



SBA Information Notice

TO: All SBA Employees

CONTROL NO.: 5000-1314

SUBJECT: SOP 50 10 5(F) update – 7(a)
Loan Program Credit Standards

EFFECTIVE: June 12, 2014

The U.S. Small Business Administration (SBA) is announcing revisions to Standard Operating Procedure (SOP) 50 10 5(F) applicable to the credit standards for 7(a) Small Loans (except SBA Express and Export Express) and related requirements. SBA is reducing duplicative requirements for 7(a) Small Loans in the continuing effort to streamline and reduce costs of delivery for SBA's 7(a) loan program.

The requirements for credit underwriting for these loans are being clarified to increase utilization of the SBA credit score. This is a credit score that combines business and consumer data and is obtained through SBA's E-tran system. The SOP revisions also simplify related lender submissions and reduce repetitive requirements.

These revisions will apply to all applications received by SBA on or after July 1, 2014. The updated SOP, reflecting the changes, will be made available on SBA's website at www.sba.gov. All users are encouraged to thoroughly review the updated SOP prior to the effective date.

The specific revisions to the credit standards for 7(a) Small Loans (except SBA Express and Export Express) are:

Replace Subpart B, Chapter 4, Paragraph I.A. through Subparagraph I.A.1 with:

A. **Credit Standards (13 CFR §120.150)**

Credit underwriting requirements are separated into three categories. The first is for "7(a) Small Loans" which consists of any loan of \$350,000 or less (except SBA Express and Export Express). The second is for any loan over \$350,000 processed using Standard, CLP, or PLP procedures (and for 7(a) Small Loans that do not receive an acceptable credit score). The third is for any loan that is processed using SBA Express or Export Express.

Lenders must analyze each application in a commercially reasonable manner, consistent with prudent lending standards. The cash flow of the Small Business Applicant is the primary source of repayment, not the liquidation of collateral. Thus, if the lender's financial analysis demonstrates that the Small Business 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 cash.

EXPIRES: June 1, 2015

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SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete

Must be accompanied by SBA Form 58

1. 7(a) Small Loans up to and including \$350,000:

a) Screening for Credit Score

All applications will begin with a screening for a credit score. The lender will enter certain information into E-Tran and a credit score will be issued. (The specific information is described in Chapter 6, of this Subpart.) If the applicant receives an acceptable credit score, the application may be submitted via E-Tran. If the applicant does not receive an acceptable credit score, the lender may submit a Standard 7(a) loan application to the LGPC (following the procedures for loans over \$350,000) or, if the lender is an SBA Express lender, an SBA Express application via E-Tran for a 50% guaranty.

The credit score is calculated based on a combination of consumer credit bureau data, business bureau data, borrower financials, and application data. (The credit 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 and may be adjusted up or down from time to time. SBA will post on its website the minimum credit score for applications at www.sba.gov/for-lenders.

b) Credit Analysis

The applicant (including the Operating Company) must be creditworthy and loans must be so sound as to reasonably assure repayment. An acceptable credit score satisfies the requirement to consider the following:

- (a) The credit history of the applicant (and the Operating Company if applicable), its Associates, and guarantors, including historical performance as well as the potential for long term success (character and reputation will be determined through the appropriate questions on SBA Form 1919 and, if required, SBA Form 912);
- (b) The strength of the business;
- (c) Past earnings, projected cash flow, and future prospects; and
- (d) The applicant's ability to repay the loan with earnings from the business.

The Lender's credit memorandum will also be used to demonstrate reasonable assurance of repayment and must include the following:

- (a) A brief description of the history of the business;
- (b) A brief description of the management team of the company. Consider the length of time in business under current management and, if applicable, the depth of management experience in this industry or a related industry;
- (c) Owner/Guarantor analysis, including obtaining personal financial statements, consistent with lender's similarly-sized non-SBA guaranteed commercial loans;

- (d) Confirmation of Lender's collection of business tax returns, and verification and reconciliation of the applicant's financial data against income tax data (received in response to IRS Form 4506-T, Request for Transcript of Tax Return) prior to submitting the application to SBA;
- (e) Lender must determine if the equity and the pro-forma debt-to-worth are acceptable based on its policies and procedures for its similarly-sized, non-SBA guaranteed commercial loans. If the lender requires an equity injection and, as part of its policies and procedures for its similarly-sized, non-SBA guaranteed commercial loans verifies the equity injection, it must do so for SBA loans;
- (f) A list of collateral and its estimated value, if secured; and
- (g) The effect any affiliates may have on the ultimate repayment ability of the applicant.

To conform to the above-noted revisions, specific revisions related to the procedure for IRS Tax Transcript verification have also been made.

Replace Subpart B, Chapter 5, Paragraph III.D. 1. a) with:

- a) Lender must submit [IRS Form 4506-T](#) to the Internal Revenue Service to obtain federal income tax information on Borrower, or the Operating Company if the Borrower is an EPC, for the last 3 years (unless Borrower or Operating Company is a start-up business). For loans up to and including \$350,000, the lender is required to confirm in its credit memo collection of business tax returns, and verification and reconciliation of the applicant's financial data against income tax data (received in response to IRS Form 4506-T, Request for Transcript of Tax Return) prior to submitting the application to SBA. If the business has been operating for less than 3 years, lender must obtain the information for all years in operation.

Conforming revisions have also been made to the contents of Lender's application for guaranty.

Replace Subpart B, Chapter 6, Paragraph I.A. 2. t) with:

- t) IRS Form 4506-T, Request for Transcript of Tax Return – See Chapter 5, Paragraph III. of this Subpart. Identify the date IRS Form 4506-T was sent to IRS. For non-delegated lenders verification of IRS Form 4506-T is required prior to submission of application. For loans up to and including \$350,000, the lender is required to confirm in its credit memo collection of business tax returns, and verification and reconciliation of the applicant's financial data against income tax data (received in response to IRS Form 4506-T, Request for Transcript of Tax Return) prior to submitting the application to SBA.

Conforming revisions have also been made to the closing and disbursement requirements for 7(a) Small Loans.

Replace Subpart B, Chapter 7, Paragraph IV.F.3.a) with:

a) Use IRS tax transcripts to verify financial information used to support the loan credit analysis. For 7(a) Small Loans, the lender is required to confirm in its credit memo collection of business tax returns, and verification and reconciliation of the applicant's financial data against income tax data (received in response to IRS Form 4506-T, Request for Transcript of Tax Return) prior to submitting the application to SBA.

Notification and Questions

SBA field offices must notify Lenders about the changes to this Notice. Questions regarding SOP 50 10 5(F) should be directed to the lender relations specialist in the local SBA field office. The local SBA field office list and points of contact can be found at www.sba.gov/localresources.

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Office of Capital Access