

CREDIT SCORING FAQ's for 7A SMALL LOANS

50 10 5 (F) Subpart B Chapters 4, 5, 6

Effective 7/1/2014

If the applicant has an acceptable SBA credit score, what additional analysis and support is needed?

In addition to the acceptable credit score, the Lender's credit memo must also address the following:

1. Brief history of business.
2. Brief description of the management team.
3. Owner/guarantor analysis including obtaining personal financial statements consistent with Lender's similarly sized non-SBA guaranteed loans.
4. 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.;
5. 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 it verifies the equity injection, it must do so for SBA loans.
6. List of collateral and estimated value.
7. Effect of affiliates upon repayment.

Please note: These are the minimum requirements as set forth in the SOP. The SBA does not prohibit the Lender from completing any additional analysis it feels is needed to support the decision.

If Lender's analysis does not demonstrate reasonable repayment assurance, however the credit score is acceptable, should the Lender approve or decline the loan request?

If the Lender's conclusion, considering both credit score and the additional required analysis as indicated in SOP 50 10 5 (F), Subpart B, Chapter 4, is that in totality the applicant does not demonstrate reasonable assurance of repayment, the Lender should decline the loan.

With the new scoring process for 7(a) Small Loans, are interim financials required?

Yes, applicant business financials current within 180 days are always required.

Does any non-owner spouse still need to provide Personal Financial Statements (PFS)?

Yes, this is a special purpose program under ECOA which enables SBA to require disclosure with a Personal Financial Statement (PFS). Review of the joint PFS enables Lender to identify collateral and other sources of income and uses of capital for global cash flow.

What financial statements are required to obtain a 7(a) Small Loan?

- 1). Personal Financial Statement dated within 90 days of submission.
- 2). Three years business financial statements.

What should the Lender's credit memo include about the effect of affiliates on the applicant concern's cash flow?

The Lender needs to determine if the affiliates are producing a positive or negative cash flow by themselves. If it is positive, no comment is needed other than that the affiliates generate positive cash flow. If affiliate cash flow is negative, then comments are needed on the risk of how that negative cash flow could impact the applicant's ability to repay its obligations.

Is a Balance Sheet sufficient evidence of collateral?

No, a full list of all proposed collateral and its estimated values is required.

How is IRS Verification Process affected by credit scoring with the current 7(a) Small Loan procedures?

The process is unchanged. The SBA requires 3 years tax information reconciled to business financial data. If business has been in operations for less than 3 years, Lender must obtain the information for all years in operation.

- 1). Delegated Lenders must complete verification prior to closing.
- 2). Non-delegated Lenders must complete verification prior to submission to Loan Guaranty Processing Center (LGPC).

What options does a Lender have if the applicant receives an unacceptable credit score?

- 1). Lender may resubmit after 90 days. The Lender will not be able to withdraw or cancel "unable to fund" status.
- 2). Express Lenders may Click on Copy button, select the "Express" method of processing and proceed with an Express loan.
- 3). Non-Delegated Lenders may submit a Standard 7(a) application, following procedures for Standard 7(a) loans greater than \$350,000 to the LGPC.
- 4). Delegated Lenders may process using delegated authority following procedures for Standard 7(a) loans greater than \$350,000.

How many times should the Lender click on the check credit score button?

The Lender should only request the check credit score button once. To Screen a file, minimal information is entered into the ETRAN system, and the check credit score button is then selected. ETRAN will document the credit score and save the file with the result. The ETRAN system will retain all this information for 90 days, allowing the Lender sufficient time to enter any additional required information to submit for funding. All loans require ETRAN submission of the application.

Are third party software systems compatible with the ETRAN system?

Yes, please contact your third party vendor for any issues.

Will financials be requested upon request for guaranty purchase of 7(a) Small Loans?

7(a) Small Loans that were scored on or after July 1, 2014 will not be required to submit evidence of cash flow spreads with a request for purchase