SBA Loan Program
Updates & Clarifications

***SESSION ONE***

Presented By:
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What Will Be Covered

• Fee Changes Effective October 1, 2013

• Discontinued Loan Programs

• Veterans Loan Program

• SOP 50 10 5 Changes Effective January 1, 2014
  – SOP 50 10 5 (F) SubPart B Chapters 2, 3 & 4
Fees Effective October 1, 2013

• **7(a) Loans Over $150,000**
  • Yearly (On-Going) Fee Reduced to .52%
  • Upfront Guaranty Fee – No Change

• **7(a) Loans $150,000 or Less**
  • No Upfront Guaranty Fee
  • No On-Going Fee
  • Must Aggregate Approvals Within 90 Days
Discontinued Loan Programs

- Dealer Floor Plan
  Expired September 30, 2013
- Small/Rural Lender Advantage
  Expires December 31, 2013
- Patriot Express
  Expires December 31, 2013
Veterans Loan Program

• Starts January 1, 2014
• Authorized Under SBA Express Loan Program
• Loans Up To $350,000
• No Borrower Upfront Fee
• No Ongoing Fee To Lender Up To $150,000
SOP 50-10-5 (F)

• Changes/Clarifications to 7(a) Loan Policies
  Effective January 1, 2014
  • Eligibility (SubPart B Chapters 2 & 3)
  • Credit Standards (SubPart B Chapter 4)
  • Collateral (SubPart B Chapter 4)
7(a) Policy Updates - Eligibility

- Franchise Agreements (Page 78)
  - Agreement acceptability does mean the applicant is eligible, all other eligibility requirements must be reviewed
  - Delegated Lenders may submit agreements to SBA for affiliation determination
  - Clarification on fitness centers that target one gender
  - Franchisor appeal process established in SOP
7(a) Policy Updates - Eligibility

- Guidance on business engaged in Promoting Religion (Page 92)

  If religious affiliation/issues arise:
  - Religious Eligibility Worksheet required
    - Appendix 8 (SBA Form 1971) in SOP 50-10-5 (F)
  - If using delegated authority - keep in file
  - Non-delegated processing - submit with application
7(a) Policy Updates - Eligibility

- **Businesses with Associate(s) of Poor Character (Pages 93-98)**
  - Must obtain SBA Form 912
  - All delegated lenders can clear 912s for delegated processing if they meet specific requirements – remember to send a copy of clearance to OIG/OSO for name check
  - Ensure that all details required are provided
7(a) Policy Updates - Eligibility

- **Businesses Providing Prurient Sexual Material (Page 99)**
  - Updated guidance on documenting eligibility
  - Loans approved through delegated process must contain documentation in file
  - Non-delegated loan requests must include justification/documentation

- **Prior Loss to Government (Page 99)**
  - Delegated processing required to determine prior loss for principals or businesses.
7(a) Policy Updates - Eligibility

- **Debt Refinancing**
  - Business valuation required only if refinancing seller note (Page 115)
  - Refinancing an SBA Guaranteed loan (Page 116)
    - Either lender or borrower can provide documentation that current lender declined to approve an increase in loan amount or a second loan and that lender is either unwilling or unable to modify the current payment schedule.
  - Can use 7(a) Loan to Refinance 504 (Page 117)
Who May Do Business With SBA (Page 158)

- Agents suspended, debarred, revoked and/or excluded under Government-wide debarment regulations are not permitted

- Lender responsible for consulting System for Awards Management (SAM) / Excluded Parties List System (EPLS)
  
  – See http://www.sba.gov/about-sba-services/18351
7(a) Policy Updates - Credit

Loans Up To $350,000 (Pages 161-163)

• Use SLA process/credit analysis requirements including pre-screening credit score
• Loans $50,001 to $350,000 must demonstrate a global cash flow of 1.1 or greater using historical or projected basis. Formula used must be provided.
• Income tax analysis and verification using 4506-T process must be completed prior to application
7(a) Policy Updates - Credit

Loans from $350,001 to $5 million
(Page 163 - 166)

• Cash Flow Defined as EBITDA

• Debt Service Coverage Ratio must be 1.15 to 1 or greater on a historical and/or projected basis

• Equity requirement for loans in excess of $350,000
7(a) Policy Updates - Collateral

- Loans of $25,000 or less, not required to take collateral
- Loans $25,001 to $350,000, follow internal policies for similar sized non-SBA loans, but must at least take a lien of the fixed assets
- For loans in excess of $350,000, SBA requires lender collateralize the loan to the maximum extent possible up to the loan amount (Page 168)
7(a) Policy Updates - Collateral

• How to determine if a loan is fully secured (Page 169)
  • Valuation methods:
    • Adjusted net book value (ANBV): Original purchase price minus depreciation and amortization
    • Orderly liquidation appraised value (OLV)
  • Discounted accordingly:
    • New M&E: 75% of ANBV or 80% of OLV
    • Used M&E: 50% of ANBV or 80% of OLV
    • Real Estate: 85% *Based on appraisal value following SBA requirements* (Page 171)
7(a) Policy Updates - Collateral

• Lenders may use SBA Form 148 for personal guaranties or own form. (Page 169)

• Additional collateral from personal assets need to be pledged only up to collateral shortfall amount. (Page 170)
7(a) Policy Updates - Collateral

• **Real estate appraisals (page 171)**
  • Real Estate Appraisal needed only if:
    • Loan is greater than $250,000 **and**
    • Loan is collateralized by Real Estate
  • When Appraisals are required, lenders must:
    • Obtain an appraisal by a state licensed or certified appraiser and follow their primary regulator’s FIRREA requirements for appraisals
    • Appraisals must be in compliance with USPAP and dated within 12 months of application
7(a) Policy Updates - Collateral

• A Going Concern Appraisal may be used to meet these requirements if:
  • The loan proceeds will be used to purchase a special use property
  • The appraisal is performed by an appraiser experienced in the particular industry and who is a “qualified source”
  • The appraisal allocates separate values to the individual components of the transaction including land, building, equipment and intangible assets
7(a) Policy Updates - Collateral

- When a business valuation is required, only the following qualified sources may be used (Page 174):
  - Accredited Senior Appraiser (ASA)
  - Certified Business Appraiser (CBA)
  - Accredited in Business Valuation (ABV)
  - Certified Valuation Analyst (CVA)
  - Accredited Valuation Analyst (AVA)

NOTE: A CPA without one of these certifications is no longer a qualified source
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