed the Fiscal Transfer Agent to stop the sale into the secondary market of a loan when the maturity exceeds these requirements.
9. Establishing the Maturity Date:
10. Loan maturity must not exceed the period of the guaranty. This prohibits structures such as a working capital loan with a 15-year maturity and an SBA guaranty limited to 10 years.
11. The maturity date for a CA loan is set in terms of the number of months from either the date of Note or the date of initial disbursement to the date when final payment is due.
12. Maturity When Refinancing Existing Assets or a Business Acquisition:
13. The maximum maturity for a loan used to refinance a real estate or fixed asset loan must be the remaining useful life of the asset(s). The lender’s loan analysis must document and justify that the asset(s) being refinanced has a useful life at least as long as the maturity provided.
14. The maximum maturity for a loan used to refinance a business acquisition is 10 years, unless 51% or more of the use of proceeds consist of real estate which would permit a maturity up to 25 years.
15. CA Non-Financial Default Provisions:

Non-financial default provisions are allowed under CA under the following conditions:

1. Non-financial default provisions are loan conditions that, if violated, would cause the loan to be in default even though the Borrower has made all payments as agreed.
2. Non-financial default provisions must be substantive and must be agreed to by the Borrower in writing at loan closing;
3. The provisions must be consistent with those used by the Lender on its similarly-sized non-SBA guaranteed commercial loans;
4. A lender may not request purchase of the guaranty solely based on a violation of a non-financial default provision (see 13 CFR [120.520](https://www.ecfr.gov/current/title-13/section-120.520)); and
5. A maturity date must be established in the note. For example, a line of credit could state that it is payable upon demand under certain conditions, but in no case later than a certain date.
6. Interest Rates

Maximum Interest Rates Allowed (See additional information below)

|  |  |
| --- | --- |
| CA Loans | Interest Rate  The published maximum allowable fixed rate or if variable: |
| $50,000 or less | Wall Street Journal (WSJ) Prime + 6.5% |
| Greater than $50,000 up to and including $250,000 | WSJ Prime + 6% |
| Greater than $250,000 up to and including $350,000 | WSJ Prime + 4.5% |

1. General Policy on Interest Rates:
2. A loan may have a fixed or variable interest rate. The CA Lender negotiates the interest rate with the Applicant, subject to SBA’s maximum allowable rates.
3. SBA will periodically publish the maximum allowable fixed interest rate in the Federal Register. The maximum allowable fixed interest rate will be the Prime rate in effect on the first business day of the month, plus an allowable spread over Prime as published in the Wall Street Journal (WSJ). For a listing of the current maximum allowable fixed interest rates, go to SBA’s [Capital Access Financial System homepage](https://caweb.sba.gov/cls/dsp_login.cfm). The maximum allowable fixed rate may only be used if such rate will be in effect for the entire term of the loan, without adjustment or reset. Otherwise, the maximum rates for variable rate loans will apply.
4. For variable interest rate loans, the basis for the SBA maximum interest rate is an acceptable base rate plus an allowable spread. The base rate in effect on the first business day of the month will determine the basis for the initial interest rate for any complete loan application received by SBA during that month. The initial note rate must not exceed SBA’s maximum interest rate. The spread above the base rate as identified in the Note may not be changed during the life of the loan without the written agreement of the Borrower.
5. For loans with a variable interest rate, the following terms must be defined:
6. Base Rate:
7. There are two acceptable base rates: The Prime Rate or the SBA Optional Peg Rate.
8. The Prime Rate will be that rate which is in effect on the first business day of the month, as identified in the Wall Street Journal. This rate may be found in the newspaper on the second business day of the month. If a website is used, determine whether it is publishing the current day’s rate or the previous day’s rate as some newspaper websites publish the previous day’s rate. The Optional Peg Rate is a weighted average of rates the Federal government pays for loans with maturities similar to the average 7(a) loan. SBA calculates and publishes the Optional Peg Rate quarterly in the Federal Register. Base Rates will be rounded to two decimal places with .004 being rounded down to .00 and .005 being rounded up to .01.
9. For variable rate loans, the CA Lender is not required to use the base rate identified above in this paragraph. It may use the same base rate of interest it uses on its similarly-sized non-SBA guaranteed commercial loans, as well as its established change intervals, payment accruals, etc. For loans up to and including $50,000, the CA Lender may charge up to Prime plus 6.5%. For loans greater than $50,000 up to and including $250,000, the CA Lender may charge up to Prime + 6%. For loans greater than $250,000 up to and including $350,000, the CA Lender may charge up to Prime + 4.5%. The interest rate throughout the term of the loan may not exceed the maximum allowable CA interest rate and the loan may be sold on the secondary market only if the base rate is the Prime Rate or the Optional Peg Rate.
10. Frequency of change;
11. Range of fluctuation; and
12. Ceiling and floor (if any).
13. Default Interest Rates:

The default interest rate is a change (increase) in the interest rate charged to the Borrower as a result of a failure to meet certain conditions specified in the loan agreement.

1. A CA Lender may charge a default interest rate if it does so for its similarly-sized non-SBA guaranteed commercial loans, as long as the interest rate does not exceed the amounts permitted for CA loans.
2. The amount of interest SBA will pay to a CA Lender following default of a CA loan is capped at the maximum interest rates for the Standard 7(a) loan program.
3. Policy on Variable Interest Rates
4. Standard Policy:

SBA’s maximum allowable interest rate applies only to the initial Note rate on a variable rate loan. Subsequent changes in the base rate are not subject to the maximum rate at the time of loan application; however, the maximum spread over the base cannot exceed SBA’s stated maximum.

1. Post-Approval Changes to the Interest Rate:

After approval, the CA Lender may change the initial Note rate, including changing the base rate, the spread over the base rate, or change from a fixed rate to a variable rate, or from a variable rate to a fixed rate, provided the new interest rate does not exceed the maximum allowable interest rate at the time of the loan application. The CA Lender must obtain the Borrower’s written consent to the change in the interest rate (if prior to disbursement, Borrower’s consent to the change in interest rate must be separate and apart from executing the loan documents) and must make the change through E-Tran servicing.

For example, a CA loan was approved with a variable rate. Since the loan was approved, the prime rate changed. The Borrower has asked the CA Lender if the CA loan can be switched to a fixed rate. If the loan has not been disbursed and the fixed rate selected does not exceed the maximum allowable fixed rate at the time of loan application, the CA Lender may make this change per the Borrower’s request.

For further guidance see SOP 50 57.

1. Frequency of Interest Rate Adjustment:
2. CA Lenders are permitted to use the same change intervals used on their similarly-sized, non-SBA guaranteed commercial loans. CA Lenders may delay the initial adjustment period. For example, CA Lenders have used periods as long as 5 years in order to provide the Borrower with an interest rate that is set for the first 5 years of the loan. After that time, the interest rate will begin to fluctuate as stated in the Authorization.
3. The CA Lender must specify in the Note the frequency at which the interest rate adjustment will occur.
4. This adjustment period as identified in the Note may not be changed without the written consent of the Borrower.
5. All subsequent adjustments will set the interest rate on the first calendar day of the adjustment period using the base rate in effect on the first business day of the adjustment period.
6. The rate of interest will change on the first calendar day of the adjustment period even though the rate may not be known until the second business day of that period.

For example, if the first of the month is a Sunday, the base rate is the Prime Rate in effect on Monday. This rate will be reported in the Wall Street Journal on Tuesday, the third calendar day and second business day of the month. Many lenders use the calendar quarter as the adjustment period, especially those that sell the guaranteed portion in the secondary market.

1. Interest Rate Requirements for an SBA Note:
2. For fixed rate loans, the CA Lender must state the specific interest rate in the Note.
3. For variable rate loans, the CA Lender must include the following information in the Note:
4. Identification of the rate being used as the base rate;
5. The publication in which the designated base rate appears regularly (e.g., Wall Street Journal or the Federal Register if using the SBA Optional Peg Rate);
6. The permanent percentage spread to be added to the base rate;
7. The initial interest rate of the loan (from disbursement to first adjustment);
8. The date or timing of the first rate adjustment; and
9. The frequency of rate adjustment.
10. Interest Rate Ceilings and Floors:

SBA will permit a CA Lender to limit the upward and downward adjustments by establishing a floor and ceiling provided that both the floor and ceiling are stated in the Note.

1. Accrual Method:

SBA does not require a specific accrual method unless the loan is sold in the secondary market. Loans sold on the secondary market must either use 30/360 or Actual/365 as the interest accrual method.

1. Amortization:

CA Lenders should use an amortization schedule that is appropriate for the type of loan. SBA does not allow balloon payments. A fixed interest rate loan must use a payment that will fully amortize the loan by the maturity date. Typically, variable rate loans are re-amortized every time the interest rate is adjusted to ensure full amortization by the maturity date. The amortization schedule may also be adjusted to meet the cash flow needs of the business.

1. Fixed and Variable Rate Combinations:

The CA Lender may use a fixed rate on either the guaranteed or unguaranteed portion and a variable rate on the other portion of the loan. SBA allows such combinations as long as neither rate exceeds the SBA maximum interest rate. A CA Lender may use this structure to make a loan that permits it to retain a variable interest rate on the unguaranteed portion and sell a fixed rate guaranteed portion on the secondary market. If the CA Lender uses a combination, the entire loan is considered to be a variable interest rate loan. The interest rate on both the guaranteed and unguaranteed portions must be based on the variable rate.

1. Interest Rate Swap Contracts:
2. An interest rate swap is a contract between two parties where one party pays a fee in exchange for an agreement by the other party to pay any interest in excess of an established amount. The contract may last for all or part of the term of the loan. The swap contract only relates to the payment of interest.

Example: A Borrower has a Prime plus 2% interest rate on a CA variable rate guaranteed loan. The Borrower could purchase an interest rate swap contract that would set the interest rate at 8%. When the Note rate is lower than the rate paid by the Borrower on the swap contract (8%), the swap seller keeps the extra amount as compensation for the risk that rates will at some point exceed 8%. When the Note rate is higher than the rate paid by the Borrower on the swap contract, the Borrower would continue to pay the fixed rate of 8% and the swap seller would pay the difference above 8% to the CA Lender. The ability to stabilize the amount of the loan payment each month is the benefit to the Borrower of an interest rate swap contract.

1. In order to use an interest rate swap in the CA Pilot Program, the interest rate swap contract must meet the following conditions:
2. The interest rate swap contract is an agreement between the small business Borrower and the CA Lender or, if the swap seller is not the lender, a third party. SBA is not a party to the interest rate swap contract.
3. The interest rate swap contract does not affect the amount of money owed by the Borrower to SBA in the event SBA purchases the guaranty. In the event of a Borrower default, interest will be calculated using the base rate and spread in the variable interest rate Note, not the swap contract.
4. SBA will not be responsible if the swap seller defaults during the life of the contract. The Borrower will be liable for the interest as required in the Note.
5. Loans with accompanying interest rate swap contracts may be sold on the secondary market. The Lender is still required under the secondary market contract (SBA Form 1086) to forward interest and principal pursuant to the original terms of the loan. It is the CA Lender’s responsibility to work with the swap seller to make sure funds are available for submission to the Fiscal Transfer Agent according to the time schedule in the SBA Form 1086.
6. The full amount of the principal and interest required under the Note must be reported by the CA Lender on the [SBA Form 1502](https://www.sba.gov/document/sba-form-1502-sba-form-1502-instructions).
7. SBA will not review swap contracts for Borrowers or provide guidance on their use. While swap contracts should not have a significant impact on the cost of the loan, SBA will not publish any guidelines on the cost of these contracts.
8. The Borrower must sign a statement acknowledging that interest will be calculated at the Note rate if the swap contract is terminated.
9. The following statement must be included in the swap contract that is executed by the Borrower and the swap seller: “The Small Business Administration is not a party to this contract and does not guarantee it. In the event SBA is called upon to honor its guaranty to the CA Lender, the Borrower’s debt will be determined by the terms of the Note, including the variable interest rate provision.”
10. Swap contracts may be used on new or existing loans.
11. The swap contract does not have to last for the entire length of the loan agreement.
12. SBA does not have a standard form for an interest rate swap contract.
13. Any fees owed the swap counterparty as a result of the default by the Borrower will be subordinated to the CA loan.
14. Credit Standards for CA Loans

The policies that make up SBA’s credit standards begin with the requirements outlined in 13 CFR §§ [120.101](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.101) and [120.150](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.150), except as specifically modified in the Federal Register Notice published on April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)] and in this Guide. This section provides procedural guidance as to what the CA Lender should or must consider when analyzing any request for financial assistance that will be guaranteed by SBA.

A CA Lender must analyze each application in a commercially reasonable manner, consistent with prudent lending standards. The cash flow of the Applicant is the primary source of repayment, not any expected recovery from the liquidation of collateral. Thus, if the CA 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.

To the maximum extent practicable, CA Lenders may use their own forms, internal credit memoranda, notes, collateral documents, and servicing and liquidation documentation. In using their documents and procedures, CA Lenders must follow their established and proven internal procedures used for their similarly-sized non-SBA guaranteed commercial loans.

1. Processing Method

Delegated authority: When a CA Lender submits a CA loan guaranty request under the CA Lender’s delegated authority, the Agency does not review the CA Lender’s determination of eligibility, analysis of the credit, or structure of the loan or line of credit prior to issuing an SBA Loan Number. The CA Lender must analyze eligibility and credit worthiness in accordance with SBA Loan Program Requirements and properly document its file. When the CA Lender requests SBA to purchase its guaranty or when SBA is conducting lender oversight activities, the CA Lender’s analysis is subject to SBA’s review and determination of adequacy.

Non-delegated authority: When a CA Lender submits a CA loan guaranty request to the LGPC under the non-delegated processing method, the CA Lender submits the application and supporting documents to SBA. SBA will make the final determination as to the eligibility and creditworthiness of the Applicant, including approving the uses of proceeds, the adequacy of the collateral being pledged, the structure of the loan, and any equity contribution to be required from the Applicant. All CA Lenders that have been granted delegated authority may decide on a loan-by-loan basis to submit a loan to SBA under non-delegated authority.

Once submitted to the LGPC for processing under non-delegated authority, an application withdrawn by a Lender, screened-out, or declined by the LGPC may not be approved by any Lender under its delegated authority. E-Tran will not permit the submission of such an application under any Lender’s delegated authority for a period of 12 months from the date of the withdrawal, screen-out, or decline of the application.

For more information on delegated and non-delegated authority, see [Chapter 2](#_Chapter_2:_).

1. Underwriting

SBA has authorized CA Lenders to make credit decisions without prior SBA review unless the CA Lender does not have delegated authority or unless the CA Lender chooses to submit a CA loan to LGPC for processing under nondelegated authority.

1. CA Lenders must not make a CA loan that would be available on reasonable commercial terms from either the CA Lender itself or another source without an SBA guaranty. (Credit not available elsewhere 13 CFR [120.101](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.101)). The credit analysis must include the factors demonstrating the Applicant does not have credit available elsewhere on reasonable commercial terms from non-Federal, non-State, or non-local government sources, in accordance with Section A, Ch. 1, Para. E, Demonstrate the Need for Desired Credit, in SOP 50 10 6, Part 2.
2. The credit analysis must demonstrate that there is a reasonable assurance of repayment.
3. CA Lenders must use appropriate, prudent, and generally acceptable commercial credit analysis processes and procedures consistent with those used for their similarly-sized, non-SBA guaranteed commercial loans, which may include credit scoring. However, see subparagraph h below for the minimum requirements on [equity injection](#Equity_Injection_Requirements).
4. Use of the FICO® Small Business Scoring ServiceSM Score (SBSS) credit scoring model through SBA’s E-Tran system:

Regardless of the credit analysis processes and procedures that a CA Lender uses for their non-SBA loans, CA Lenders may use SBA’s E-Tran system to credit score their CA loans using the SBSS credit scoring model. (Note: Because of the costs associated with use of this system, CA Lenders should not score the same loan multiple times or use the scoring system for loans that will be processed conventionally without a CA guaranty.) The minimum acceptable credit score for CA loans approved on or after October 1, 2018, is 140, and the minimum score may be changed by SBA based on portfolio performance. See [Appendix H](#Appendix_H_Screening_For_Credit_Score), “Screening the Application for a Credit Score in E-Tran,” for information on how to credit score loans in E-Tran.

1. If the SBSS score is satisfactory, the CA Lender must document how the project complies with CA Loan Program Requirements, for example, the project meets program eligibility requirements. The CA Lender must also provide accurate descriptions of uses of proceeds, and document that credit is not available elsewhere.
2. If the SBSS score is not satisfactory, and:
   1. If the loan would be eligible under the credit analysis processes and procedures that the CA Lender uses for its similarly-sized, non-SBA guaranteed commercial loans, the CA Lender may approve the CA loan under those processes and procedures.
   2. If the loan would not be eligible under the credit analysis processes and procedures that the CA Lender uses for its similarly-sized, non-SBA guaranteed commercial loans, the CA Lender must decline the loan.
3. If used, the SBSS score results must be documented in each loan file and available for SBA review.
4. If a CA Lender uses a business credit scoring model other than through SBA’s E-Tran system, prior to using the credit scoring model, the CA Lender must request authorization to use the model by submitting the scoring model, validation of the model, and documentation of appropriate statistical methodologies that the credit analysis procedures are predictive of loan performance to [CAloans@sba.gov](mailto:CAloans@sba.gov). Such business credit scoring models cannot rely solely on consumer credit scores. The CA Lender may not begin using a business credit scoring model other than through SBA’s E-Tran system until SBA has reviewed and authorized its use.
5. Business credit scoring models may incorporate, for example, the earnings and cashflow of an Applicant, equity, or collateral, in which case those factors would not necessarily be separately considered by a CA Lender unless otherwise specified by CA Loan Program Requirements (e.g., where SBA requires an equity injection for certain project financing).
6. The credit decision on CA loans, including how much to factor in a past bankruptcy, or a loan to a business with an Associate who has a criminal background, is generally left to the business judgment of the CA Lender in accordance with their own policies for similarly-sized, non-SBA-guaranteed commercial loans.
7. **Equity Injection Requirements:** If the CA Lender requires an equity injection in addition to the circumstances stated below where equity injection is required for CA loans, and, as part of its standard processes for similarly-sized, non-SBA guaranteed commercial loans verifies the equity injection, it must do so for CA loans. While the credit decision is left to the business judgment of the CA Lender, early loan defaults will be reviewed by SBA pursuant to SOP 50 57.
8. The CA Pilot Program requires a minimum equity injection requirement for certain Applicants and loans:
9. Start-Up businesses – At a minimum, SBA considers an equity injection (Applicant contribution) of at least 10 percent of the total project costs (all costs required to become operational, regardless of the source of funds) to be necessary for a start-up business to operate on a sound financial basis. 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 1 year or less;
10. Changes of ownership:
11. Resulting in a new owner (“complete change of ownership”): SBA considers an equity injection of at least 10 percent of total project costs (all costs required to complete the change of ownership, regardless of the source of funds) to be necessary for such transactions. Seller debt may not be considered as part of the equity injection unless it is on full standby for the life of the CA loan, and it does not exceed half of the required equity injection;
12. Change of ownership between existing owners (“partner buyout”): In order for a CA loan to finance greater than 90% of the purchase price of a partner buyout: (1) the remaining owner(s) must certify 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 (CA Lenders must document in the loan file that the Borrower has made the required certification and retain such certification in the loan file); and (2) the business balance sheets for the most recent completed fiscal year and current quarter must reflect a debt-to-worth ratio of no greater than 9:1 prior to the change in ownership. In the event the CA Lender is unable to document that both (1) and (2) above are satisfied, the remaining owner(s) must contribute cash in the amount of at least 10% of the purchase price of the business, as reflected in the purchase and sale agreement.
13. Collateral

See SOP 50 10 6, Part 2, Section A, Paragraph A, for guaranty requirements (personal, corporate, and other).

1. With respect to collateral, CA Lenders must use commercially reasonable and prudent practices to identify collateral, which conforms to procedures at least as thorough as those used for their similarly-sized, non-SBA guaranteed commercial loans. Decisions regarding what collateral must be taken to secure a loan are based on the circumstances of the individual loan, including size, and must meet the minimum requirements set forth in this section.[[4]](#footnote-5)
2. For loans of $50,000 or less, CA Lenders are not required to take collateral.
3. For loans over $50,000:
4. The CA Lender must follow the written collateral policies and procedures that it has established and implemented for its similarly-sized, non-SBA guaranteed commercial loans; however, at a minimum, the CA Lender must require as collateral a first lien on all assets financed with the CA Loan proceeds; and
5. The CA Lender is also required to take a lien on all the Borrower’s fixed assets up to the point the CA loan is “fully secured” in accordance with the collateral valuations provided in SOP 50 10 6 Part 2, Section B, Chapter 1, Paragraph 3;
6. Notwithstanding ii.a) and b), SBA will not require the CA Lender to take real estate as collateral unless one of the following conditions are met:
7. The real estate is being acquired with the CA loan proceeds;
8. The CA loan proceeds will finance improvements to real estate owned by the Borrower or its Associates; or
9. The CA loan proceeds will refinance debt originally used to acquire, or improve the real estate owned by the Borrower or its Associates.
10. Adequacy of Collateral:

A loan request is not to be declined solely on the basis of inadequate collateral. However, SBA does not permit its guaranty to be a substitute for available collateral.

1. Real Estate Appraisal and Business Valuation Requirements for all CA loans to acquire a business or for CA loans secured by commercial real property: Follow the procedures for SBA Express loans as stated in SOP 50 10 6, Part 2, Section B, Chapter 2, Paragraph C, 3.c.
2. Submission of Application for Guaranty for CA

CA Lenders must maintain in their CA loan files all of the forms, information, and any supporting documentation the CA Lender requires in order to make an informed eligibility and credit decision. Any application form obtained by the CA Lender from the Applicant must be certified by the Applicant as true and complete.

CA Lenders must disclose 100% of the Applicant’s ownership on SBA Form 1919 and in E Tran in order to submit a loan application. Each owner must be identified in E-Tran.

SBA Form 1919 includes information on the number of employees at the time of application and the number of jobs to be created and/or retained as a result of the loan. Jobs “created” means the number of full-time (or equivalent) employees that the small business expects to hire as a result of the loan. Jobs “retained” means the number of full-time (or equivalent) employees on the payroll of the business at the time of application that will be lost if the loan is not approved.

1. Contents of Application
2. Completed and signed SBA Form 1919, “Borrower Information Form,” SBA Form 2449, Community Advantage Addendum, and SBA Form 1920, “Lender’s Application for Guaranty.” Note: Character Determination: For the CA Pilot Program only, in the Federal Register Notice published April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)], SBA modified 13 CFR 120.110(n) to remove the restrictions that make ineligible any business with an Associate who is incarcerated, on probation, on parole, or has been indicted for a felony or crime of moral turpitude. This means that, for CA loans only, completion of SBA Form 1919, questions 17, 18, and 19, and SBA Form 1920, page 4, block J, are not required unless the CA Lender requires this information for their similarly-sized, non-SBA-guaranteed commercial loans. CA Lenders may continue to conduct background checks and make risk-based lending decisions in accordance with their own policies.
3. CA Lender’s credit memorandum must address all requirements detailed in paragraph C, Credit Standards for CA Loans, in this chapter.
4. The following statements must be included if the CA Lender requires them for its similarly-sized, non-SBA guaranteed commercial loans:
5. Personal Financial Statement
6. Business Financial statements
7. Affiliate/Subsidiary financial statements
8. If CA Lender does not use business financial information and/or tax returns to determine creditworthiness, such as with some business credit scoring models, the CA Lender must obtain IRS tax transcript data in order to verify that the returns were filed and for the purpose of determining the Applicant’s size, but reconciliation of the tax transcript data is not required.
9. In addition, depending on the use of proceeds and conditions of the loan:
10. Copy of lease, if applicable;
11. If real estate is to be purchased or improved with loan proceeds:
12. Appraisal;
13. Copy of signed purchase agreement;
14. Lender’s environmental questionnaire. See definition of “Environmental Questionnaire” in SOP 50 10 6 Appendix 4, for guidance on acceptable environmental questionnaires; and
15. Cost breakdown of improvements
16. Documentation of USCIS status verification – CA Lenders must receive verification of the status of each alien required to submit USCIS documents prior to submission of the request for loan number to SBA. CA Lender must retain a copy of the verification received from USCIS or SBA-SLPC in its loan file.
17. If purchasing an existing business with loan proceeds:
18. Copy of buy-sell agreement;
19. Copy of business valuation;
20. Pro forma balance sheet for the business being purchased as of the date of transfer;
21. Copy of seller’s financial statements for the last 3 complete fiscal years or for the number of years in business if less than 3 years. The financial statements must be dated and either signed or certified by the seller within 120 days prior to submission to SBA; and
22. Seller’s interim financial statements no older than 120 days from date of submission to SBA. The financial statements must be dated and either signed or certified by the seller. If seller’s financial statements are not available, the seller must provide an alternate source of verifying revenues.
23. Debt Refinancing. For all CA loans, Lenders must maintain copies of all notes, security agreements, leases, or other documentation evidencing the debt to be refinanced in the loan file. For non-delegated CA loans, Lenders must submit copies of all supporting documentation for the debt to be refinanced to the LGPC with the application.
24. How to submit applications for guaranty for delegated submission

CA Lenders using their delegated authority must submit the application data via E-Tran to obtain the SBA loan number. The final Authorization must be uploaded into E-Tran Servicing (see paragraph 4 below).

1. How to submit applications for guaranty for non-delegated submission

CA Lenders submitting applications using non-delegated procedures must submit applications for guaranty and all required contents of the application and attachments via E-Tran to the LGPC. *Documents greater than 250MB must be separated into multiple documents. The system does not support uploads greater than 250MB.*

1. Loan Authorization

The Authorization is SBA’s written agreement with the CA Lender providing the terms and conditions under which SBA will guarantee a particular CA loan. (While the CA Lender sets the general terms and conditions for extending credit, SBA establishes the terms and conditions for its guaranty.)

1. For CA loans processed under non-delegated authority, the LGPC will prepare the Authorization and send it to the CA Lender.
2. For CA loans processed under delegated authority, the CA Lender must prepare the Authorization, execute the Authorization on SBA’s behalf, retain it in the loan file, and upload to E-Tran Servicing after loan closing.
3. In the event of default, a copy of the Authorization must be submitted with any loan guaranty purchase request to the appropriate Commercial Loan Servicing Center.
4. CA Lenders may use the SBA Express Loan Authorization with the following additional requirements for debt refinancing: in the Use of Proceeds section, the refinancing must be specifically identified and must include an itemization of all debts being repaid by loan proceeds when the individual creditor is to be paid $10,000 or more, and the loan number and dollar amount of any existing SBA-guaranteed debt being refinanced. The SBA Express Loan Authorization is available at <https://www.sba.gov/document/support--sba-express-loan-authorization-letter-template>.

Alternatively, CA Lenders may use the Standard 7(a) Boilerplate available at [www.sba.gov/document/support-object-object-standard-7a-authorization-file-library](http://www.sba.gov/document/support-object-object-standard-7a-authorization-file-library).

1. See SOP 50 10 6, Part 2, Section B, Ch. 5, Para. A, for more information on the Authorization.

# Chapter 5: Loan Closing and Disbursement

The first step in closing and disbursing a CA loan is to conduct a thorough review of the Authorization. The guaranty fee must be paid within the timeframe stated in the Authorization. The disbursement period must be tailored to meet the requirements of each individual CA loan. After the CA Lender has determined that the CA loan conditions in the Authorization are appropriate for the terms of the credit, the CA Lender must close the CA loan in accordance with its provisions. If any modifications to the Authorization are necessary, the CA Lender must follow the procedures set forth in SOP 50 10 6, Part 2, Section B, Chapter 5, Paragraph B.

The CA Lender must obtain certain certifications from the CA loan Borrower. These certifications include statements from the Applicant concerning its business operations, the approved uses of loan proceeds, and other matters related to terms and conditions of the CA loan. For guidance, see SOP 50 10 6, Part 2, Section B, Chapter 5, Paragraph D.7., “Borrower Certifications.”

The CA Lender must comply with the environmental and insurance requirements stated in the Authorization for SBA Express. Additionally, SOP 50 10 6, Part 2, Section A, Ch. 6, Para. C, describes insurance that may need to be obtained in connection with the CA loan. In the Federal Register Notice published April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)], SBA modified 13 CFR [120.160(c)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.160) to permit CA Lenders to follow the hazard insurance policies and procedures they have established and implemented for their similarly-sized, non-SBA-guaranteed commercial loans. CA Lenders must continue ensuring that Borrowers obtain flood insurance per 13 CFR 120.170 when required under the Flood Disaster Protection Act of 1973 (Sec. 205(b) of Pub. L. 93-234; 87 Stat. 983 (42 U.S.C. 4000 et seq.)).

Loans approved but not fully disbursed may require technical corrections to names and/or addresses. SBA will permit CA lenders to make these types of technical corrections in E-Tran prior to full disbursement. For specific requirements, see the most recent version of the 7(a) Lenders Servicing and Liquidation Matrix, “Approved Loans Prior to Final Disbursement,” available at <https://www.sba.gov/document/support--servicing-liquidation-actions-7a-lender-matrix>. All such changes occurring after full disbursement must follow the policies and procedures found in SOP 50 57.

For more information on CA loan closing and disbursement, including post approval/pre-disbursement modifications, note terms and other information, see SOP 50 10 6, Part 2, Section B, Chapter 5, Paragraph D, “Loan Closing and Disbursement.”

# Chapter 6: What Happens After Disbursement?

## Loan Servicing

Loan servicing involves the administration of the loan from the time the proceeds are fully disbursed until the loan is paid off, charged off, or otherwise finally dispositioned. This includes sending monthly statements and collecting monthly payments, maintaining records of payments and balances, remitting funds to the note holder (for secondary market transactions), following up with Borrower on payment delinquencies, and preparation and submission of [SBA Form 1502](https://www.sba.gov/content/sba-form-1502-and-instructions), “Guaranty Loan Status & Lender Remittance Form,” to the applicable [Fiscal Transfer Agent](https://catran.sba.gov/ftadistapps/ftawiki/) (currently Guidehouse) - see [Chapter 7, Reporting Responsibilities](#_Part_2:_Reporting), for additional information on 1502 reporting.

CA Lenders must service their CA loans in a commercially reasonable manner using prudent lending practices and in accordance with CA Loan Program Requirements. The CA Lender must service CA loans in its portfolio in as diligent a manner as it services its non-SBA guaranteed portfolio. If the CA Lender does not maintain a non-SBA guaranteed loan portfolio, it must adhere to the same prudent lending practices for loan servicing followed by commercial lenders on non-government guaranteed loans.

CA Lenders must notify the appropriate SBA Loan Center in writing or via E-Tran when they take substantive unilateral loan actions. For a specific list of unilateral actions and information on how to notify SBA, see the most recent version of the 7(a) Lenders Servicing and Liquidation Matrix available at <https://www.sba.gov/document/support--servicing-liquidation-actions-7a-lender-matrix>. Unilateral actions are conditioned by whether the loan guarantee has been sold in the secondary market. Pursuant to SBA Form 1086 or its successor form, changes made to the terms and conditions of the sold Note other than the single unilateral deferment option require the prior written consent from the Registered Holder.

CA Lenders must comply with SOP 50 57, 7(a) Loan Servicing and Liquidation, when servicing CA loans. Additional lender responsibilities with regard to loan servicing are set forth in 13 CFR [120.535](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.535) and [120.536.](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.536) Questions regarding these procedures should be directed to the Lender Relations Specialist in the applicable [SBA District Office](https://www.sba.gov/tools/local-assistance/districtoffices).

## Loan Liquidation

Loan liquidation involves the process of converting assets, such as property or investments, into cash in order for a Borrower to pay its loan. SBA’s [SOP 50 57,](https://www.sba.gov/document/sop-50-57-7a-loan-servicing-and-liquidation) 7(a) Loan Servicing and Liquidation, contains the requirements lenders must follow when liquidating loans guaranteed by SBA. In addition, lender responsibilities with regard to liquidation and debt collection are set forth in 13 CFR [120.535](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.535) and [120.536](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.536), including those liquidation actions that require the prior written consent of SBA. Frequent liquidation deficiencies that can lead to a possible reduction in the allowable purchase guaranty amount requested include failure to make a timely site visit at time of default to ensure business collateral has been secured, failure to secure required security interest that results in a reduced recovery, or release of guarantors or obligors without prior consent of SBA.

## Guaranty Purchase

When assembling a guaranty purchase request package, CA Lenders will use the processes and procedures in the “Guaranty Purchase Package Tabs Express, Export Express and Express Pilots” (also known as the “10 Tab Express Purchase Demand Kit”) at <https://www.sba.gov/document/sba-form-10-tab-express-purchase-demand-kit>

SBA generally purchases its guaranteed portion after the CA Lender has fully liquidated all business personal property collateral with an aggregate Recoverable Value (as defined in SOP 50 57) of $5,000 or more. SBA will pay up to a maximum of 120 days interest to a lender at the time of default. For guaranty purchase of loans sold on the secondary market, see SOP 50 57.

CA loan purchase requests will be processed in the Commercial Loan Servicing Center (CLSC) in Fresno, CA ([CLSC-CA](#CLSC_CA_definition)) or Little Rock, AR ([CLSC-AR](#CLSC_AR_definition)). See SOP 50 57 to determine which SBA CLSC to use and how to contact the appropriate CLSC.

CA loans will be subject to the same requirements and procedures governing guaranty purchase of SBA Express loans and should follow the requirements of the respective service center when submitting requests for payment on the guaranty. See Chapter 23 of SOP 50 57 and 13 CFR [120.520](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.520) through [120.524](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.524), which establish these requirements.

# Chapter 7: Responsibilities of Community Advantage Lenders

## Ongoing Responsibilities

CA Lenders are responsible for administering their CA loans in compliance with all SBA Loan Program Requirements. This section describes the CA Lender’s duties regarding ongoing responsibilities and specific reporting responsibilities.

In making SBA-guaranteed CA loans, the CA Lenders must:

* For all loans submitted using the non-delegated process through the LGPC (including loans from delegated CA Lenders using this processing method):
  + Submit the applications for guaranty with all required forms, documentation, and credit analyses, to the LGPC;
  + Execute the Authorization;
* For all loans processed using the CA Lender’s delegated authority:
  + Obtain all required forms and documentation, perform all required credit and eligibility analyses, and maintain the documentation in the loan file;
  + Prepare and execute the Authorization on SBA’s behalf and ensure that is includes all applicable provisions consistent with the loan approval.
* Close the CA loan in accordance with the terms of the Authorization, SBA regulations, SOP 50 10 6, Part 2, Chapter 5, and other CA Loan Program Requirements related to loan closing.
* Comply with CA Loan Program Requirements.
* Maintain complete loan files and allow SBA’s authorized representatives access to those files during normal business hours (SBA expects the CA Lender’s loan files and related records to be under the direct control of the Lender, not an Agent or Lender Service Provider).
* Ensure that a minimum of 60% of the number of CA loans closed meet the underserved market requirements for CA. Applications for CA loans will indicate which category(ies) of underserved market(s) the loan meets, if applicable. This will be monitored by SBA and reviewed as part of the OCRM review process.
* Pay the required guaranty fees (upfront and on-going) for all approved CA loans in a timely manner.
* Comply with the same provisions regarding Preferences, Ethical Requirements Placed on a Lender, Forward Commitments, Advertising of Relationship with SBA, and Debarment, Suspension, and Exclusion (SAM.gov) as all other 7(a) Lenders. (See SOP 50 10 6, Part 1, Chapter 1, Paragraph C for Preferences, Forward Commitments, and Advertising, and SOP 50 10 6, Part 2, Section A, Chapter 5, Paragraph A for Ethical Requirements and Paragraph B for Debarment, Suspension, and Exclusion (SAM.gov).)
* Establish and maintain adequate loan loss reserves in a separate Loan Loss Reserve Account (LLRA) to cover potential losses arising from defaulted CA loans. Funds held in the LLRA are to cover both losses from the unguaranteed portion of defaulted CA loans as well as for possible repairs and denials associated with SBA’s guaranty on CA loans sold into SBA’s secondary market. Requirements are as follows:
  + The LLRA must equal no less than 5% of the outstanding balance of the unguaranteed portion of the CA Lender’s CA loan portfolio (which equates to 1.25% for a CA loan above $150,000 and 0.75% for a loan below or equal to $150,000, regardless of whether the guaranteed portion has been sold into the secondary market). The CA Lender must deposit the required reserve amount into the LLRA no later than 45 calendar days after the date of each CA loan disbursement;
  + For CA loans approved on or after October 1, 2018, an additional 5% reserve amount is required to be maintained on the guaranteed portion of each CA loan that is sold into the secondary market.[[5]](#footnote-6) The CA Lender must deposit this required reserve amount in the LLRA no later than 10 calendar days after the CA loan has been sold in the secondary market;
  + The 5% reserve amount for the unguaranteed portion of the CA Lender’s CA loan portfolio and the 5% reserve amount for the guaranteed portion of the CA Lender’s loans that are sold in the secondary market may be kept in the same segregated bank account;
  + The D/OCRM, in consultation with the D/OFA, may require additional amounts to be deposited in the LLRA based on the risk characteristics and/or performance of the CA Lender and its CA Loan portfolio. In addition, the CA Lender, especially those that participate in the secondary market, should carefully monitor its loan loss reserve levels to ensure it has the ability to pay its contingent liability obligation to SBA that could result from a partial or full denial of a guaranty for a particular CA loan;
  + The LLRA must be separate from all other bank accounts the CA Lender maintains and must be a federally-insured demand or savings account, or certificate(s) of deposit in an amount, to the extent practicable, not in excess of the maximum federally insured amount. It must be considered a Restricted Reserve for financial accounting purposes;
  + The LLRA cannot be commingled with any other funds of the CA Lender, its parent, or related entities;
  + The CA Lender must reconcile the LLRA on a monthly basis to ensure that the balance is maintained at the required level;
  + The CA Lender’s audited financial statements must include an assessment of the CA Lender’s compliance with the loan loss reserve amount requirements for the CA Pilot Program;
  + SBA Microloan and ILP Intermediaries may not use their SBA loan proceeds to fund the loan loss reserve for the CA loans (nor may they use SBA loan proceeds to fund CA loans); and
  + Failure to follow the loan loss reserve account requirements may result in enforcement action by SBA, which could include removal from the CA Pilot Program and/or the imposition of additional controls or reserve requirements.
* Maintain adequate fidelity insurance coverage. CA Lenders identified as SBLCs with outstanding SBA guaranty exposure of $20 million or less are required to maintain coverage in a minimum amount of $500,000. CA Lenders with outstanding guaranty exposure of more than $20 million must maintain fidelity insurance coverage in a minimum amount of $2,000,000.
* Maintain compliance with SBA’s requirements for CA loan pledges in accordance with SBA regulations at 13 CFR [120.434](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.434) and [Appendix F](#Appendix_F_Loan_Pledges_Credit_Facilitie), “Loan Pledges, Secured Credit Facilities, and Loan Transfers.”
* Comply with SBA’s requirements for selling CA loans in accordance with SBA regulations at 13 CFR [120.430](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.430), 13 CFR [120.431](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.431), 13 CFR [120.432(a)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.432) and [13](http://www.ecfr.gov/cgi-bin/retrieveECFR?gp&amp%3BSID=01e53f4be4361b15cac3b442d814701d&amp%3Bn=13y1.0.1.1.16&amp%3Br=PART&amp%3Bty=HTML&amp%3Bse13.1.120_1433) CFR [120.433](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.433) (with respect to the sale of an entire CA loan) and [Appendix F](#Appendix_F_Loan_Pledges_Credit_Facilitie), “Loan Pledges, Secured Credit Facilities, and Loan Transfers.”
* Report any suspected cases of fraud, waste, or abuse to the [SBA Office of the Inspector General](http://eweb1.sba.gov/oigcss/client/dsp_welcome.cfm).
* Lend only in state(s) and territory(s) specified in the business plan approved when admitted to the program by SBA and in those state(s) and territory(s) subsequently approved by OCRM.

## Reporting Responsibilities

CA Lenders are required to prepare and submit: a monthly report using [SBA Form 1502,](https://www.sba.gov/content/sba-form-1502-and-instructions) quarterly reports, and an annual report with audited financial statements as outlined below. Also, CA Lenders must report additional information to SBA if a change of lender authority occurs.

Monthly 1502 Reporting: The CA Lender must provide a monthly report on SBA Form 1502 that includes loan status information for all of its SBA-guaranteed CA loans, whether or not the Borrower made a payment in the current month. 1502 reporting is accomplished through a Fiscal Transfer Agent ([FTA](#FTA)). For information and procedures on 1502 reporting, see SOP 50 10 6, Part 1, Section A, Chapter 3, Paragraph F.

Quarterly Reporting: The CA Lender must submit a Quarterly Report to OCRM no later than 45 days after each quarter end. For instructions on submitting the Quarterly Report to OCRM, send an email to [CAloans@sba.gov](mailto:CAloans@sba.gov). The Quarterly Report must include detailed information on the following items:

* Quarterly Financial Statements (internally prepared balance sheet and income statement is sufficient)
* Capital Adequacy/Loan Loss Reserve Account
* Delinquencies/Non-Accruals
* Technical Assistance Provided
* Underserved Market Distributions
* Classified Assets/Loss Allowance

Annual Report with Audited Financial Statements: The CA Lender must submit to OCRM an annual report with audited financial statements within 120 days after the end of the CA Lender’s fiscal year. CA Lenders subject to audit requirements under the Single Audit Act may submit audits prepared in accordance with 2 C.F.R. Part 200. For instructions on submitting the required documents to OCRM, send an email to [CAloans@sba.gov](mailto:CAloans@sba.gov). The CA Lender must submit the report prepared by an independent certified public accountant that includes the following:

* An audited balance sheet;
* An audited statement of income and expense;
* An audited reconciliation of capital accounts,
* An audited source and application of funds;
* Any footnotes necessary to understand the report; and
* The auditor’s opinion.

In addition, the report should demonstrate compliance with the CA Lender’s business plan, describe any Management &Technical Assistance (M&TA) practices and demonstrate that the CA underserved markets requirements have been met. The audited financial statements **must** include an assessment of the lender’s compliance with the loan loss reserve requirements as stated above.

CDFIs must certify annually that the US Treasury has not revoked or otherwise elected not to renew the lender’s status as a CDFI.

Change of Lender Authority: If a CA Lender has a change in its financial condition or in the structure of its organization, it must notify OCRM and all other appropriate SBA Offices in writing, and obtain SBA approval of the change, if required by 13 CFR [120.464(a)(5) and (6)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#p-120.464(a)(5)), SBA Loan Program Requirements, and the table in [Appendix D](#Appendix_D_SBA_Approval_Reqd), “Change in Lender Authority.” CA Lenders participating in SBA's Microloan, 504, and/or ILP Program must also comply with the applicable SBA Loan Program Requirements governing notification of structural or organizational changes and SBA approval of such changes for those programs.

* For SBA Microloan Intermediaries, see SOP [52 00 B](https://www.sba.gov/document/sop-52-00-microloan-program), Subchapter 3.D.
* For CDCs, see all CDC certification, operational, reporting and affiliation requirements, including those in 13 CFR [120.810](https://www.ecfr.gov/current/title-13/section-120.810) through [120.857](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.857) and SOP 50 10 6, Part 1, Section B.
* For ILP Intermediaries, see 13 CFR [109.360](https://www.ecfr.gov/current/title-13/chapter-I/part-109#109.360) and [ILP Procedural Guide, Chapter II (B)](https://www.sba.gov/sites/default/files/files/ILP%20Procedural%20Guide%20FINAL.pdf) [and Chapter V (B)(4)](https://www.sba.gov/sites/default/files/files/ILP%20Procedural%20Guide%20FINAL.pdf).

# Chapter 8: Fees

## Fees a CA Lender May Charge an Applicant

For purposes of the CA Pilot Program, in a Federal Register Notice published April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)], SBA modified 13 CFR 120.221(a) to limit the total fees an Applicant can 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.), a CA Lender is permitted to collect a fee from the Applicant in accordance with the table below. With the exception of necessary out-of-pocket costs such as filing or recording fees permitted by 13 CFR [120.221(c)](https://www.ecfr.gov/current/title-13/section-120.221), this is the only fee that a CA Lender may collect directly or indirectly from an Applicant for assistance with obtaining a CA loan. CA Lenders may not split a loan into two loans for the purpose of charging an additional fee to an Applicant. SBA will monitor these fees and, if adjustments are necessary, SBA may revise the amount by publishing a notice with request for comments in the Federal Register.

|  |  |
| --- | --- |
| **CA Loan Amount** | **Description of Fee Amount** |
| Loans up to $5,000 | Up to 10% of Gross Loan Amount |
| Loans > $5,000 up to and including $10,000 | $500 Maximum |
| Loans > $10,000 up to and including $50,000 | 5% of Loan Amount or $1,750, whichever is less |
| Loans > $50,000 | 2.5% or $1,750, whichever is greater |

## Lender Service Providers (LSP)

*“Lender Service Provider”*(LSP) as defined at 13 CFR [103.1(d),](https://www.ecfr.gov/current/title-13/chapter-I/part-103#p-103.1(d)) means an Agent who carries out lender functions in originating, disbursing, servicing, or liquidating a specific SBA business loan or loan portfolio for compensation from the lender. SBA determines whether one is a “Lender Service Provider” on a loan-by-loan basis.

The CA Lender itself, not the LSP, must be able to demonstrate that it exercises day-to-day responsibility for evaluating, processing, closing, liquidating, and litigating its CA loan portfolio.

SBA determines whether an Agent is an LSP on a case-by-case basis by reviewing the relationship the LSP establishes with a lender and the services the LSP provides. If an Agent meets the definition of an LSP, a formal agreement between the Agent and CA Lender is required and must be reviewed by SBA. (See SOP 50 10 6, Part 2, Section A, Chapter 5, Paragraph D, for further guidance on Lender use of Agents and LSP agreements.)

CA Lenders must submit each LSP agreement to the LGPC for review at [LSPagreements@sba.gov.](mailto:LSPagreements@sba.gov) If there are any changes to the agreement after the initial SBA review, the CA Lender must submit the revised agreement to SBA.

## Fee Limitations Applicable to Lender Service Providers and other Agents

To prevent conflicts of interest from arising and to ensure that Applicants are not improperly charged for services provided to the CA Lender, SBA modified some of the requirements applicable to LSPs and other Agents. SBA believes there is, at a minimum, an appearance of a conflict of interest when an Agent represents both the Applicant and the CA Lender on the same loan application. For purposes of the CA Pilot Program, SBA modified 13 CFR 103.4(g) to eliminate the exception to the “two master prohibition.” Thus, 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 also modified the last sentence in 13 CFR 103.5(c) to clarify that compensation paid by the CA Lender to a LSP may not be charged to the Applicant, either directly or indirectly.

Additionally, for purposes of the CA Pilot Program, SBA modified 13 CFR 103.5 to limit the total fees an Agent or Agents may charge an Applicant in connection with obtaining a CA loan. An Agent or Agents may charge a maximum fee of up to 2.5% of the CA loan amount, or $7,000, whichever is less. If an Agent provides more than one service (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 a 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 will monitor these fees and, if adjustments are necessary, SBA may revise the amount from time to time by publishing a notice with request for comments in the Federal Register.

## Disclosure of Fees

If a CA Lender or an Agent charges an Applicant a fee for assistance with obtaining a CA loan, the CA Lender and/or the Agent must disclose the fee to the Applicant and SBA by completing the Compensation Agreement (SBA Form 159) in accordance with 13 CFR 103.5 and the procedures set forth in SOP 50 10 6, Part 2, Section A, Chapter 5, Paragraph D.8.

For a complete discussion of the fees permitted to be charged in connection with an SBA- guaranteed loan, disclosure of those fees to SBA and other activities involving loan agents and LSPs, see the Federal Register Notices published on September 12, 2018 [[83 FR 46237](https://www.govinfo.gov/content/pkg/FR-2018-09-12/pdf/2018-19885.pdf)] and April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)]and SOP 50 10 6, Part 2, Section A, Chapter 5, Paragraph D.

# Chapter 9: CA Lender Oversight

SBA will monitor CA Lenders for performance, risk characteristics, and compliance. This section briefly discusses SBA monitoring and reviews, associated review fees, billing, and supervision and enforcement. For a full understanding of SBA oversight procedures, see SBA regulations at 13 CFR Part 120, [Subpart I](https://www.ecfr.gov/current/title-13/chapter-I/part-120#subpart-I), [SOP 50 53](https://www.sba.gov/document?sortBy=Effective%20Date&search=50%2053&documentType=All&program=All&documentActivity=All&page=1&office=All&relatedOffice=All) (Lender Supervision and Enforcement), [SOP 51 00](https://www.sba.gov/document/sop-51-00-site-lender-reviewsexaminations) (On-Site Lender Reviews and Examinations), and [SOP 50 10 6](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs-0), Part 1, Section A, Chapter 1, Paragraph D.

## Monitoring and Reviews

SBA and a CA Lender may monitor the CA Lender’s performance through SBA’s Loan and Lender Monitoring System (L/LMS) Lender Portal. All CA Lenders are expected to have at least one employee who is experienced and responsible for routinely reviewing the CA Lender’s performance information via the [Lender Portal](https://sbalenderportal.dnb.com/Account/Login?ReturnUrl=%2FFirs).

A CA Lender must allow SBA-authorized representatives to access its files upon request for the purpose of inspection and review of all records and documents relating to SBA-guaranteed CA loans (13 CFR [120.1010](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.1010)). SBA may also require a CA Lender to submit copies of CA loan files and other information to facilitate reviews/examinations or for other lender oversight activities (13 CFR 180, [1120.464(a)(7)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.464), [120.1010](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.1010), and [120.1050](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.1050), and SOP 50 53, Chapter 2, Paragraph 1.e.).

In general, SBA conducts reviews and examinations of CA Lenders in accordance with 13 CFR [120.1025](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.1025) through [120.1060](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.1060) and SOPs 50 53 and 51 00, as revised from time to time. SBA’s reviews of CA Lenders include for example: Quarterly Condition Reviews, Lender Profile Assessments (LPA), Analytical, Diagnostic, Targeted and/or Full Reviews. The type of review or whether a safety and soundness examination is performed may depend on the risk associated with the CA Lender and its SBA portfolio (SOPs 50 53 and 51 00).

SBA’s risk-based review and examination protocol features the composite risk measurement methodology known as PARRiS. PARRiS is an acronym for specific risk areas or components common in both risk-based review and examinations of all 7(a) lenders. Those areas are: (i) **P**ortfolio Performance, (ii) **A**sset Management, (iii) **R**egulatory Compliance, (iv) **Ri**sk Management, and (v) **S**pecial Items. In addition to the PARRiS components, a safety and soundness examination includes SBA Supervised Lender Specific components which include, but are not limited to, a Financial Condition and Management component.

PARRiS:

“P” = Portfolio Performance and measures the degree of financial risk to SBA that a Lender presents considering overall portfolio performance indicators and attributes. The Quantitative factors are 5-year cumulative net yield, 12 month default rate, and 5 year default rate.

“A” = Asset Management and measures the quality of the origination, servicing, and liquidation practices in the Lender’s SBA operation. This component also includes an assessment of the effectiveness of the Lender’s SBA program management and related risks. The Quantitative factors are high risk origination rate, early problem loan rate, and stressed loan rate.

“R” = Regulatory compliance and measures the Lender’s compliance with SBA Loan Program Requirements. The quantitative factors are loans in default status over 3 years rate, 1502 reporting rate, and 24 month repair/denial rate.

“Ri” = Risk Management and measures overall institution risk and a Lender’s use of an effective governance model to identify, understand, and mitigate risk exposure in its 7(a) portfolio. The quantitative factors are forecasted purchase rate, leverage ratio, and non-performing asset ratio.

“S” = Special Items and measures additional key metrics or items that are not included in the other components but may pose risk to SBA or present program integrity concerns. The quantitative factors are average Small Business Predictive Score (SBPS) score (weighted), 5-year charge-off rate, and public corrective action with regulator/no prudential regulator.

When conducting its reviews, SBA may obtain information from SBA’s processing, servicing, litigating, and liquidation/guaranty purchase centers in assessing CA Lender risk. For the CA Pilot Program, SBA is revising its composite risk measurement methodology by adjusting the scoring of select PARRiS quantitative factors to reflect the inherently higher risk attributes of the program which is focused on smaller size loans to underserved markets.

The three PARRiS quantitative factors that have been updated for the CA Lenders are as follows:

1. ‘Leverage Ratio’ was revised so that CA Lenders without a leverage ratio will now score ‘1’ instead of ‘3’;

2. ‘Non-Performing Asset Ratio’ score was revised so that CA Lenders without a ‘Non-Performing Asset Ratio’ will now score ‘1’ instead of ‘3’; and

3. ‘Public Corrective Action or No Federal Regulator’ score was replaced with a ‘Public Corrective Action or SBA Enforcement Action’ score, which will reduce most CA Lender’s score to ‘1’ from ‘5’. This change will allow OCRM to continue to take into consideration whether CA Lender has performance or compliance issues but will not adversely impact non-regulated lenders.

Additionally, to reflect the fact that CA Lenders make loans to Borrowers in underserved markets, which is inherently riskier than traditional 7(a) lending, SBA will also be subtracting 5 additional points from all CA Lender PARRiS scores. Cumulatively, these changes reduce the average CA Lender PARRiS score by 13 points and make the average CA Lender’s PARRiS score equal to that of the average Federally-Regulated Bank participant in the 7(a) loan program. Finally, to allow SBA and CA Lenders to compare the performance of individual CA Lenders to that of all other active CA Lenders, SBA has added a CA peer group to the Lender Portal Report.

## Oversight Review/Examination Fees

CA Lenders are required to pay fees to cover the costs of reviews, examinations and other lender oversight activities (13 CFR [120.1070](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.1070)). Note that these costs may be dependent on the CA guaranty balances and risk assessment indicators presented.

In general, for risk-based reviews and safety and soundness examinations, SBA will invoice each lender for the amount owed following the review or examination. For L/LMS, LPAs and other lender oversight activity expenses, SBA will typically invoice each lender on an annual basis.

The billing and payment process is as follows:

* + The invoice will state the charges, the date by which payment is due, and the approved payment method(s).
  + The payment due date will be no fewer than 30 calendar days from the invoice date.
  + Payments that are not received by the due date shall be considered delinquent, and the SBA will charge interest and other applicable charges and penalties as authorized by [31 U.S.C. 3717](http://www.gpo.gov/fdsys/granule/USCODE-2010-title31/USCODE-2010-title31-subtitleIII-chap37-subchapII-sec3717/content-detail.html).
  + A CA Lender’s failure to pay any of the fee components described above, or to pay interest, charges, and penalties, may result in a decision to suspend, limit, or revoke a CA Lender’s authority as a participant, including a participant’s delegated and secondary market authority. See 13 CFR 120.1070.

## Supervision and Enforcement

An integral part of overseeing the 7(a) loan program is SBA’s authority to supervise and take enforcement actions as necessary. If the CA Lender does not comply with the requirements of the CA Pilot Program, a supervisory or enforcement action may follow as described in SBA Loan Program Requirements. Regulations from 13 CFR [120.1300](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.1300) through [120.1600](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.1600) apply, as well as the provisions of SOP 50 53, Lender Supervision and Enforcement. Additionally, under 13 CFR [120.660](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.660) the D/OCRM together with the D/OFA may temporarily suspend or revoke secondary market authority for any CA Lender based on the risk characteristics or performance of the CA Lender’s portfolio.

Enforcement actions may include, for example, suspension of CA authority, issuance of a capital directive, and appointment of a receiver.

Appendix A: Community Advantage Organizations

SBA-Authorized Certified Development Companies (CDCs): CDCs are generally non-profit corporations certified and regulated by the SBA to package, process, close and service 504 loans. There are a small number of for-profit CDCs that were grandfathered into the current 504 loan program in 1986, and these CDCs are also eligible to become CA Lenders.

SBA-Authorized Microloan Intermediaries: Microloan Intermediaries are entities participating in SBA’s Microloan Program that make and service microloans to eligible small businesses. They provide marketing, management, and technical assistance to their Borrowers. A Microloan Intermediary may be:

* + A private, nonprofit community development corporation or other entity;
  + A consortium of private, nonprofit community development corporations and other entities;
  + A quasi-governmental economic development entity, other than a state, county, municipal government, or any agency thereof; or
  + An agency or a nonprofit entity established by a Native American Tribal Government.

SBA-Authorized Intermediary Lending Pilot Program (ILP) Intermediaries: ILP Intermediaries are private, non-profit entities (other than Microloan Intermediaries) participating in SBA’s Intermediary Lending Pilot Program that originate and service loans to eligible small businesses.

Non-Federally Regulated Community Development Financial Institutions (CDFIs): Only CDFIs certified by the U.S. Department of the Treasury that do not have a Federal financial regulator may participate in CA. CDFIs are financial institutions that provide:

* + Economic development (job creation, business development, and commercial real estate development);
  + Affordable housing (housing development and homeownership); and/or
  + Community financial services (provision of basic banking services to underserved markets, financial literacy training, and predatory lending alternatives).

*Community Advantage Network Partners:* Mission-oriented organizations (such as housing focused CDFIs, community development corporations, faith–based institutions, etc.) that want to bring new sources of capital to small businesses in their communities are encouraged to act as Referral Agents (as defined in 13 CFR [103.1(f)](https://www.ecfr.gov/current/title-13/chapter-I/part-103#p-103.1(f))) to existing CA Lenders. The use of CA Network Partners can expand the reach and impact of the CA Pilot Program. CA Lenders that use CA Network Partners are required to abide by SBA policies and procedures concerning the use of Agents, permissible fees and disclosure of those fees (see 13 CFR [Part 103](https://www.ecfr.gov/current/title-13/part-103) and SOP 50 10 6, Part 2, Section A, Chapter 5, Para. D.)

Appendix B: How to Apply to Become a CA Lender Participant and How SBA Will Evaluate the Application

Eligible organizations may apply for approval to participate in the CA Pilot Program. The following sections describe the information and certifications that must be provided, where the CA Application must be submitted, and the process SBA uses for evaluation.

1. Required Information for a CA Lender Application:

The information below is necessary to complete SBA Form 2301, *Community Advantage Lender Participation Application*.

1. *Tax Exempt Certification –* A copy of the applicant’s IRS Tax Exempt certification and evidence of continued non-profit status (in compliance with IRS Form 990 requirements, if applicable).
2. *Good Standing –* A copy of a Certificate of Good Standing from the Secretary of State from the State where the lender is organized.
3. *Opinion of Counsel –* An opinion of independent counsel that the lender is (1) duly formed, organized and validly existing and in good standing under the laws of the state of organization, (2) chartered or registered to conduct business in the lender’s proposed operating area, and (3) in compliance with applicable local, State and Federal laws in connection with the formation and organization of the lender. “Independent Counsel” is counsel that is not an “Associate of the lender” as defined in 13 CFR 120.10.
4. *Officers and Directors* – A list of officers and directors. For each individual listed, include a resume and SBA Form 1081, *Statement of Personal History*, signed and dated within 90 days of submission to SBA. Any officer or director who answers “yes” to question numbers 10a, 10b, 10c, or 11 on the form must also submit an explanation and fingerprint cards.
5. *Key Personnel* – A list of key personnel (current and proposed) who will be involved in loan packaging, processing and underwriting, closing, disbursing, servicing and liquidating the lender’s CA Loans. For each key individual listed, include a resume and SBA Form 1081 signed and dated within 90 days of submission to SBA. Any key employee who answers “yes” to question numbers 10a, 10b, 10c, or 11 on the form must also submit an explanation and fingerprint card. If any of these services are contracted out, that should be noted in the applicant’s business plan explaining what those services are and how the CA Applicant exercises control over the services provided. A copy of the contract should also accompany the application.
6. *Board Resolution* – A certified copy of a Resolution of the Board of Directors authorizing submission of the application.
7. *CDFI Certification* – A copy of the most recent certification from the U.S. Treasury Department or CDFI Fund (if applicable).
8. *Business Plan* – A business plan addressing the applicant’s small business lending activities and proposed operations for the CA Pilot Program. At minimum cover:
9. ***Organizational Chart--*** Organizational chart with narrative description of organizational units. The organizational chart must also present and describe affiliated entities and the relationship between them.
10. ***Lending Operations--*** Narrative description of proposed operations including the internal organizational units involved in sourcing, evaluating and underwriting, closing, disbursing, servicing and liquidating small business loans.
11. ***CA Lending Activity--*** Volume projections for planned CA lending activity for the first three years of participation.
12. ***Pro Forma Financial Statements--*** Projected balance sheet, income statement and statements of cash flows for two years, along with the related interest rate, default, and prepayment assumptions. The plan projections should be assembled under three different operating scenarios – normalized activity, activity assuming a 30% reduction in projected lending, and activity based on a 50% reduction in projected lending. If applicable, the projections should also address the planned level and type of secondary market activity.
13. ***Management and Technical Assistance (M&TA)--*** Description of available M&TA or the procedure for referrals to outside assistance; a plan for identifying appropriate assistance for each borrower; a description of how the Lender will track the type of M&TA recommended for each borrower at the time the loan was made; and identification of M&TA services actually provided.
14. ***Small Business Lending Expertise--*** Description of lending activities, particularly in the area of small business lending, including data on the applicant’s existing small business loan portfolio, such as number of loans made, distribution of size and age of loans made, use of proceeds, type of loans made (secured or unsecured, revolving, term, etc.). Small business lending may have been done by a related organizational entity such as its parent or an affiliate. (If the lender plans to continue to work with the related organizational entity if approved as a CA Lender, an LSP agreement may be required. See SOP 50 10 for further guidance on LSP agreements.)
15. ***Market and Client Information--***Description and data on the applicant’s client demographics and current and/or planned service area including the CA underserved markets in that area, the small business community and its financing needs, and the relevant economic, unemployment and poverty characteristics for the area.
16. *Audited Financial Statements* – Copies of the applicant’s year-end audited financial statements for the last two years. If the applicant has no prior audited financial statements, it may submit compiled financial statements that have been certified as “true and correct” by Lender’s senior financial officer for consideration. (Approved CA Lenders will be required to submit audited financial statements annually going forward.)
17. *Interim Financial Statements* – Interim financial statements dated within 90 days of the application, covering the period from the last audited statement to the end of the most recent quarter.
18. *Funding Sources* – A schedule of funding sources and funds received and available for the two year period covered by the audited financial statements.
19. *Loan Performance History* – Current delinquency, default and loss rates for the applicant’s entire small business loan portfolio for the prior two fiscal years in consolidated format. Loan performance data is also acceptable for consideration from the applicant’s parent or its affiliates to substantiate a sufficient history of similar small business lending experience in the organization.
20. *Loan Loss Reserve* – A description of existing loan loss reserve methodology, including any risk assessments or classifications. This should include a schedule of loan loss reserve components with calculations for the previous eight quarters, and a description of the loan loss reserve allocations for all loan programs in which the applicant currently participates.
21. *Lending Policies* – A copy of lending policies and procedures governing business loan origination, closing, servicing and liquidation.
22. *Other Information* – Any other information the lender considers relevant for SBA to consider in evaluating the application. To the degree an applicant has provided equivalent information on or as part of an application or for continued participation in the CDC, Microloan, ILP or CDFI programs, that information may be substituted provided it meets the intent of the requirement. SBA may follow up if additional information is needed.
23. Certifications

As part of SBA Form 2301, applicants must provide the following certifications:

* Organizational

The applicant must certify that it has provided filed articles of incorporation and by-laws to either the SBA or the CDFI Fund in connection with its participation in the 504, Microloan, ILP, and/or CDFI programs, and that those organizing documents have not materially changed. If material changes have occurred, a copy of the current articles of incorporation and/or by-laws must be included with the application.

* State Regulation

The applicant must either certify that it is not subject to regulation by a state regulator or, if the applicant is subject to state regulation, it must demonstrate that it is in good standing with its state regulator. The lender’s written request to participate must include a written statement that to the best of its knowledge, the lender has satisfactory: i) financial condition (e.g., capital and liquidity); ii) small business credit administration policies, procedures, and practices that it continues to adhere to in its operations; and iii) small business servicing policies, procedures, and practices that it continues to adhere to in its operations.

When reviewing good standing, SBA will look to see that a lender does not have significant deficiencies or weaknesses in these areas. “Significance” may be evidenced by the number or seriousness of the deficiencies, as determined by SBA in its discretion. SBA will verify any good standing statement where possible with public (e.g., Cease and Desist Orders and Call Reports) and/or non-public information from the lender’s primary and/or other regulators. Additionally, the following information must be included:

* + A copy of the State statute and/or regulations governing the applicant’s operations;
  + A copy of the latest examination report of the applicant by the State financial regulator, as authorized; and
  + A description of the State prescribed capital requirements and a certification that the applicant meets these established requirements.

1. Lender Application

Complete [SBA Form 2301](https://www.sba.gov/document/sba-form-2301-community-advantage-lender-participation-application), “Community Advantage Lender Participation Application,” and email the Form and all applicable supporting documents to OCRM at [CAloans@sba.gov](mailto:DelegatedAuthority@sba.gov). OCRM notifies the lender and the Lead District Office of SBA’s final decision.

If approved to participate in the CA Pilot Program, and if SBA Form 750CA is executed and returned to SBA as instructed, the lender will be designated as a “Community Advantage Lender” (CA Lender). The CA Lender is not permitted to make 7(a) loans other than those specifically authorized in the CA Pilot Program.

If not approved as a CA Lender, an organization may participate in the CA Pilot Program as a Community Advantage Network Partner ([CA Network Partner](#CA_Network_Partner)) and make referrals to an approved CA Lender.

Note: Lenders who already participate in SBA’s 7(a) Loan Program as evidenced by an executed Loan Guaranty Agreement (SBA Form 750) are not eligible to participate in the CA Pilot Program and should continue to use the 7(a) Loan Program in their current capacity.

1. SBA Evaluation of the Application

SBA will evaluate the Applicant’s expertise, financial capacity, and infrastructure to determine whether the Applicant has the ability to successfully operate as a CA Lender. Upon request, SBA will also review and determine if the CA Lender may sell CA loans on the secondary market.

Applicants must ensure that they adequately plan for guarantees that are not honored, in part or in whole, due to noncompliance with applicable CA Loan Program Requirements. An impaired guaranty can impact a CA Lender’s solvency; therefore, SBA will exercise caution in approving a lender for participation if there are concerns about the lender’s ability to satisfy all obligations that may result from an impaired guaranty.

**Evaluation Factors:**

The following criteria will be used to evaluate an application to participate in the CA Pilot Program. Applicants must identify and discuss in their application their commercial lending experience, portfolio size, financial viability and other factors described below.

* 1. Form of organization, compliance with requirements of its respective governing organization, Satisfactory/Good Standing with Secretary of State, and state regulator, if applicable, and evidence of continued non-profit status (in compliance with IRS Form 990 requirements).
  2. Knowledge and understanding of CA Loan Program Requirements. Approval of a CA Lender will be conditioned on completion of training on CA Loan Program Requirements. Additionally, if applicable, prospective CA Lender’s experience with the 7(a) Loan Program should be described and quantified (for example, if Applicant packages SBA 7(a) loans for other lenders, indicate the number of packages prepared and the number of years performing this activity).
  3. Experience with small business lending and the Applicant’s capacity and ability to make, close, service, liquidate, and litigate small business loans. The Applicant must demonstrate that it has at least 20 similarly-sized commercial or business loans (either guaranteed or non-guaranteed) in its portfolio. If any of these services are contracted out, this should be noted in the application and a copy of the contract should be attached. (Note: If a CA Applicant is approved and intends to use a Lender Service Provider, the Applicant must submit the agreement to SBA for review.)
  4. Ability and intent to provide or obtain services to provide Management and Technical Assistance (M&TA).
  5. Financial viability, including adequacy of loan loss reserves. The lender must show that it is financially viable in its own right and able to support its own operation (inclusive of grants, fundraising, and in-kind support).
  6. Demonstration of ability to meet the needs of CA underserved markets and understanding of how participation in CA will further that reach in terms of geography, products, loan size, volume, and very low-income communities.
  7. Adequate infrastructure and internal controls to manage the CA Lender’s SBA loan program and portfolio. See 13 CFR [120.460](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.460).
  8. Adequate staffing to manage and service the CA Lender’s SBA 7(a) loan portfolio. Key personnel must have requisite skills and abilities to underwrite, approve, close, service, liquidate, and litigate small business loans. If any of these services are contracted out that should be noted in the application and copy of the contract attached.
  9. Other risk characteristics that SBA may identify. For example, rate of growth, inadequate capital, or loan loss reserves, pending litigation, outstanding enforcement actions, or any adverse or supervisory actions issued by a state regulator or SBA against the Applicant and/or its employees.
  10. Information from the CDFI Assessment and Rating System (CARS) and CDFI assessments, Bank Secrecy Act (or similar) policies and procedures to deter and prevent fraud, SBA risk ratings and reviews, and/or other similar types of information, as available.
  11. Other factors that may be identified by SBA.

The following additional factors will be considered for SBA CDCs, SBA Microloan Intermediaries and SBA ILP Intermediaries when applying for CA participation:

* + - Continued good standing with SBA (for example, acceptable risk rating, satisfactory results of reviews/examinations, satisfactory operational and portfolio performance, satisfactory capacity to make, close, service, liquidate, and litigate SBA Microloan, ILP and 504 Program loans and other relevant factors) as determined by SBA in its discretion;
    - Compliance with SBA Loan Program Requirements governing these programs;
    - Compliance with reporting requirements, remittance of required guaranty, servicing, and review fees, as applicable; and responsiveness to requests for information from SBA; and
    - Any SBA enforcement actions (proposed or final).

1. Decision

The Director, Office of Credit Risk Management (D/OCRM) makes the final determination regarding approval or decline of the Applicant’s participation as a CA Lender, participation as a delegated CA Lender, and if applicable, participation in the secondary market.

Once a final determination is made, the D/OCRM will notify the Applicant in writing of the decision with a copy to the appropriate SBA District Office. If an application is not approved, the Applicant will be notified in writing with the reason(s) the application was not approved. If a CA Lender requests to participate in the secondary market, and is approved, notification will be included in writing along with any restrictions that may apply.

The duration of each CA Lender’s authority to participate in CA will be set forth in a Loan Guaranty Agreement (SBA Form 750CA), discussed more fully below. If the CA Pilot Program is extended or made permanent, each CA Lender’s authority to participate will be renewed based upon, but not limited to the Lender’s compliance with CA Loan Program Requirements, including the requirement to make 60 percent of their CA loans to small businesses in the CA underserved markets, satisfactory SBA performance as determined by SBA in its discretion and other risk-related criteria.

If the CA Pilot Program is not extended or made permanent, each CA Lender will be required to continue to service and liquidate its CA loans in accordance with the terms of the pilot but will not be able to make any new CA loans. Further, the SBA guaranty will remain in effect for the life of the CA loan, assuming the loan was originated, serviced, and liquidated according to CA Loan Program Requirements. In addition, if a CA Lender exits the program, SBA may in its discretion require the transfer of some or all of the CA portfolio to another SBA lender and/or the servicing and liquidation of some or all of the CA portfolio and related fees or income to SBA or another entity approved by SBA.

1. Reconsideration Procedure, if applicable

If the D/OCRM declines the application to participate in the CA Pilot Program, and/or secondary market access, the Applicant may submit a request for reconsideration within 30 days from the date of the notification letter. The reconsideration request is to be sent to the attention of the D/OCRM and should include all substantive facts and documentation in support of the request. The D/OCRM will evaluate the request for reconsideration and make a recommendation to the Associate Administrator for Capital Access (AA/OCA) who will make the final decision. SBA expects to notify the Applicant of the decision within 30 days of receipt of the request for reconsideration.

1. Steps After Approval

If the Applicant is approved to participate, the lender must complete, sign, and return two original SBA Forms 750CA and the Addendum to the Lender’s SBA Form 750CA for delegated authority to OCRM at [CAloans@sba.gov](mailto:DelegatedAuthority@sba.gov) within 30 days of notification of approval. OCRM will execute the SBA Form 750CA and provide a copy to the CA Lender.

OCRM retains a fully executed copy in the CA Lender’s file. If the lender fails to return SBA Form 750CA and Addendum to OCRM within the 30 day period, the lender must reapply.

After execution of the 750CA and Addendum, a training and orientation program will be provided by the local [SBA District Office](https://www.sba.gov/about-sba/sba-locations/sba-district-offices) with assistance from the Office of Capital Access. At a minimum, this training must include the CA Lender’s roles and responsibilities and the CA Loan Program Requirements, including but not limited to, CA reporting requirements, application procedures (including E-Tran), and this CA Participant Guide. Before the CA Lender may begin making CA loans, it must complete all training requirements to SBA’s satisfaction.

1. Other Important CA Pilot Program Information

Each CA Lender will be identified as either a Small Business Lending Company (SBLC) or a Non-Federally Regulated Lender (NFRL), depending on whether the lender is subject to regulation by a state. All CA Lenders are SBA Supervised Lenders, as that term is defined in 13 CFR 120.10, and will be subject to all regulations applicable to SBA Supervised Lenders unless specifically waived or modified in the Federal Register Notices published on February 18, 2011 [[76 FR 9626](http://edocket.access.gpo.gov/2011/pdf/2011-3758.pdf)], September 12, 2011 [[76 FR 56262](http://www.gpo.gov/fdsys/pkg/FR-2011-09-12/pdf/2011-23244.pdf)], February 8, 2012 [[77 FR 6619](http://www.gpo.gov/fdsys/pkg/FR-2012-02-08/pdf/2012-2798.pdf)], November 9, 2012 [[77 FR 67433](http://www.gpo.gov/fdsys/pkg/FR-2012-11-09/pdf/2012-27334.pdf)], December 28, 2015 [[80 FR 80872](https://www.gpo.gov/fdsys/pkg/FR-2015-12-28/pdf/2015-32583.pdf)], September 12, 2018 [[83 FR 46237](https://www.federalregister.gov/documents/2018/09/12/2018-19885/community-advantage-pilot-program)], March 2, 2020 [[85 FR 12369](https://www.federalregister.gov/documents/2020/03/02/2020-03241/community-advantage-pilot-program)], April 1, 2022 [[87 FR 19165](https://www.federalregister.gov/documents/2022/04/01/2022-06919/community-advantage-pilot-program)], and April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)].

Appendix C: Secondary Market Authority and Other CA Pilot Program Information

Getting Approval to Sell CA Loans in SBA’s Secondary Market: The sale of the guaranteed portion of CA loans provides the CA Lender expanded capacity to deliver the CA Pilot Program. CA Lenders are invited to request authority to submit CA loans for SBA approval for secondary market sales at any time. Secondary market authority is granted at SBA’s discretion. If authority is not awarded as a result of the first request, the CA Lender should resolve any weakness or deficiency indicated as reasons for rejection of secondary market authority before submitting a request for reconsideration.

Secondary Market Authority Evaluation Factors: For CA Lenders requesting authority to conduct secondary market sales, the following factors will be considered regarding the CA Lender’s financial strength:

* + Dollar amount of CA Lender’s unrestricted net assets;
  + Ratio of net assets to total assets;
  + Level of positive net income/surplus;
  + Level of operating liquidity;
  + Loan performance history for small business loan portfolio;
  + Applicant’s loan loss reserve policy for 7(a) loans including additional reserves for secondary market loans;
  + Knowledge of CA Loan Program Requirements including eligibility requirements;
  + Existence of proposed or final supervisory actions; and
  + Other factors identified by SBA in its discretion.

CA Lenders that have been granted permission to access the secondary market must also complete training specifically related to secondary market activities and requirements before they will be allowed to initiate secondary market sales. This training is intended to provide information to the CA Lender that will assist them in their negotiations with brokers and SBA loan pool assemblers and will inform the CA Lender about their subsequent limitations on modifying the terms of a CA loan to the small business Borrower. CA Lenders must provide certification to SBA that this training has been completed before the CA Lender will be allowed to sell loans on the secondary market.

Decision: The D/OCRM, in consultation with the D/OFA, makes the final determination regarding a CA Lender’s participation in the secondary market. Once a final determination is made, the D/OCRM will notify the CA Lender in writing of the decision with a copy to the D/OFA and the appropriate SBA District Office. The CA Lender will be notified in writing of any restrictions that may apply with respect to participation in the secondary market.

Reconsideration Procedure, if Applicable: If the D/OCRM declines a request for authority to participate in the secondary market, the CA Lender may submit a request for reconsideration within 30 days from the date of the notification letter. The reconsideration request is to be sent to the attention of the D/OCRM and should include all substantive facts and documentation in support of the request. The D/OCRM, in consultation with the D/OFA, will evaluate the request for reconsideration and make the final decision. SBA expects to notify the Applicant of the decision within 30 days of receipt of the request for reconsideration.

Appendix D: Change in Lender Authority

**Partial or Complete Change of Ownership or Structure of Lender**

Note: CA Lenders participating in SBA’s Microloan, 504, and/or ILP Program must also comply with the applicable SBA Loan Program Requirements governing notification of structural or organizational changes and SBA approval of such changes for those programs.

|  |  |
| --- | --- |
| Scenario | Response |
| *If a CA Lender continues as the same legal entity that signed the SBA Form 750CA , and …* | *Then …* |
| (1) The CA Lender changes its name. | OCRM records the name change. The lender’s CA authority is not changed. A new SBA Form 750CA or Addendum is not needed. |
| (2) The CA Lender is acquired by another entity and the CA Lender continues as a separate legal entity. | OCRM records the holding company name. The lender’s CA authority is not changed. A new SBA Form 750CA or Addendum is not needed. |
| (3) The CA Lender acquires another lender, and the acquired lender does not continue as a separate legal entity. | The CA Lender may continue to make CA loans under its CA authority unless there is a substantial change in its ability to make CA loans. |
| (4) The CA Lender acquires another lender, and the acquired lender continues as a separate entity. | The acquired entity may not make CA loans unless it is also a CA Lender. |
| (5) The CA Lender is closed or taken over by a regulatory authority. | The CA Lender’s authority to make CA loans automatically terminates, and the lender must cooperate with SBA to transfer responsibility for servicing and liquidating its CA loan portfolio. OCRM notifies the lender and SBA District Office(s) that the lender may not make any more CA loans. |
| (6) The CA Lender changes its operations such that it cannot make, service, and liquidate SBA loans appropriately. | SBA will not renew the CA Lender’s authority or may suspend or revoke the lender’s CA authority. Additionally, SBA reserves the option of assuming the CA Lender’s portfolio of CA loans. |
| *If a CA Lender DOES NOT continue as the same legal entity that signed the SBA Form 750CA and…* | *Then …* |
| (1) The CA Lender merges with a non-CA Lender. The original CA Lender’s SBA operations are unchanged. | The original CA Lender no longer has authority to make CA loans. The surviving lender must cooperate with SBA to transfer responsibility for servicing and liquidating the original CA loan portfolio. |
| (2) The CA Lender merges with another CA Lender. | The original CA Lender no longer has authority to make CA loans and must surrender its SBA Form 750CA. However, CA loans can be made under the surviving CA Lender’s agreements, and the surviving CA Lender is responsible for servicing and liquidating the original CA loan portfolio. |
| (3) The CA Lender is dissolved or taken over/closed by a regulatory agency. | The CA Lender’s authority to make CA loans automatically terminates, and the lender must cooperate with SBA to transfer responsibility for servicing and liquidating its CA loan portfolio. OCRM notifies the lender and SBA District Office(s) that the lender may not make any more CA loans. |

Appendix E: Renewal Requirements for Delegated Authority

Prior to the expiration of delegated authority, a CA Lender’s delegation may be renewed for up to two years, but not to exceed the remainder of the CA Pilot Program, based on the following factors:

1. Demonstrated achievements in reaching underserved markets.
2. Continued ability to effectively process, close, service, liquidate, and litigate CA loans in compliance with CA Loan Program Requirements.
3. Continued compliance with SBA Loan Program Requirements governing all SBA programs in which the CA Lender participates (e.g., SBA 504 Loan Program, SBA Microloan Program, SBA ILP Program).
4. Continued good standing with SBA and satisfactory SBA performance as determined by SBA in its discretion. (See 13 CFR [120.410](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.410) and [120.420(f)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.420).) Performance criteria may include, but is not limited to:
   1. The CA Lender’s Risk Rating;
   2. OCRM reviews and examination assessments;
   3. Historical performance measures (such as default rate, purchase rate, and loss rate, performance averages are comparable to peer group, such as delinquent, past due, liquidation and purchase rates);
   4. Loan volume to the extent that it impacts performance measures;
   5. Other performance-related measurements and information, including the portion of the portfolio in CA underserved markets; and
   6. Any other risk characteristics SBA may deem appropriate.
5. Satisfactory/Good standing with its State Secretary of State and state regulator, if applicable. The Applicant must either certify that it is not subject to regulation by a state regulator or, if the Applicant is subject to state regulation, it must demonstrate that it is in good standing with its state regulator. The CA lender must provide a written statement that to the best of its knowledge, the CA lender has satisfactory: i) financial condition (e.g., capital and liquidity); ii) small business credit administration policies, procedures, and practices that it continues to adhere to in its operations; and iii) small business servicing policies, procedures, and practices that it continues to adhere to in its operations. When reviewing good standing, SBA will look to see that a lender does not have significant deficiencies or weaknesses in these areas. “Significance” may be evidenced by the number or seriousness of the deficiencies, as determined by SBA in its discretion. SBA will verify any good standing statement where possible with public (e.g., Cease and Desist Orders and Call Reports) and/or non- public information from the lender’s other regulators.
6. Compliance with capital requirements as prescribed by the CA Lender’s state regulator, if applicable.
7. Financial viability including adequacy of capital and/or loan loss reserve account.
8. No outstanding enforcement actions (proposed or final) issued by the SBA or state regulator against the CA Lender and/or employees, officers, or directors.
9. Adequate staff to manage and service the CA Lender’s portfolio and key personnel has requisite skills and abilities to evaluate, process, close, disburse, service, liquidate and litigate small business loans, particularly the CA loan portfolio.
10. Current in submitting required monthly, quarterly, and annual reports including 1502 reports; is responsive to SBA program office’s request for information; and is current in remitting required guaranty, servicing, and review fees.
11. Disclosure and approval by SBA of changes to the CA Lender’s organizational structure, CA Lender’s SBA loan department, CA lender’s business plan and/or business model.
12. No outstanding receivables payable to SBA.
13. Other relevant factors (e.g., risk or program integrity related) that may be identified by SBA.

The D/OCRM, in consultation with the D/OFA, makes the final determination on the renewal of delegated authority and notifies the CA Lender and SBA District Office. If the renewal of delegated authority is approved, OCRM and the CA Lender must execute a new Addendum to the SBA Form 750CA. If the renewal is not approved, the CA Lender must process new applications using non-delegated procedures and may reapply for delegated authority after it overcomes the reason(s) for the decline.

Appendix F: Loan Pledges, Secured Credit Facilities, and Loan Transfers

**Loan Pledges and Credit Facilities Secured by CA Loans**

Pursuant to [13 CFR § 120.434](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1434), CA Lenders are required to obtain SBA’s prior written consent for all pledges of any portion of a CA loan, such as when pledging CA loans as collateral for a secured credit facility. SBA may withhold this consent in its sole discretion. CA Lenders may enter secured credit facilities to obtain a source of funding for making CA loans to small businesses. CA Lenders must use the proceeds of the credit facility secured by CA loans only for financing CA loans and for costs and expenses directly connected with the borrowing for which the CA loans are pledged.

SBA requires every transaction in which any portion of a CA loan is pledged as collateral, including credit facilities secured by CA loans, to include an SBA Multi-Party Agreement (MPA) in accordance with 13 CFR § 120.434(d). The forms of the MPA, including the Standard MPA and the MPA with Blocked Account Provisions, are located at <https://www.sba.gov/document/support-object-object-sba-multi-party-agreements>. The MPA is a document executed by the CA Lender, the credit provider, SBA, and the Fiscal Transfer Agent (FTA), and such other parties as SBA determines are necessary. The MPA defines the rights and responsibilities of the parties, such as limits to the actions that may be taken by the credit provider if the CA Lender defaults on the facility. In accordance with the MPA, the MPA controls where there are inconsistent provisions between the MPA and other transaction documents.

Once transaction documents are drafted, such as a Loan and Security Agreement that describes the terms of the transaction, opinions of counsel, and other ancillary documents, CA Lenders must submit these documents via email to [SecondaryMarket@sba.gov](mailto:SecondaryMarket@sba.gov). OFA will coordinate review of the transaction within SBA and the FTA. SBA will review the transaction documents and provide comment to the CA Lender. If SBA consents to the transaction, SBA will send the CA Lender its consent in writing along with signature pages for the MPA executed by both SBA and the FTA. CA Lenders must ensure that all conditions in the MPA are satisfied at closing. CA Lenders must email the closing binders for these transactions to [SecondaryMarket@sba.gov](mailto:SecondaryMarket@sba.gov).

CA Lenders are also required to obtain SBA’s prior written consent for all modifications of or amendments to existing credit facilities secured by CA loans. This includes increases in the amount of the facility, extensions, and any other change in terms. Modifications to existing facilities generally do not require execution of a new MPA. CA Lenders must submit transaction documents related to such modifications and amendments to [SecondaryMarket@sba.gov](mailto:SecondaryMarket@sba.gov) for prior written consent.

**Loan Transfers**

SBA allows CA loan portfolio transfers under limited circumstances. CA Lenders may encounter situations that result in the ownership transfer of their entire interest in CA loans from one Lender to another. These situations may arise when Lenders merge, decide to leave a specific operating area, cease participation in the CA Pilot Program, or as may be directed by state regulators.

* + 1. The sale of CA loans is not anticipated to be part of the normal course of CA lending. However, with SBA’s ***prior*** written consent, a CA Lender may seek to sell an entire CA loan or CA loan portfolio as part of the lender’s withdrawal from the CA Pilot Program, for example. In the event that a CA loan or CA loan portfolio is sold, the CA Lender must make a concerted effort to sell such loans to a capable and financially viable CA Lender. If no CA Lender is interested, capable or financially viable to purchase the CA loan(s), then the loan(s) may be sold to a 7(a) lender with SBA’s ***prior*** written consent, which SBA may withhold in its sole discretion. The D/OCRM will direct CA Lenders in this exercise and make the final determination on whether to approve such transactions. In all cases, CA Lenders may not sell participating interests in a CA loan. Prior to conducting a review for approval, CA Lenders must pay all outstanding SBA receivables that are more than 30 days in arrears. CA Lenders must contact [DFCActionDesk@sba.gov](mailto:DFCActionDesk@sba.gov) in advance of their consent request for information on any SBA receivables outstanding. All SBA receivables must be satisfied with proof of payment to SBA in order to consider a portfolio transfer of loans.
    2. Pursuant to 13 CFR § [120.432(a)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.432), Lenders selling or transferring the entire interest in a SBA CA loan are required to obtain SBA’s prior written consent. When the proposed transfer involves a single loan account, CA Lenders may request a transfer of participation from the appropriate SBA Commercial Loan Servicing Center ([Fresno CLSC](https://www.sba.gov/sites/default/files/forms/Transfer%20of%20Participation%282%29.pdf) or [Little Rock CLSC](https://www.sba.gov/sites/default/files/2017-11/Transfer%252520of%252520Participation%282%29_0.pdf)).
    3. Requests for consent for transfers involving more than one CA loan are submitted to OFA at [7aPortfolioTransfers@sba.gov](mailto:7aPortfolioTransfers@sba.gov). When a transfer involves more than one CA loan, CA Lenders are required to obtain SBA’s prior written consent to the proposed portfolio transfer. Failure to secure SBA consent will prevent the transfer of related SBA loan guarantees accompanying the CA loans scheduled for transfer. The written request must include documents describing the basis for the portfolio transfer. These documents are either in the form of an asset purchase agreement or plan of merger agreement. If the transfer takes the form of an asset purchase, SBA will also require submission of a loan list (preferably in a Microsoft Excel spreadsheet) identifying the CA loans to be transferred. Listed loans are to be assembled in ascending order by SBA Loan Number and must include the name of the Borrower and the original loan amount. SBA will also require the proposed purchaser of the loan portfolio to submit a signed Lender Statement of Obligation which will identify points of contact and the purchasing Lender’s responsibilities and obligations after the transfer is completed.
    4. Upon SBA approval, the Lender purchasing the CA loans and/or loan portfolio must take possession of the promissory notes and the other loan documents and service the CA loans. The purchasing Lender will assume all the obligations and responsibilities of the selling Lender, including but not limited to, all obligations, responsibilities and liabilities resulting from the making, servicing, closing and liquidation of the selling Lenders’ loans. The purchasing Lender purchases the CA loans subject to SBA’s existing rights to deny liability on its guarantee as provided in [13 CFR § 120.524](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1524). Lenders that receive SBA approval must notify the Secondary Market Division once the proposed transaction is completed. At that time, OFA will notify the Office of Performance Systems Management to transfer loan accounts into the purchasing Lender portfolio.

Appendix G: CA Affiliation & Franchise Rules

The SBA’s lending programs qualify as “Special-Purpose Credit Programs” under the Equal Credit Opportunity Act (ECOA). This regulation stipulates that information pertaining to the Applicant’s marital status, sources of personal income, alimony, child support, and spouse’s financial resources can be obtained and considered in determining program eligibility. Therefore, the SBA Lender has the right to obtain the signature of an Applicant’s spouse (whether an owner of the business or not) or other person on an application or credit instrument if it is required by Federal or State law.

1. CA Affiliation Rules

For purposes of the CA Pilot Program, in a Federal Register Notice published on April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)], SBA modified the regulations at 13 CFR [121.301(f)](https://www.ecfr.gov/current/title-13/chapter-I/part-121#121.301) in order to simplify the affiliation rules for applicants for CA loans.

SBA is specifically removing the principal of control of one entity over another when determining affiliation, and instead is basing affiliation only on ownership. Therefore, for purposes of the CA Pilot Program, CA Lenders will not consider the principles of affiliation based on management, identity of interest, or franchise and license agreements.

Any of the circumstances described below establishes affiliation for CA loans:

(1) Ownership.

(A) When the Applicant owns more than 50 percent of another business, the Applicant and the other business are affiliated.

(B) When a business owns more than 50 percent of an Applicant, the business that owns the Applicant is affiliated with the Applicant. Additionally, if the business entity owner that owns more than 50 percent of the Applicant also owns more than 50 percent of another business that operates in the same 3-digit NAICS subsector as the Applicant, they are all affiliated.

(C) When an individual owns more than 50 percent of the Applicant and the individual also owns more than 50 percent of another business entity that operates in the same 3-digit NAICS subsector as the Applicant, the Applicant and the individual owner’s other business entity are affiliated.

(D) When the Applicant does not have an owner that owns more than 50 percent of the Applicant, if an owner of 20 percent or more of the Applicant is a business that operates in the same 3-digit NAICS subsector as the Applicant, the Applicant and the owner are affiliated.

(E) When the Applicant does not have an owner that owns more than 50 percent of the Applicant, if an owner of 20 percent or more of the Applicant also owns more than 50 percent of another business entity that operates in the same 3-digit NAICS subsector as the Applicant, the Applicant and the owner’s other business entity are affiliated.

(F) Ownership interests of spouses and minor children must be combined when determining amount of ownership interest.

(G) When determining the percentage of ownership that an individual owns in a business, SBA considers the beneficial ownership of entities. For example, John Smith, Jane Doe, and Jane Doe, Inc., each own an interest in the Applicant. Jane Doe owns 15 percent of the Applicant, and she also owns 100 percent of Jane Doe, Inc. Jane Doe, Inc., owns 50 percent of the Applicant. SBA considers Jane Doe to own 65 percent of the Applicant.

(2) Stock options, convertible securities, and agreements to merge.

(A) SBA considers stock options, convertible securities, and agreements to merge (including agreements in principle) to have a present effect on the ownership of the entity. SBA treats such options, convertible securities, and agreements as though the rights granted have been exercised.

(B) Agreements to open or continue negotiations towards the possibility of a merger or a sale of stock at some later date are not considered “agreements in principle” and are thus not given present effect.

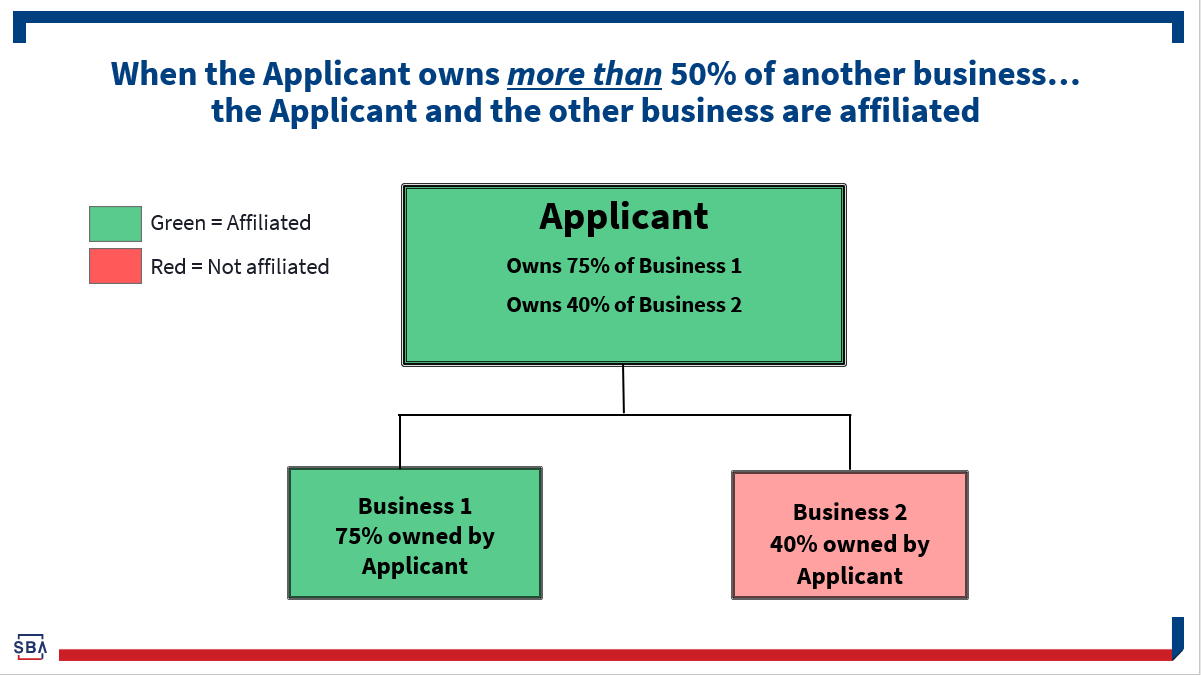
(C) Options, convertible securities, and agreements that are subject to conditions precedent which are incapable of fulfillment, speculative, conjectural, or unenforceable under state or Federal law, or where the probability of the transaction (or exercise of the rights) occurring is shown to be extremely remote, are not given present effect.

(D) SBA will not give present effect to individuals', concerns', or other entities' ability to divest all or part of their ownership interest in order to avoid a finding of affiliation.

(3) Determining the concern's size. In determining the concern's size, SBA counts the receipts, employees (§ [121.201](https://www.ecfr.gov/current/title-13/section-121.201)), or the alternate size standard (if applicable) of the concern whose size is at issue and all of its domestic and foreign affiliates, regardless of whether the affiliates are organized for profit.

(4) Exceptions to affiliation. For exceptions to affiliation, see 13 CFR [121.103(b)](https://www.ecfr.gov/current/title-13/chapter-I/part-121#p-121.103(b)).

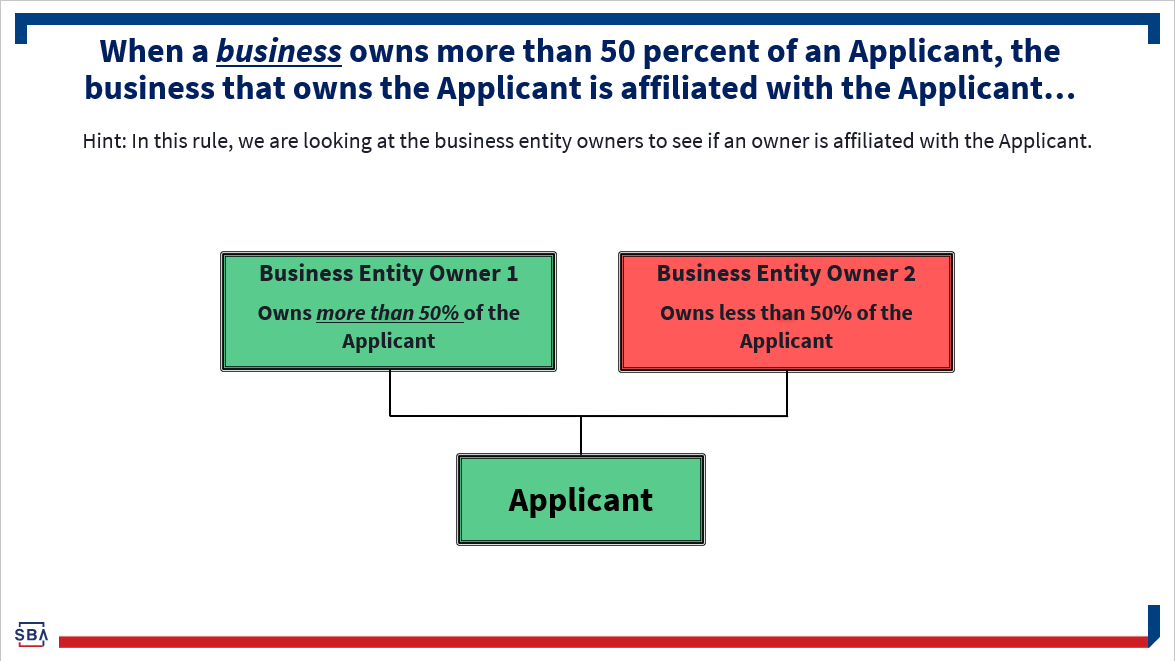
1. CA Affiliation Examples:



Here, the Applicant business owns more than 50% of Business 1, so the Applicant business is affiliated with Business 1.

However, the Applicant business does not own more than 50% of Business 2, so the Applicant business is not affiliated with Business 2.

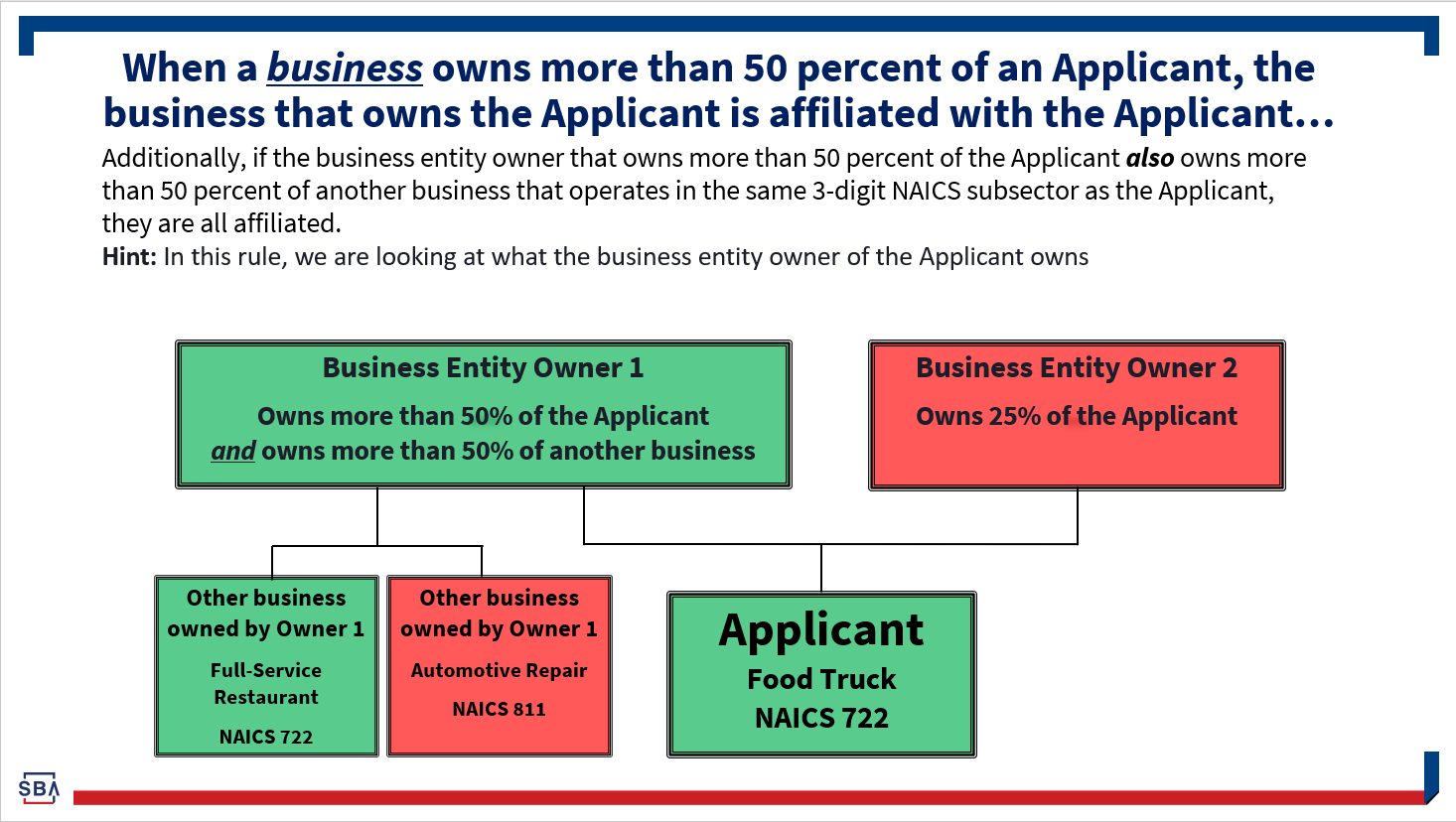
Note that the measure is “more than 50 percent”.



Here, Owner 1 is a business entity that owns more than 50% of the Applicant business, so the Applicant business is affiliated with Owner 1.

Owner 2 is a business that owns less than 50% of the Applicant business, so the Applicant business is not affiliated with Owner 2.

Note that this test only applies to business entities that are owners of the Applicant.

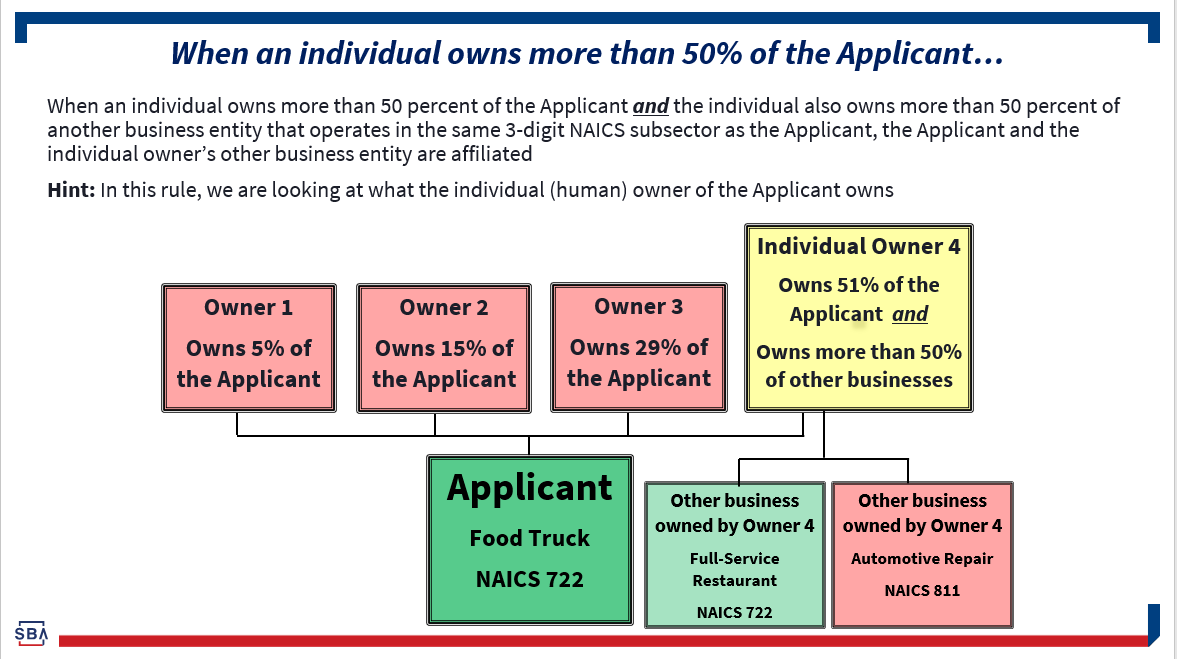


Here, Owner 1 is a business entity that owns more than 50% of the Applicant business, so the Applicant business is affiliated with Owner 1.

Owner 1 also owns more than 50% of each of two other businesses. One of the other businesses owned by Owner 1 is a restaurant in the NAICS 722 3-digit subsector, which is the same NAICS 3-digit subsector in which the Applicant operates. Therefore, the Applicant, Owner 1, and Owner 1’s restaurant are all affiliated. They are affiliated because (1) Owner 1 owns more than 50% of the Applicant (which makes Owner 1 affiliated with the Applicant) and (2) Owner 1 also owns more than 50% of a full-service restaurant that operates in the same 3-digit NAICS subsector as the Applicant.

Owner 1’s auto repair business is not affiliated with the Applicant because it does not operate in the same 3-digit NAICS subsector as the Applicant.

Owner 2 is a business that owns less than 50% of the Applicant business, so the Applicant business is not affiliated with Owner 2. Even if Owner 2 owned a business in the same 3-digit NAICS subsector as the Applicant, the businesses would not be affiliated.

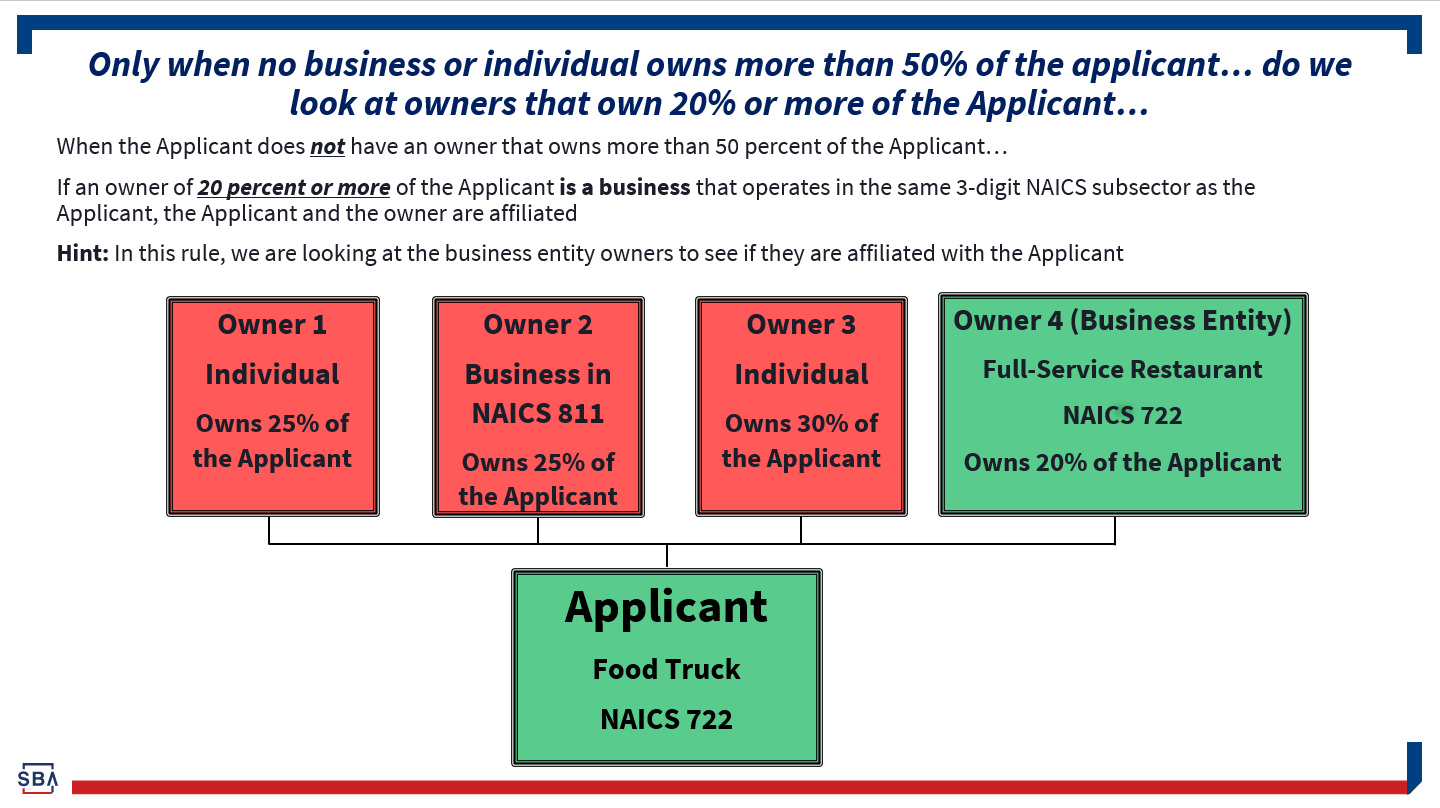


The applicant business is a food truck, which has a 722 NAICS 3-digit subsector code…

Owner 4 is an individual (human) who owns more than 50% of the applicant business, so we look to see if Owner 4 also owns more than 50% of another business entity. Owner 4 does own more than 50% of each of two other businesses, so we look to see what 3-digit NAICS subsector each of those businesses operates in.

* Owner 4’s full-service restaurant has a 722 NAICS 3-digit subsector code.
* Owner 4’s automotive repair shop has an 811 NAICS 3-digit subsector code.
* The Applicant business is affiliated with Owner 4’s full-service restaurant because (1) Owner 4 owns more than 50% of the Applicant and (2) because Owner 4 owns more than 50% of a full-service restaurant and (3) both the Applicant and Owner 4’s restaurant operate in the NAICS subsector 722.
* The Applicant business is not affiliated with Owner 4’s automotive repair shop because they operate in different subsectors.

Note that this test looks at what the individual owner of the Applicant owns.



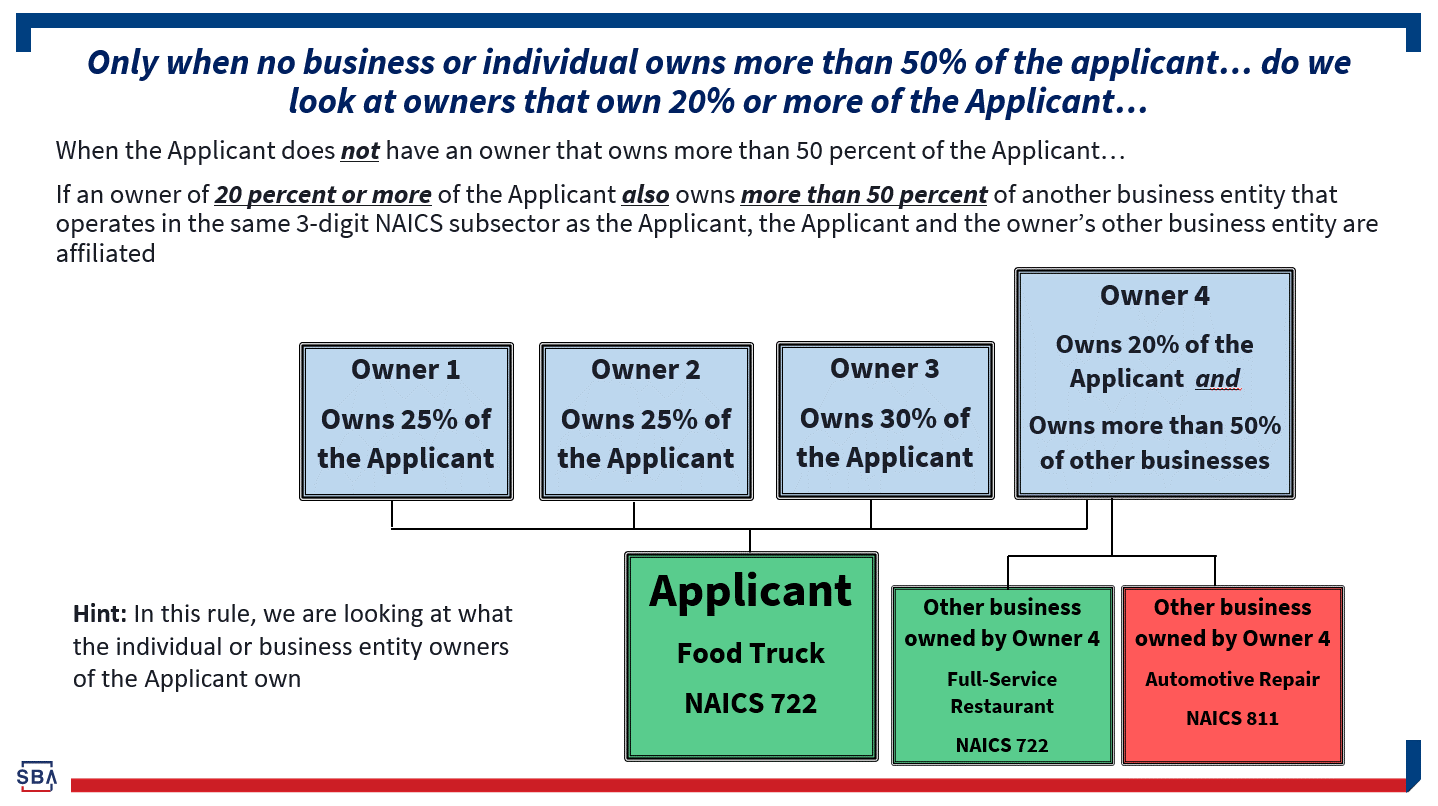
The applicant business is a food truck, which has a 722 3-digit NAICS subsector code…

In this example, no single individual or entity owns more than 50% of the applicant business, so we look to see if any business entity owner owns 20% or more of the applicant ***and*** also operates in the same 3-digit NAICS subsector.

Owner 4 is someone we have to look at for affiliation, because Owner 4 owns 20% or more of the Applicant business ***and*** Owner 4 is a business entity.

* Owner 4 is a full-service restaurant that has a 722 3-digit NAICS subsector code.
* The Applicant business is affiliated with Owner 4 because both businesses operate in the NAICS 3-digit subsector of 722.

Note that the measurements are “more than 50 percent” and “20 percent or more”.



The applicant business is a food truck, which has a 722 NAICS 3-digit subsector code…

In this example, there aren’t any owners that own more than 50% of the applicant business, so we look to see if any owner that owns 20% or more of the applicant also owns more than 50% of another business entity.

Owner 4 is someone we have to look at for affiliation, because she owns 20% or more of the Applicant business and she also owns more than 50% of another business.

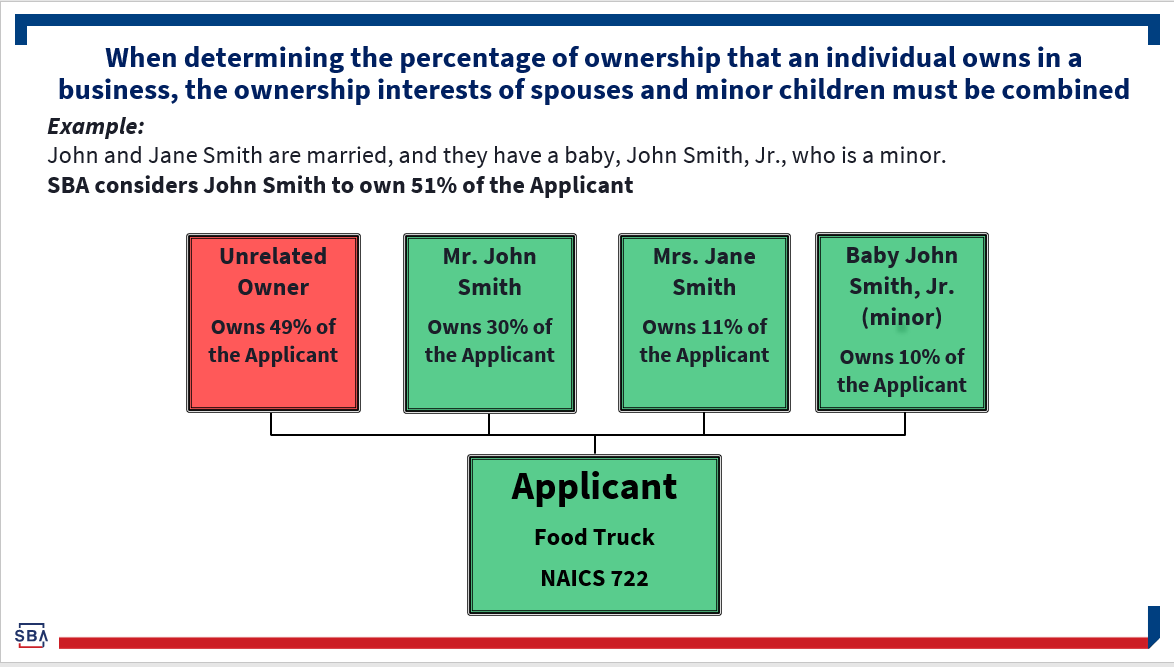
Owner 4’s full-service restaurant has a 722 NAICS 3-digit subsector code.

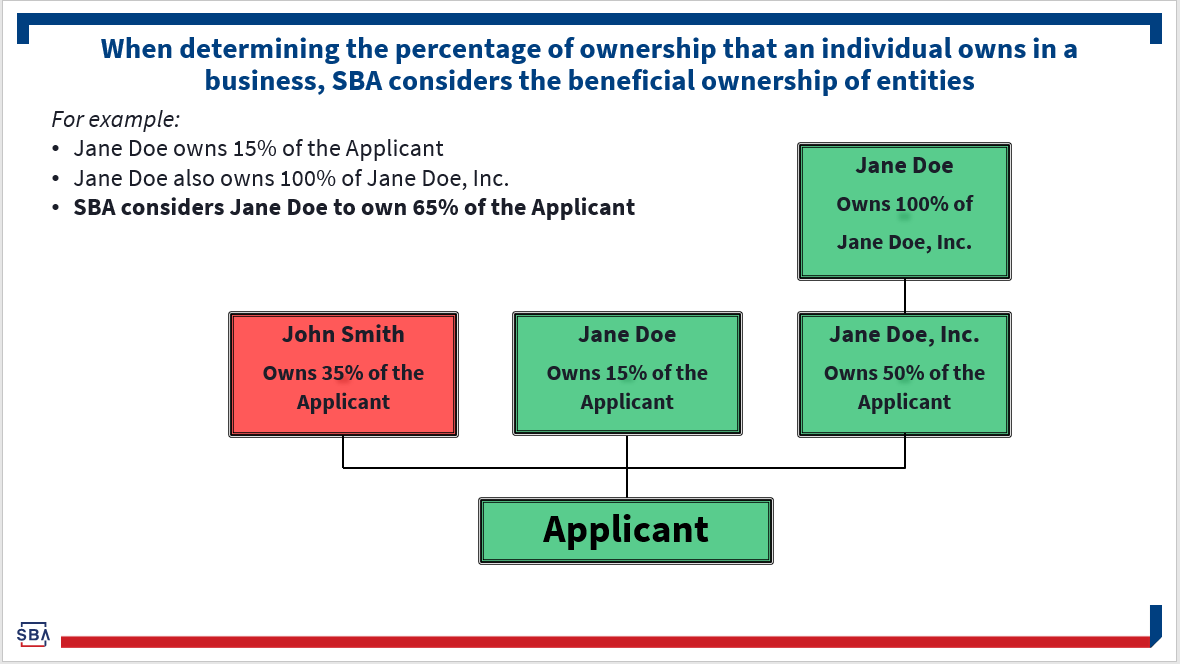
Owner 4’s automotive repair shop has an 811 NAICS 3-digit subsector code.

The Applicant business is affiliated with Owner 4’s full-service restaurant because both businesses operate in the NAICS subsector 722.

The Applicant business is not affiliated with Owner 4’s automotive repair shop because they operate in different subsectors.

Note that this test looks at businesses owned by owners of the applicant. The owners may be either individuals or business entities.





1. CA Franchise Rules

For Applicants operating under a franchise, license, or similar agreement, the following procedures apply:

* If the brand is currently listed on the SBA Franchise Directory at [www.sba.gov/document/support-object-object-sba-franchise-directory](https://www.sba.gov/document/support-object-object-sba-franchise-directory): Upon entering a loan into SBA’s E-Tran, CA Lenders must enter the Franchise Identifier Code from the SBA Franchise Directory. CA Lenders are not required to obtain the executed addendum (if applicable) but must pay close attention to the notes in the SBA Franchise Directory to ensure, for example, the CA Lender obtains the proper lien position on collateral and there are no deed restrictions on the collateral.
* If the brand is not currently listed in the SBA Franchise Directory: The CA Lender must follow the procedures in SOP 50 10 6, Part 2, Section A, Ch. 1, Para. D.6. for getting a new brand listed on the SBA Franchise Directory.

Appendix H: Screening the Application for a Credit Score in E-Tran

To screen the application for a credit score:

Because of the costs associated with use of this system, CA Lenders should not score the same loan multiple times or use the scoring system for loans that will be processed conventionally without a CA guaranty.

The CA Lender will enter a minimal set of fields into E-Tran Origination. At this point, the CA Lender will not be required to complete the entire set of E-Tran screens, but the CA Lender may choose to submit the entire set of E‑Tran loan origination data if it is easier to keep the data set intact while processing via a third-party software product.

The below data fields are required to generate a credit score and are part of the screens used for the E‑Tran loan origination process and part of the specifications for loan origination software packages, which will make it easier to move forward with the loan application if the credit score is acceptable.

business\_legal\_name

business\_address

business\_city

business\_state

business\_zip

business\_phone

fed\_tax\_id

DUNs number or SAM.gov Unique Entity ID (if available)

For all owners of 20% or more equity in the Applicant small business, the following is necessary to generate the credit score:

first\_name

last\_name

SSN

city

state

zip

Appendix I: Glossary of Terms and Definitions

**Associate of Lender –** As defined in 13 CFR [120.10,](https://www.ecfr.gov/current/title-13/chapter-I/part-120#120.10) an Associate of a Lender is:

1. An officer, director, key employee, or holder of 20% or more of the value of the Lender's or CDC's stock or debt instruments, or an agent involved in the loan process;
2. Any entity in which one or more individuals referred to in paragraph (1) of this definition or a Close Relative of any such individual owns or controls at least 20%.

**CA Loan Program Requirements** – CA Loan Program Requirements means Loan Program Requirements as defined in 13 CFR 120.10, and the requirements contained in the Federal Register notices governing the pilot and the Community Advantage Participant Guide, as amended from time to time.

**CDFI** – A Community Development Financial Institution (CDFI) is a financial institution that provides economic development, affordable housing, and/or community financial services. CDFIs are certified by the CDFI Fund, U.S. Department of the Treasury.

**CFR –** The Code of Federal Regulations, the codification of the general and permanent rules and regulations published in the Federal Register by the executive departments and federal agencies of the U.S.

**CLSC – AR –**The Commercial Loan Servicing Center in Little Rock, AR where CA loan servicing and liquidation actions and guaranty purchase requests are sent for CA Lenders located in SBA Regions 1, 2, 3, 4, and 6, excluding Louisiana and New Mexico. (<http://www.sba.gov/LittleRockCLSC>)

**CLSC – CA–** The Commercial Loan Servicing Center in Fresno, CA, where CA loan servicing and liquidation actions and guaranty purchase requests are sent for CA Lenders located in SBA Regions 5, 7, 8, 9, 10 and the states of Louisiana and New Mexico. (<http://www.sba.gov/FresnoCLSC>)

**Community Advantage Network Partner –** Mission-oriented organizations (such as housing focused CDFIs, community development corporations, faith–based institutions, etc.) that want to bring new sources of capital to small businesses in their communities are encouraged to act as Referral Agents (as defined in 13 CFR [103.1(f)](https://www.ecfr.gov/current/title-13/chapter-I/part-103#p-103.1(f))) to existing CA Lenders. Mission-oriented Referral Agents who refer applicants to CA Lenders are referred to as "Community Advantage Network Partners" ("CA Network Partners").

**D/OCRM –** The Director of the Office of Credit Risk Management.

**D/OFA** – The Director of the Office of Financial Assistance.

**Empowerment Zone (EZ) and Enterprise Community (EC) –** A distressed urban or rural community where qualifying businesses are eligible for tax incentives and low-cost loans. The Departments of Housing and Urban Development (HUD) and Agriculture (USDA) designate EZs and ECs. The Census Bureau defines these areas in tracts to collect data and make generalizations for an area. To find out if your business is located in an EZ or EC visit: [hudexchange.info/programs/community-renewal-initiative](https://www.hudexchange.info/programs/community-renewal-initiative/).

**E-Tran** - E-Tran is a secure website where lenders can enter loan information for a single loan or send multiple applications simultaneously via an XML (Extensible Markup Language) file transfer.

**FICO® Small Business Scoring ServiceSM Score (SBSS Score**) - The SBSS Score is calculated based on a combination of consumer credit bureau data, business bureau data, Borrower financials, and application data (The SBSS Score is not to be confused with the Small Business Predictive Score (SBPS) used by SBA’s Office of Credit Risk Management). The minimum credit score is based on the lower end of the risk profile of the current SBA portfolio. The minimum acceptable SBSS score may be adjusted up or down from time to time.

**FTA –** SBA’s Fiscal Transfer Agent. The FTA acts as a conduit between the lenders, broker/dealers, and investors for all secondary market processes, including loan sales, payment pass-through, deferments and modifications, prepayments and defaults, and pooling. The FTA also processes all 1502 reports and remittances of fees for all 7(a) loans. The current FTA is [Guidehouse, LLP](https://catran.sba.gov/ftadistapps/ftawiki/).

**HUBZone –** Historically underutilized business zone, which is an area located within one or more: (1) Qualified census tracts; (2) Qualified non-metropolitan counties; (3) Lands within the external boundaries of an Indian reservation; (4) Qualified base closure area; or (5) Redesignated area.

The HUBZone Empowerment Contracting Program, which is included in the Small Business Reauthorization Act of 1997, stimulates economic development, and creates jobs in urban and rural communities by providing contracting preferences to small businesses that are located in a HUBZone and that hire employees who live in a HUBZone. SBA is responsible for regulating and implementing the HUBZone Program. It certifies concerns for eligibility to receive HUBZone contracts and maintains a listing of qualified HUBZone small businesses federal agencies can use to locate prospective vendors. To find out if your business is located in a HUBZone visit this website: [http://www.sba.gov/content/hubzone-maps.](http://www.sba.gov/content/hubzone-maps)

**Intermediary Lending Pilot Program (ILP) –** The SBA Intermediary Lending Pilot Program (ILP) provides direct loans to ILP Intermediaries in order to assist small businesses in areas suffering from a lack of credit due to poor economic conditions or changes in the financial market. An ILP Intermediary may be a private, nonprofit organization such as a Community Development Financial Institution (CDFI), Community Development Corporation, SBA Certified Development Company (CDC), or an agency established by a Native American Tribal Government.

**Lender Portal –** A secure web-based tool that shares SBA’s lender data with that lender and increases transparency of the data used for oversight. It displays confidential information, including the lender’s Risk Rating and PARRiS score, rating components, other performance and credit quality metrics, net cash flow metrics, and other information. The Portal is updated quarterly. For more information: <https://sbalenderportal.dnb.com/Account/Login?ReturnUrl=%2FFirs>

**LGPC –** 7(a) Loan Guaranty Processing Center with locations in Citrus Heights, CA and Hazard, KY.

**Loan and Lender Monitoring System (L/LMS) –** L/LMS is a database of information on individual SBA lenders and active loans. It contains comprehensive portfolio data that allows lenders to compare performance within their peer group. A Lender’s L/LMS data can be accessed by that Lender using the Lender Portal. This allows an institution to proactively manage and monitor its SBA portfolio performance.

**LMI - Low-to-Moderate Income Communities –** Census tracts of low income or moderate income as recognized by the Federal Financial Institutions Examination Council (FFIEC) and reported on its website: <https://geomap.ffiec.gov/FFIECGeocMap/GeocodeMap1.aspx>

**Microloan Program –** The SBA Microloan Program provides direct loans to Microloan Intermediaries to assist women, low income, veteran, and minority entrepreneurs, and other small businesses in need of small amounts of financial assistance. Microloan Intermediaries provide training and technical assistance and make small loans of up to $50,000 to eligible microloan borrowers.

**OCRM –** Office of Credit Risk Management – SBA’s office responsible for monitoring, oversight, supervision, and enforcement of SBA’s lending partners, including Community Advantage Lenders.

**OFA –** Office of Financial Assistance – SBA’s office responsible for establishing policies and procedures for SBA’s Business Loan Programs, including the 7(a) Loan Program, Community Advantage Pilot Program, the Microloan Program, the Intermediary Lending Pilot Program, and the Development Company Loan Program (504 loan program).

**Opportunity Zones –** Opportunity Zones are economically distressed communities that have 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. For more information and a list of Opportunity Zones for all states visit this website: [https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx.](https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx)

**Promise Zones –** Promise Zones are high poverty communities where the federal government partners with local leaders to increase economic activity, improve educational opportunities, leverage private investment, reduce violent crime, enhance public health, and address other priorities identified by the community.

**Rural Area –** A Rural Area is a county that the U.S. Census Bureau has defined as “Mostly Rural” or “Completely Rural” in its most recent decennial census report. Download the [U.S. Census Bureau 2010 rural/urban data](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwj79cvT2eH2AhUcjYkEHcEGDxoQFnoECCgQAQ&url=https%3A%2F%2Fwww2.census.gov%2Fgeo%2Fdocs%2Freference%2Fua%2FCounty_Rural_Lookup.xlsx&usg=AOvVaw2AYNpyKzfdR2BOTcIOAOzp).

**[SBA Form 159](https://www.sba.gov/document/sba-form-159-fee-disclosure-compensation-agreement) –** The Fee Disclosure Form and Compensation Agreement is the form used to disclose fees paid in connection with an SBA-guaranteed loan.

[**SBA Form 1502**](https://www.sba.gov/document/sba-form-1502-sba-form-1502-instructions) **–** The Guaranty Loan Status and Lender Remittance Form is used for the monthly reporting of the outstanding loan balance on a 7(a) loan and the remittance of the on-going guaranty fee(s).

**Small Business Predictive Score (SBPS**) – The SBPS is a composite business score comprised of Consumer Credit Bureau and Business Credit Bureau data which predicts the likelihood of a loan going into default. The consumer data are similar to those used for consumer credit scores, just modeled differently. The business data are based on third party-reported credit history data (vendors, utilities, insurance companies), similar to consumer data. The SBPS uses statistical probabilities to classify small businesses into a score range, where the lowest score has the highest likelihood of severe delinquency. The SBA uses the SBPS to predict the likelihood of a guaranty purchase. SBA lenders can access the dollar weighted average SBPS of their active 7(a) disbursed loans, as well as a stratification of individual loans by high, medium, and low risk categories through use of the SBA’s Lender Portal.

**SOP –** SOPs are SBA Standard Operating Procedures, as issued and revised by SBA from time to time. SOPs are publicly available on SBA’s web site at <https://www.sba.gov/document>.

**Underserved -** A term used to describe Borrowers that are presumed to lack sufficient access to capital. Underserved markets are defined as:

* + Businesses located in [Low-to-Moderate Income](#LMI_definition) (LMI) communities; Empowerment Zones and Enterprise Communities (EZ/EC); Historically Underutilized Business Zones (HUBZones); Promise Zones; Opportunity Zones; or Rural Areas;
  + New businesses (those in operation for less than two years);
  + Businesses that are 51 percent or more owned and controlled by one or more [Veterans](#Veteran_owned_definition); and
  + Businesses where more than 50% of the full time workforce is low-income or resides in LMI census tracts.

**Veteran-owned businesses --** SBA facilitates lending to veteran-owned small businesses so that they have the tools they need to start and grow their businesses. Veteran-owned businesses means small businesses that are 51% or more owned and controlled by an individual or individuals in one or more of the following groups: Veterans (other than a veteran who received a Dishonorable or Bad Conduct Discharge), Service-Disabled Veterans, Active Duty Military service member participating in the military’s Transition Assistance Program (TAP), Reservists and National Guard Members, or current spouse of any Veteran, Active Duty service member, or any Reservist or National Guard member, or widowed spouse of a service member who died while in service or of a service-connected disability.

1. For CA loans approved prior to October 1, 2018, the additional minimum loan loss reserve requirement is three percent of the guaranteed portion of each CA loan sold into the Secondary Market. [↑](#footnote-ref-2)
2. In a Federal Register Notice published on April 29, 2022 [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)] SBA modified the regulation at 13 CFR § 120.130(c) in order to permit certain CA Lenders to make RLOCs in the CA Pilot Program. [↑](#footnote-ref-3)
3. SBA Procedural Notice [5000-829416](https://www.sba.gov/document/procedural-notice-5000-829416-procedural-notice-5000-829416-revisions-financial-informationtax-transcript-verification-process) (effective March 9, 2022) revised the IRS Tax Transcript/Verification of Financial Information procedures in SOP 50 10 6 to, among other things, permit 7(a) Lenders to use either IRS Form 4506C or IRS Form 8821 in their tax verification processes. [↑](#footnote-ref-4)
4. The collateral requirements for the CA Pilot Program were modified in a Federal Register Notice published on April 29, 2022, [[87 FR 25398](https://www.federalregister.gov/documents/2022/04/29/2022-09162/community-advantage-pilot-program)]. [↑](#footnote-ref-5)
5. For CA loans approved prior to October 1, 2018, the additional minimum loan loss reserve requirement is three percent of the guaranteed portion of each CA loan sold into the Secondary Market. [↑](#footnote-ref-6)