Community Advantage Participant Guide

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COMMUNITY ADVANTAGE (CA) PILOT LOAN PROGRAM

U.S. SMALL BUSINESS ADMINISTRATION

COMMUNITY ADVANTAGE PARTICIPANT GUIDE

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I. Introduction

Community Advantage (CA) is a new pilot loan program 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 is designed to provide mission-oriented lenders, primarily nonprofit financial intermediaries focused on economic development, access to 7(a) loan guaranties for loans of $250,000 or less. SBA's goals for CA are to:

- Increase access to credit for small businesses located in underserved areas;
- 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), as needed; and
- Manage portfolio risk at acceptable levels.

CA will operate through March 15, 2017 and may be extended or made permanent at SBA's discretion. This guide intends to provide the information mission-oriented lenders need to become eligible for CA participation and to ultimately make responsible CA loans. In the following sections, the guide will outline which organizations are eligible to participate, describe how an organization should apply for the program, provide steps for submitting an application for a loan guarantee, and detail the responsibilities of CA Lenders throughout the loan administration process. Additionally, the guide will describe how the SBA evaluates CA Lender applicants, issues the loan guarantees, and oversees CA Lenders.

Is my organization eligible to participate as a CA Lender?
Certain organizations making loans in underserved markets are eligible to participate in CA. Eligible organizations are SBA-Authorized Certified Development Companies (CDCs), SBA-Authorized Microloan Intermediaries, and Non-Federally Regulated Community Development Financial Institutions (CDFIs). Each organization is described below in more detail. For the purposes of CA, underserved markets include:

- Low-to-Moderate Income (LMI) communities (while not a specific requirement, CA Lenders are encouraged to serve low and very-low income communities);
- Businesses where more than 50% of their full time workforce is low-income or resides in LMI census tracts;
- Empowerment Zones and Enterprise Communities;
- HUBZones;
- New businesses (firms in business for no more than two years); and/or
- Businesses eligible for Patriot Express including Veteran-owned businesses.

(Definitions for these terms can be found in Appendix A: Terms and Definitions.)

Are there other ways to be part of CA without being a CA Lender?
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)) to existing CA Lenders. Mission- oriented Referral Agents who refer applicants to CA Lenders may be referred to as "**Community Advantage Associates" ("CA Associates")**. The use of CA Associates can expand the reach and impact of Community Advantage. CA Lenders

that use CA Associates are required to abide by SBA policies concerning the use of agents (*see* SOP 50 10 5(E), Subpart B, Chapter 3). If the CA Associate meets the definition of an "Associate" of the lender in 13 CFR 120.10, the CA Associate may not charge the applicant a referral fee. The CA Lender and Small Business Applicant must complete and sign Form 159(7a) detailing any fee charged to the borrower and/or paid by the CA Lender for the referral. If a borrower is charged a fee, then the Referral Agent must also sign the form. The CA Lender should send the completed form to Colson along with their first 1502 report following the first loan disbursement (see page 26 for more info on 1502 reporting).

More about organizations that are eligible to become CA Lenders

1. 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. 504 project financing is accomplished through a 100 percent guaranteed debenture issued by a CDC, a non-guaranteed loan issued by a third party lender, and a contribution by the borrower. There are a small number of for-profit CDCs that were grandfathered into the current 504 program in 1986 and may also apply to become CA Lenders.

2. *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.

3. *Non-Federally Regulated Community Development Financial Institutions (CDFIs)*

Only CDFIs certified by the Department of the Treasury that do not have a Federal financial regulator are eligible to participate in CA (for example, a state-regulated CDFI would be eligible). 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 communities, financial literacy training, and predatory lending alternatives).

Why Should I Become a Community Advantage Lender?
CA loans enable mission-oriented lenders to increase the flow of capital to underserved communities and achieve a greater impact. Lenders focused on economic development within their communities will be provided with a timely application process, will enjoy the benefits of SBA's guarantee, and will be allied with SBA's extensive network of experienced resource partners. For more experienced and well capitalized mission lenders, this may include access to SBA's liquidity enhancing secondary market for the sale of the guaranteed portion of SBA loans. This very efficient market of brokers, loan pool originators, institutional and individual investors facilitates the purchase of the guaranteed portion of SBA loans, thus providing greater leverage for participating lenders, which can substantially increase the flow of capital to the target underserved communities that CA is designed to reach. Through participation in the pilot program, CA Lenders should be able to build capacity and stronger balance sheets, and may have greater access to the kind of patient capital that complements mission lenders' proven track record of low overall defaults and high percentage of loan repayments.

Community Advantage Basic Loan Features
The basic terms of CA loans are the same as SBA's standard 7(a) loans with some important differences highlighted in the table below. For further information please see SBA's regulations at 13 Code of Federal Regulations (CFR) Part 120. Additionally, see SBA's Standard Operating Procedures (SOP) 50 10 5(E), Subpart B, Chapter 3. This chapter of the SOP governs important conditions which include interest rate policy, loan maturities, the disclosure of fees and other expenses, SBA guaranty fees, and other fees applicable to an SBA-guaranteed loan.

Features	**Description**
Percent of Guaranty	85% guaranty for loans of $150,000 or less; 75% guaranty for loans greater than $150,000
Maturity	Max 10 years for working capital 10 years or the useful life of equipment Max 25 years for real estate
Guaranty Fees	Maturities of 12 months or less = 0.25% Maturities over 12 Months - Gross CA loan $150,000 or less = 2.0% - Gross CA loan over $150,000 = 3.0% On-going guaranty fee paid by the lender = 0.55%
Key Differences from 7(a)	
Maximum Loan Size	$250,000[1]
Maximum Interest Rate	Prime + 6%
Revolving Lines	Not allowed
Loan Loss Reserve Requirements	A minimum of 5% of the unguaranteed portion of the CA Lender's CA loan portfolio A minimum of 3% of the guaranteed portion of each CA loan that is sold into the secondary market

[1] The total amount of any Community Advantage Loan may not exceed $250,000. The aggregate balance of all Community Advantage loans to a single borrower, including the borrower's affiliates, may not exceed a total amount of $250,000.

Markets Served	60% of the lender's CA loans must be in underserved markets as defined in this guide.
Provision of Management and Technical Assistance (M&TA)	Encouraged when appropriate. The CA loan application contains a section to identify what, if any, management and technical assistance has been provided by the CA Lender to the borrower. However, M&TA is not required for each individual loan.

**SBA Microloan intermediaries, SBA Intermediary Loan Pilot Program participants and other recipients of SBA re-loadable funds may not use their SBA intermediary loans to fund CA loans. However, loans, grants, and funds received from other governmental organizations may be used to support CA lending.*

II. How Do I Apply to Become a Community Advantage Lender?

Eligible organizations may apply for approval to participate in the CA Pilot Program. The following sections describe the information and certifications that must be gathered, where the CA Application must be submitted, and the SBA evaluation process. After applying, CA applicants must email caloans@sba.gov to notify SBA that an application is forthcoming.

Step 1: Collect the Required Information
Interested organizations should assemble the information below in order to complete SBA Form 2301, Part E, *Community Advantage Lender Participation Application*.

a. *Tax Exempt Certification* – A copy of the applicant's IRS Tax Exempt certification, if applicable.

b. *Good Standing* – A copy of a Certificate of Good Standing from the Secretary of State from the State where the lender is organized.

c. *Opinion of Counsel* – An opinion of independent counsel that the lender is chartered to conduct business in the proposed operating area and is in compliance with applicable local, State and Federal laws in the formation and organization of the company. "Independent Counsel" is counsel that is not an "Associate of the lender" as defined in 13 CFR 120.10.

d. *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 fingerprint cards.

e. *Key Personnel* – A list of key personnel (current and proposed) who will be involved in loan packaging, processing, closing, disbursing, servicing and liquidating the lender's CA loans. 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 they exercise control of the services provided. A copy of the contract should also accompany the application. 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 fingerprint cards.

f. *Board Resolution* – A certified copy of a Resolution of the Board of Directors authorizing submission of the application.

g. *CDFI Certification* – If a CDFI, a copy of the most recent certification from the U.S. Treasury, CDFI Fund.

h. *Business Plan* – A business plan addressing the applicant's small business lending activities and proposed operations for the CA Pilot Program. Please consult Appendix B: Business Plan Components, to view the items SBA expects to be included in the business plan.

i. *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 for consideration. (Approved CA Lenders will be required to submit audited financial statements annually going forward.)

j. *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. (Note: CDCs that become CA Lenders have to comply with the 7(a) requirement of submitting their annual report 90 days after year-end and not the CDC timeframe of 180 days.)

k. *Funding Sources* – A schedule of funding sources and funds received and available for the two year period covered by the audited financial statements.

l. *Loan Performance History* – Default and loss rates for the applicant's entire small business loan portfolio for the prior two fiscal years in consolidated format. Current delinquency, default and loss rates for the applicant's entire small business loan portfolio.

m. *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 the loan programs that the applicant currently participates in.

n. *Lending Policies* – A copy of lending policies and procedures governing business loan origination, servicing and liquidation.

o. *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 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.

Step 2: Gather Certifications
As part of SBA Form 2301, Part E, applicants must provide the following certifications:

- *Organizational*
  The applicant must certify that it has filed articles of incorporation and by-laws with either the SBA or the CDFI Fund in connection with its participation in the 504, Microloan 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 financial regulator or, if the applicant is subject to state regulation, the applicant must provide a certification that it is in good standing with the state financial regulator. 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 report of examination of the applicant by the State financial regulator; and
    - A description of the State prescribed capital requirements and a certification that the applicant meets these established requirements.

Step 3: Submit the CA Application
The CA Application should be sent to the SBA Field Office responsible for the area where the applicant is physically located. For the list of offices, please go to www.sba.gov/about-offices-list/2. The process for applications is as follows:

- After the application is submitted to the appropriate SBA Field Office, please send an email to: caloans@sba.gov to notify that the application has been submitted.
- The SBA Field Office will screen the application to ensure it is complete, and assist applicants with completing the application, if necessary.
- The SBA Field Office will then submit the application to the Director, Office of Credit Risk Management (D/OCRM), who will make the final decision and notify the applicant of the decision.

How will the CA Application be Evaluated?
Applicants will be evaluated to determine if they have the necessary expertise, financial capacity and infrastructure to participate in SBA's 7(a) loan program through the CA Pilot Program. The evaluation will include three decisions:

- Is SBA satisfied with the mission lender's ability to successfully operate as a CA Lender;
- If yes, should the lender be given delegated authority to make credit decisions without prior SBA review; and
- If requested, should the lender be authorized to submit CA loans to the secondary market for SBA approval to sell?

If an applicant is approved to participate in the CA Pilot, it will be designated a Community Advantage Lender (CA Lender). The CA Lender will not be able to make 7(a) loans other than through the CA Pilot.

In the Pilot phase of CA, SBA will err on the side of caution if there are concerns with a CA Lender's ability to meet contingent liability requirements that come with the inherent leverage provided by the SBA guaranty. This is due to the possibility of the SBA guaranty not being honored in whole, or in part, as a result of a lender's failure to comply with SBA Loan Program Requirements. On average, that happens to less than two percent of all similar SBA loans and represents about two percent of the dollars of SBA loan guarantees. A decision not to admit a lender into the CA Pilot Program should not be construed as a negative judgment on their current success and effectiveness in providing capital to their communities. In addition, the lender may be a CA Associate making referrals to an approved CA Lender.

Evaluation Factors

The following criteria will be used to evaluate an application to participate in the CA Pilot Program. Applicants will be evaluated based on their experience, portfolio size, financial viability and other factors described below:

a. Form of organization, compliance with requirements governing organization, and standing with Secretary of State.

b. Knowledge of SBA's 7(a) Loan Program Requirements (as defined in 13 CFR 120.10). Approval of a CA Lender will be conditioned on completion of training on 7(a) 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).

c. Experience with small business lending and the applicant's capacity and ability to make, service and liquidate small business loans. If any of these services are contracted out that should be noted in the application and copy of the contract attached. (Note: If a CA applicant is approved and intends to use a lender service provider, the lender must submit the agreement to SBA for approval. See page 27 for further discussion of lender service providers.)

d. Ability to provide or obtain services to provide management and technical assistance (M&TA).

e. 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).

f. Ability to meet the needs of CA underserved markets and an understanding of how participation in CA will further that reach in terms of geography, products, loan size, volume, and very low income populations.

g. Adequate infrastructure and internal controls to manage the CA Lender's SBA loan program and portfolio. See 13 CFR 120.460.

h. 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, service and liquidate small business loans. If any of these services are contracted out that should be noted in the application and copy of the contract attached. (Note: If a CA applicant is approved and intends to use a lender service provider, the lender must submit the agreement to SBA for approval. See page 27 for further discussion of lender service providers.)

i. Other risk characteristics that SBA may identify (for example, rapid growth, inadequate capital or loan loss reserves, outstanding enforcement actions, or any adverse or supervisory actions issued by a state regulator or SBA against the applicant and/or its employees).

j. Information from the CDFI Assessment and Rating System (CARS) and CDFI assessments, SBA risk ratings and reviews, and/or other similar types of information, as available.

k. Other factors that may be identified by SBA.

The following additional factors will be considered for SBA-CDCs and SBA-Micro-Lenders applying to participate in CA as well as delegated authority and, if applicable, secondary market 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, service and liquidate 7(a) loans and other relevant factors) as determined by SBA in its judgment;
- Compliance with SBA Loan Program Requirements governing these programs;
- Any SBA enforcement actions (proposed or final); and
- Compliance with reporting requirements, remittance of required guaranty, servicing, and review fees, as applicable; and responsiveness to requests for information from SBA.

For applicants applying to participate in the secondary market, the following factors will be considered:

- Dollar amount of unrestricted net assets;
- Loan performance history for small business loan portfolio;

- Applicant's approach to reserving for 7(a) loan losses including additional reserves for secondary market loans;
- Net assets to total assets;
- Positive net income/surplus;
- Operating liquidity;
- Knowledge of SBA Loan Program Requirements including eligibility requirements;
- Existence of proposed or final supervisory actions; and
- Other factors identified by SBA.

SBA Evaluation
SBA will do the following during the evaluation of the lender's application:

1. For existing SBA-CDC or SBA-Microloan Intermediaries, determine compliance with SBA Loan Program Requirements governing the 504 and Microloan programs. For CDFI's, determine that the CDFI is certified by the CDFI Fund, U.S. Department of Treasury.

2. Determine whether the applicant has the necessary capacity to make, service and liquidate SBA loans. (Approval of a CA Lender will be conditioned on completion of CA Lender Training. This training must be completed prior to making CA Loans.)

3. Assess the qualifications and ability of the applicant to meet the goals of CA including the provision of M&TA. Information about the availability of M&TA, either from the Lender or outside providers, should be available to each borrower.

4. Assess the lender's ability to participate in the secondary market, if applicable.

5. Make a recommendation to the Director, Office of Credit Risk Management (D/OCRM) to approve or decline the applicant's participation in the CA Pilot Program, participation as a delegated lender, and, if applicable, potential participation in the secondary market. Other offices within SBA (e.g., the Office of Financial Assistance, the 504 or Microloan program offices, etc.) will have an opportunity to provide input.

Decision
The Director of the Office of Credit Risk Management (D/OCRM) makes the final determination on whether to approve an applicant as a CA Lender, approve delegated authority, and, if applicable, approve potential participation in the secondary market.

SBA's goal is to provide an approval or denial decision within 45 days of the receipt by OCRM of a complete application package. Once a final determination is made, the D/OCRM will notify the applicant in writing of the decision with a copy to the Director, Office of Financial Assistance (D/OFA) and the appropriate SBA Field Office. If an application is not approved, the applicant will be notified in writing with the reasons the application was not approved. If a CA Lender requests to participate in the secondary market, and is approved, the CA Lender will be notified in writing along with any restrictions that may be applied.

Approved applicants will receive designation either as a delegated or non-delegated CA Lender (please see Section III: Delegated Authority Explained for more information). Furthermore, 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. Accordingly, all CA Lenders will be 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], September 12, 2011 [76 FR 56262], and February 8, 2012 [77 FR 6619], and November 9, 2012 [77 FR 67433].

The CA Pilot Program has been extended and will now expire 3/15/2017. 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 CA is extended or made permanent, each CA Lender's authority to participate will be renewed based on the lender's compliance with SBA Loan Program Requirements, including the requirement to make 60 percent of their 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 CA 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. If the program is not extended, the SBA guaranty will remain in effect for the life of the CA loan, assuming the loan is serviced and liquidated according to SBA Loan Program Requirements. In addition, if a CA Lender wants to exit the program or is required to exit, it must cooperate with SBA to transfer responsibility for servicing and liquidating its CA loan portfolio and related fees.

Reconsideration Procedure

If the D/OCRM declines the application to participate in the CA Pilot Program, or delegated authority 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 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.

Steps After Approval

If your organization is notified of approval to participate, you will be instructed to complete SBA Form 750CA by the Office of Credit Risk Management (OCRM). Please complete two original copies of this form and return them to the appropriate SBA Field Office. Two signed copies must be returned within 30 days of notification of approval. The Field Office will execute these documents on behalf of SBA and return one original to the CA Lender.

Once the SBA Field Office receives your signed 750CA agreements, it will notify the Standard 7(a) Loan Guaranty Processing Center (LGPC). The LGPC will enter your information into the

Partner Information Management System (PIMS). After these steps are completed, a training and orientation program will then be provided by the local SBA Field Office with assistance from OFA. After your organization completes the training and orientation program, it will be allowed to submit CA loans to the LGPC.

CA requires a demonstration of deep organizational capacity, financial strength, proven track record and commitment to mastering all facets of SBA lending at the highest level, either internally, or in partnership with lender service providers. CA applicants are invited to request authority to submit CA loans for SBA approval for secondary market sale either at the time of application or at any time thereafter. Secondary market authority will be 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 for secondary market authority before submitting a request for reconsideration.

Organizations that have been granted permission to access the secondary market must also complete additional training related to secondary market activities and requirements before they will be allowed to initiate these sales. This training is intended to provide information to the CA Lender that will assist them in their negotiations with brokers, pool assemblers, as well as inform the CA Lender about the effect of a sale on their ability to modify the terms of a loan to the small business borrower. CA lenders need to provide certification that this training has been completed before the authority to sell loans on the secondary market will be granted.

III. Delegated Authority Explained

When a lender is first approved to participate in CA, a determination will be made as to whether the CA Lender will be granted delegated authority. Delegated lenders have more autonomy in the loan-making process (for example, delegated lenders do not submit all of the supporting forms and credit analyses to SBA, but instead keep them in their loan files). In contrast, non-delegated lenders must submit all application forms, including any attachments such as the lender's credit memorandum to the LGPC for approval.

CA Lenders that were not granted delegated authority when initially admitted into the CA program may request delegated authority after participating in CA for one year and the approval of at least 10 CA loans and the disbursement of five CA loans. Upon receipt of such a request, OCRM will conduct a review of the CA Lender's performance (e.g. quality of underwriting, determination of eligibility, and servicing of CA loans, etc.), and determine if granting delegated authority is appropriate.

Lenders that are approved for delegated authority at time of application as a CA Lender must make at least 10 CA loans to the satisfaction of the LGPC in their first year as a CA Lender before they will be able to submit applications using their delegated authority. In this case, OCRM in consultation with LGPC will determine if the delegated CA Lender is ready to begin submitting applications under its delegated authority. Once delegated authority is fully bestowed,

it is up to the discretion of the CA Lender to exercise its delegated authority as allowed on any given loan.

Ten-Loan Requirement

CA Lenders who are granted delegated authority must satisfactorily submit at least 10 CA loans to the LGPC before they will be allowed to use their delegated authority. Satisfactorily submitting a loan includes receiving approval for the loan from the LGPC.

In reviewing and approving the 10 CA loans, the LGPC will evaluate the CA Lender's knowledge of SBA Loan Program Requirements and its ability to adequately underwrite small business loans. The criteria applied to each loan will include the following:

- Was the loan package submitted via E-Tran and was the lender knowledgeable with E-Tran operation?
- Did the District Office assist in processing the loan?
- Was the loan package complete?
- Was the credit underwriting analysis complete?
- Was the eligibility assessment adequate?
- Was additional information needed?
- If additional information was needed, was the lender responsive?
- Was the lender knowledgeable about what additional information was needed and why?
- Did the loan package demonstrate that the lender has an understanding of SBA Loan Program Requirements?
- Did interactions with the lender provide confidence about their knowledge of the credit and their ability to adequately close and manage the loan?
- Does LGPC have any reservations about the lender's ability to make loans on a delegated basis?

The LGPC will make the information on the individual loans approved available to OCRM. Once at least 10 CA loans are submitted and approved with no significant concerns identified, OCRM will notify the CA Lender when it is approved to make CA loans on a delegated basis.

OCRM will provide an Addendum to the SBA Form 750CA to the CA Lender at that time. Once the Addendum has been executed and returned to SBA and entered into PIMS, the CA Lender may begin making CA loans on a delegated basis.

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, or when the lender has disbursed $1.5 million under the program, OCRM will conduct a desk review to further assess a CA Lender's understanding of the program and its ability to process, close, service and liquidate CA loans.

Renewals

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 with at least 60% of the number of CA Loans made to businesses in:

- Low-to-Moderate Income (LMI) communities (while not a specific requirement, CA Lenders are encouraged to serve low and very-low income communities);
- Businesses where more than 50% of their full time workforce is low-income or resides in LMI census tracts;
- Empowerment Zones and Enterprise Communities;
- HUBZones;
- New businesses (firms in business for no more than two years); and/or
- Businesses eligible for Patriot Express including Veteran-owned businesses.

2. Continued ability to effectively process, close, service and liquidate SBA loans; and compliance with SBA Loan Program Requirements (as defined in 13 CFR 120.10).

3. If an existing SBA-CDC or SBA-Microloan Intermediary, compliance with SBA regulations and procedures governing these programs.

4. Continued good standing with SBA and satisfactory performance of the SBA loan portfolio as determined by SBA in its discretion. Performance criteria the SBA will consider include:

- The lender's risk rating;
- On-site reviews/examination assessments;
- 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);
- Loan volume to the extent that it impacts performance measures;
- Other performance related measurements and information, including the portion of the portfolio in CA underserved markets; and
- Any other risk characteristics SBA may deem appropriate.

5. In good standing with its State Secretary of State and state regulator, if applicable. The lender must disclose any adverse action, and SBA will determine whether those actions make the lender ineligible for CA delegated status or participation in the CA Pilot Program.

6. In 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 enforcement actions (proposed or final) issued by the SBA or State regulator against the CA Lender and/or employees, officer or directors.

9. Adequate staff to manage and service the CA Lender's portfolio and key personnel has requisite skills and abilities to underwrite, approve, service and liquidate small business loans, particularly the CA portfolio.

10. Current in submitting required monthly, quarterly and annual reports including 1502 reports; is responsive to SBA program offices' request for information; and current in remitting required guaranty, servicing and review fees.

11. Changes to the CA Lender's organizational structure, SBA Loan Department, business plan and/or business model.

12. Other relevant factors that may be identified by SBA.

The D/OCRM makes the final determination on the renewal of delegated authority and notifies the CA Lender, SBA Field Office, and the D/OFA. If the renewal of delegated authority is approved, OCRM executes a new Addendum to SBA Form 750CA with the CA Lender. If the renewal is not approved, the CA Lender must process new loans using non-delegated procedures and may reapply for delegated authority after it overcomes the reasons for the decline.

IV. How do I apply for a Community Advantage Loan Guarantee?

Loan applications, including all attachments, must be sent to SBA electronically (the application process is described more fully below). If necessary, your SBA Field Office can assist you in reviewing and submitting the loan applications.

Applying for a CA Loan Guarantee involves several steps, and different forms are required depending on whether your organization has delegated authority. The process is outlined briefly below:

Step 1: Is the Borrower Eligible? Eligibility, Loan Terms and Conditions
The loan eligibility requirements for CA loans are the same as for standard 7(a) loans as set forth in 13 CFR Part 120 and SOP 50 10 5(E), Subpart B, Chapter 2. Please consult these links to determine if your small business applicant is eligible.

In addition, some loans may involve complicated eligibility factors, such as affiliates, refinancing, citizenship, excessive personal resources, etc., that will require additional information and possibly discussion between SBA and the lender. As a result, the Agency will provide participating lenders with specialized support and assistance in assessing an applicant's eligibility. This includes an enhanced Eligibility Questionnaire (SBA Form 2301, Part C), which will help lenders quickly and easily assess most applicants' eligibility for an SBA loan. CA Lenders without delegated authority must use SBA Form 2301, Part C to assist in determining the eligibility of the applicant.

The Eligibility Questionnaire has been established to address each eligibility issue with a statement which, for the applicant to be immediately eligible, must be answered as "True." In cases where "False" is chosen, the lender will need to provide SBA additional information. In such cases, lenders should contact the LGPC at caloans@sba.gov for additional guidance. (Note:

Lenders should review and complete the entire questionnaire for the applicant business before contacting the LGPC.)

The lender is required to complete the Eligibility Questionnaire after the Applicant and lender have reviewed the statements. The lender must sign the questionnaire.

CA Lenders with delegated authority will use SBA Form 2301, Part C for their first 10 loans approved through the LGPC. Once the lender is approved to use its delegated authority, the lender will use SBA Form 2301, Part D as the eligibility checklist.

With the exceptions noted on pg. 6 of this guide, the basic terms of CA loans are the same as standard 7(a) loans. The loan terms and conditions applicable to standard 7(a) loans are set forth in 13 CFR Part 120 and in SOP 50 10 5(E), Subpart B, Chapter 3. This chapter of SOP 50 10 5(E) governs maximum guaranty amounts, loan maturities, interest rate policy (fixed or variable, frequency of adjustment period, etc., subject to the maximum identified on pg. 6 for CA loans), SBA guaranty fees, other fees allowed to be charged in connection with an SBA-guaranteed loan, the disclosure of fees and lender expenses, and loan agents. In an effort to maximize capital available to SBA Microloan program borrowers, loans made to small businesses in that program may be refinanced with a CA loan. Loans that involve the refinancing of a microloan held by the CA Lender or from an affiliated or parent organization of the CA Lender cannot be processed under delegated authority and must be submitted to the LGPC for approval. All debt refinancing in the CA Pilot must meet the requirements for refinancing set forth in SOP 50 10 5(E), Subpart B, Chapter 2, Paragraph IV.E.

Step 2: Credit Underwriting, Collateral and Environmental Requirements

Lenders must analyze each small business application in a commercially reasonable manner, consistent with prudent lending standards. CA Lenders must follow the credit underwriting standards for the Small/Rural Lender Advantage (S/RLA) loan program established in SOP 50 10 5(E), Subpart B, Chapter 4, Paragraph I.A. Additional instructions are provided in SBA Form 2301, Part B, *Lender's Application for Guaranty*, which includes a required credit memorandum as part of the underwriting process. Some of the key underwriting requirements are outlined below, but CA Lenders should review the SOP and regulations for further guidance.

The lender's credit memorandum must meet reasonable and prudent industry standards, including at a minimum:

1. Description of the history and nature of the business;
2. Description of and comments on the business plan including:
    a. Management experience of principal(s), particularly in the industry;
    b. Financial condition of the business; and
    c. Nature of any competition;
3. Spread of proforma Business Balance Sheet (current business balance sheet + changes in assets and liabilities as a result of the loan, other debt, any required equity injection and use of proceeds);
4. Ratio calculations (based on the proforma Balance Sheet and historical and projected Income Statements) for the following ratio benchmarks: Current Ratio, Debt/Tangible Net Worth,

Debt Service Coverage, and other ratios the lender considers significant for the business/industry (e.g., inventory turnover, receivables turnover, and payables turnover, etc.);

5. Analysis of working capital adequacy to support projected sales growth in next 12 months;
6. Analysis/calculation of cash flow relative to debt service:
    a. Show how historical cash flow would cover total debt service after the SBA loan. (Lenders may use "rule of thumb" cash flow, defined as earnings before interest and taxes, plus depreciation and amortization, less total debt service. Each component (including total cash flow) must be shown.); and
    b. Show how projected cash flow covers debt service after the SBA loan. (Lenders may use "rule of thumb" cash flow as defined above.) Also, provide an analysis of the reasonableness of the assumptions supporting the projected cash flow.
7. Collateral adequacy assessment (using liquidation values) to offset risk of default;
8. Explanation of and justification for the refinancing of any debts as part of the loan request, particularly Same Institution Debt;
9. Discussion of credit analysis, including lender's rationale for recommending approval;
10. Discussion of any:
    a. Seller financing;
    b. Stand-by agreements;
    c. 90+ day delinquencies; and/or
    d. Trade disputes;
11. For a change of ownership, discussion/analysis of business valuation (based on generally accepted valuation methods used for the pertinent industry) used to support the purchase price. (See SOP 50 10 5(E), Subpart B, Chapter 4, Paragraph II.C.5 for business valuation requirements.);
12. Discussion of any judgments or bankruptcy filings; and
13. Any additional information the lender considers relevant to the credit decision.

Finally, CA Lenders must follow the collateral and environmental requirements applicable to standard 7(a) loans. Please consult SOP 50 10 5(E), Subpart B, Chapter 4, Paragraphs II and III, for the applicable requirements.

Step 3: Complete Required Documentation for All CA Lenders

1. Complete, sign and date SBA Form 2301, Part A, *Lender Advantage Initiative*, including the Addendum for CA applicants only. Only one principal needs to complete, sign and date the entire form; all other principals only need to complete, sign and date Section D.

2. Complete, sign and date SBA Form 2301, Part B, *Lender's Application for Guaranty*, including the credit memorandum.

Step 4: Submit Required Eligibility Checklist Depending on Lender's Delegated Authority

	Non-Delegated Lenders (and Delegated Lenders until the lender has been approved to process using its delegated authority)	**Delegated Lenders (after the lender has been approved to process using its delegated authority)**
Step 4. Complete Eligibility Checklist	Complete, sign and date SBA Form 2301, Part C, *Eligibility Questionnaire*. Furnish any additional information due to any "false" responses indicated on the form. The lender must sign this form.	Complete, sign and date SBA Form 2301, Part D, *Eligibility Information for Community Advantage (CA) Loans*. The lender must sign this form.

Step 5: Submit Forms to LGPC via E-Tran

	Non-Delegated Lenders (and Delegated Lenders until the lender has been approved to process using its delegated authority)	**Delegated Lenders (after lender has been approved to process using its delegated authority)**
Step 5. Submit the application documents and attachments	Submit loan and applicant information via E- Tran.* SBA Form 2301 Parts A, B and C, including all attachments, must be sent to the LGPC electronically using one of the following options (please put the E-Tran application number in the subject line and identify the loan as a Community Advantage loan submission) (ex. CA-12345678): (a) Use "Send this File". This is the preferred method because it is easy to use, does not have file size limitations, and can be accessed by several SBA personnel. To send it this way, please use the link below, enter the required information and attach the files: https://www4.sendthisfile.com/sendthisfile/custom.jsp?sendthisfilecode=wtskqLiYqeyc4VJ1uPbf53qB&balance=34914. (b) Email: caloans@sba.gov if attachments are less than 9 megabytes in size. (c) Fax it to our fax server. This option will work for files larger than 9 megabytes in size. The fax # is: (916) 735-1975.	Requests for a CA loan number must be sent to the LGPC via E-Tran.* Delegated lenders do not need to submit supporting forms and credit analyses to SBA but must maintain them in their loan files.

** SBA Field Offices will provide training on E-Tran as part of the initial training for all CA Lenders. All CA Lenders are required to submit loan guaranty requests through E-Tran.*

V. What's Next? - Authorizing, Closing and Disbursing Loans

Once the first loan is approved, the LGPC will notify the appropriate SBA Field Office. The Field Office will then provide training on closing the loan, as well as loan file documentation to the CA Lender. More information is provided in the sections that follow concerning authorizing, closing and disbursing loans, but CA Lenders should review the appropriate SOPs and regulations to ensure compliance with the process and SBA Loan Program Requirements.

Part One: Loan Authorization

The Authorization is SBA's written agreement with the CA Lender providing the terms and conditions under which SBA will guarantee a business loan. The SBA establishes the terms and conditions for its guarantee, while the CA Lender sets the terms and conditions for extending credit to the borrower. For loans processed under non-delegated authority, if the application is approved, the LGPC will prepare the Authorization and send it to your organization. For delegated lenders, after 10 loans have been approved by the LGPC and the lender is notified that it may begin using its delegated authority, the CA Lender must prepare the Authorization and execute it on SBA's behalf. After closing, the CA Lender must submit a copy of the Authorization to the LGPC.

For further guidance on the Authorization, please see SOP 50 10 5(E), Subpart B, Chapter 5. CA loans will use the standard 7(a) authorization. For a list of 7(a) loan package templates, please see: http://www.sba.gov/category/lender-navigation/steps-sba-lending/7a-loans/approval-authorization/7a-loan-package-templates.

Part Two: Loan Closing and Disbursement

The first step in closing and disbursing an SBA-guaranteed loan is a thorough review of the Authorization. Note the guaranty fee must be paid within the time frame stated in the Authorization. The disbursement period must be tailored to meet the requirements of each individual loan. Finally, after the lender has determined that the loan conditions in the Authorization are appropriate for the terms of the credit, the lender must close the 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 5, Subpart B, Chapter 5, Paragraph X.

The CA Lender must obtain certain certifications from the borrower.

These certifications include statements from the small business applicant concerning its business operations, the approved uses of loan proceeds, and other matters related to terms and conditions of the loan. The link below includes a list of these certifications and provides sample boilerplate language (please see Appendix D of the Authorization Boilerplate):
http://www.sba.gov/sites/default/files/files/a7a2011.pdf

The CA Lender must comply with the collateral and insurance requirements stated in the Authorization.

Please consult SOP 50 10 5(E), Subpart B, Chapter 4, Paragraphs II and III, for the collateral and environmental requirements applicable to standard 7(a) loans. Additionally, SOP 50 10 5(E),

Subpart B, Chapter 5, Paragraph II describes insurance that may need to be obtained in connection with the CA loan.

The CA Lender must verify the borrower's financial information.
During the loan application process, the lender should receive financial data and tax data from the small business borrower. The lender must compare this information with tax data received from the IRS and ensure that there are no significant differences.

CA Lenders can accomplish this by submitting IRS Form 4506-T to the IRS. After submission, the IRS will respond by sending the borrower's transcripts to the lender. This process is required both for existing businesses (those that filed at least one federal business income tax return), and for purchases of a business. For a change of ownership loan, the lender must verify the seller's tax returns. Additionally, verification of financial information for the borrower's most recent fiscal year is not required if the fiscal year-end is within six months of the date SBA received the application.

Finally, the borrower must resolve any significant differences to the satisfaction of the lender and the appropriate SBA Servicing Center. Any significant difference must be reasonably explained in the lender's loan file prior to loan closing. Failure to resolve any differences may result in cancellation of the loan.

A copy of the completed 4506-T and transcripts should be retained in the lender's file. For further guidance on IRS verification please see SOP 50 10 5(E) Subpart B, Chapter 5, Paragraph III.

For more information on loan closing and disbursement, including post approval/pre-disbursement modifications, note terms and other information, please see SOP 50 10 5(E), Subpart B, Chapters 7 and 8. Please note that CA loans are standard 7(a) loans, therefore, lenders must follow the stated procedures and requirements applicable to standard 7(a) loans not SBA Express or other Pilot Loan Programs.

VI. After Disbursement is Made: Loan Servicing, Liquidation and Guarantee Purchase

Loan Servicing
Loan servicing involves the administration of the loan, from the time the proceeds are disbursed until the loan is paid off. 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), and following up on delinquencies. Lenders must service their CA loans in a commercially reasonable manner, using prudent lending standards and in accordance with SBA Loan Program Requirements. Lenders must service CA loans in their portfolio just as diligently as their non-SBA portfolio. If the lender does not maintain a non-SBA loan portfolio, it must adhere to the same prudent lending standards for loan servicing followed by commercial lenders on loans without a government guarantee.

Lenders must comply with SOP 50 50 4, Loan Servicing, when servicing SBA-guaranteed loans. In addition, lender responsibilities with regard to servicing are set forth in 13 CFR 120.535 and 120.536. Lenders must follow the procedures set forth for standard 7(a) loans and not SBA Express or other Pilot Loan Program loans. The lender relations specialist in the SBA Field Office is also a resource.

Loan Liquidation
Loan liquidation involves the process of converting assets such as property or investments into cash, in order for a business to pay its debts. SBA's SOP 50 51 3, Loan Liquidation, contains the requirements lenders must follow when liquidating loans guaranteed by SBA. Lenders must follow the procedures set forth for standard 7(a) loans and not SBA Express or other Pilot Loan Program loans. In addition, lender responsibilities with regard to liquidation and debt collection are set forth in 13 CFR 120.535 and 120.536, including those liquidation actions that require the prior written consent of SBA.

Guaranty Purchase
SBA generally purchases its guaranteed portion after the lender has fully liquidated all business personal property. SBA will pay up to a maximum of 120 days interest to a lender at the time of guaranty purchase. CA loan purchase requests will be processed in the Commercial Loan Servicing Center in Fresno, CA or Little Rock, AR. Contact information for the centers is listed below:

Commercial Loan Servicing Center (CLSC) - CA 801 R Street Suite 101 Fresno, CA 93721 800-347-0922 http://www.sba.gov/FresnoCLSC	**Commercial Loan Servicing Center (CLSC) - AR** 2120 Riverfront Drive Suite 100 Little Rock, AR, 72202 Phone: 501-324-5871 Fax: 202-292-3878 http://www.sba.gov/LittleRockCLSC

CA loans will be subject to the same requirements and procedures governing guaranty purchase as standard 7(a) loans. Please see Chapters 22 and 23 of SOP 50 51 3, which establish these requirements, and 13 CFR 120.520 through 120.524.

VII. Responsibilities of Community Advantage Lenders

CA Lenders will be responsible throughout the lending process for administering their loans in compliance with all SBA Loan Program Requirements and furnishing to SBA all appropriate information. In this section, CA Lender duties are described in two main areas: ongoing responsibilities and specific reporting responsibilities.

Part One: Ongoing Responsibilities
In making SBA-guaranteed loans, CA Lenders must:

1. Submit applications for guaranty through E-Tran.

2. Execute the Authorization (the document that identifies the conditions under which the loan is approved).

3. Close the loan in accordance with the terms of the Authorization, SBA regulations, SOP 50 10 5(E), Subpart B, Chapter 7, and other Loan Program Requirements* related to loan closing.

4. Service the loan in accordance with SBA regulations, SOP 50 50, and other Loan Program Requirements* related to loan servicing.

5. Liquidate the loan in accordance with SBA regulations, SOP 50 51 3, and other Loan Program Requirements* related to liquidation.

6. Comply with SBA Loan Program Requirements* which are revised from time to time.

7. Maintain complete loan files.

8. Ensure that at least 60% of the number of CA loans are made in the CA underserved markets. Applications for individual CA loans will indicate which category of underserved markets the loan meets, if applicable. This will be monitored by the SBA and reviewed as part of the OCRM review process.

9. Pay the required guaranty fees – upfront and on-going fees — for all CA loans approved.

**"Loan Program Requirements" is defined in 13 CFR 120.10.*

10. Comply with the same provisions regarding Preferences, Ethical Requirements Placed on a Lender, Forward Commitments, and Advertising of Relationship with SBA as all other 7(a) Participating Lenders. (See SOP 50 10 5(E), Subpart A, Chapter 1, Paragraphs E.5-8.)

11. Maintain Adequate Reserve Requirements. CA Lenders are required to create a Loan Loss Reserve Account (LLRA) to cover potential losses arising from defaulted CA loans. The reserve fund is to cover both losses from the unguaranteed portion of defaulted loans as well as possible repairs and denials associated with SBA's guarantee on the defaulted loan. Requirements are as follows:
    - The LLRA must equal a minimum of 5 percent of the outstanding amount of the unguaranteed portion of the lender's CA loan portfolio (typically that would mean at least 0.75% for a CA loan with a face value of $150,000 or less and 1.25% for a CA loan above that amount, regardless of whether the guaranteed portion has been sold into the secondary market). CA Lenders must deposit this required reserve amount in the LLRA no later than 45 calendar days after the date of each CA loan disbursement;
    - For secondary market authority, an additional 3 percent reserve is required on the guaranteed portion of each CA loan that is sold into the secondary market. CA lenders 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 3% reserve amount for the guaranteed portion of the CA loans that are sold in the secondary market may be kept in the same segregated bank account;
    - SBA may require additional amounts to be included in the LLRA based on the risk characteristics or performance of the CA Lender. In addition, CA Lenders, especially those that participate in the secondary market, should carefully monitor overall reserve levels to ensure their ability to meet SBA contingent liabilities from potential partial or full denial of a guarantee for a particular loan;
    - The LLRA must be maintained separately from other reserve accounts the CA Lender may maintain, and it must be deposited in 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 insured amount. It must be considered a Restricted Reserve for financial reporting purposes;
    - The LLRA cannot be commingled with any other loan loss reserve fund of the CA Lender, its parent or related entities;
    - The CA Lender must reconcile the LLRA on a monthly basis to ensure the appropriate amount is maintained;
    - The CA Lender's audited financial statements must include an assessment of the lender's compliance with the loan loss reserve amount requirements for the CA Pilot Program;
    - SBA Microloan intermediaries may not use their SBA intermediary loan to fund the reserve for the CA loans (nor may they use it to fund CA loans); and
    - Failure to follow the loan loss reserve account requirements may result in removal from the CA Pilot Program and/or the imposition of additional controls or reserve amounts.

Part Two: Reporting Responsibilities

CA Lenders are required to prepare and submit reports in three ways: through monthly SBA Form 1502 reports, quarterly reports, and an annual report with audited financial statements. The following sections describe responsibilities for each area. Finally, information is provided in the event that a change of lender authority occurs.

1. Monthly 1502 Reporting

CA Lenders must provide a monthly report on SBA Form 1502 that includes loan status information for all of their SBA guaranteed loans, regardless of whether the borrower made a payment in the current month. 1502 reporting is accomplished through Colson Services Corp. For information and procedures on reporting to Colson, please see SOP 50 10 5(E), Subpart B, Chapter 8, Paragraph IV.

2. Quarterly Reporting

CA Lenders must submit a Quarterly Report to the D/OCRM that includes a copy of their balance sheet, income statement and detailed information on the following items:

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

3. Annual Report with Audited Financial Statements

CA Lenders must submit an annual report with audited financial statements within 90 days after the end of the fiscal year to the D/OCRM. Lenders must submit two copies of 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 (See Appendix B of this guide for more details on the business plan requirements), describe any M&TA practices and demonstrate that 60% of the number of CA loans have been made to small businesses in the CA underserved markets identified in this guide. Finally, the audited financial statements must include an assessment of the lender's compliance with the loan loss reserve requirements for the CA Pilot Program.

For further information about reporting requirements, including reporting changes in organizational structure or financial condition, please see 13 CFR 120.464. Additionally, each CA Lender must maintain its records in accordance with the requirements established in 13 CFR 120.461.

4. Change of Lender Authority

If a CA Lender makes a major change in its structure or organization as determined by SBA, it must notify the SBA field office in writing. The table in Appendix C: Change of Lender Authority describes the procedures to follow should one of the major changes below occur:

- Acquisition by another entity;
- Merger into another legal entity;
- A change of name;
- Substantial changes in management and/or SBA lending staff;
- Substantial changes in how the lender handles SBA loans; or
- Lender is dissolved or taken-over or closed by a regulatory agency.

VIII: Lender Service Providers

Requirements

"Lender Service Provider," as defined at 13 CFR 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. A lender may contract with a third party (Lender Service Provider (LSP)) to assist the lender with one or more of these functions. However, the lender itself, not the LSP, has ultimate responsibility for evaluating, processing, closing, and liquidating its SBA portfolio.

SBA determines whether or not an agent is a LSP on a case-by-case basis by reviewing the relationship it establishes with a lender and the services it provides. If an Agent qualifies as an LSP, a formal agreement between the Agent and lender is required and must be approved by SBA. (See SOP 50 10 5(E), Subpart B, Chapter 3, Paragraph X.D. for further guidance on LSP agreements.)

CA Lenders must submit each LSP agreement to the LGPC for review and approval. Lenders may submit the agreements to LSPagreements@sba.gov. After SBA approves an LSP agreement, if there are any changes to the agreement, the lender must submit the revised agreement to SBA for review and approval.

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 SOP 50 10 5(E), Subpart B, Chapter 3, Paragraphs VI –X.

IX. Small Business Administration Oversight

SBA will monitor CA Lenders for performance, risk characteristics, and compliance. This section briefly discusses the SBA monitoring and review process, associated review fees, billing, and supervision and enforcement.

This section is intended as a reference only. For a full understanding of SBA oversight procedures, please see the requirements established in SOP 50 53 (Lender Supervision and Enforcement), SOP 51 00 (On-Site Lender Reviews and Examinations) and SBA regulations at 13 CFR Part 120 - Subpart I.

Monitoring

OCRM will conduct off-site monitoring using the Loan and Lender Monitoring System (L/LMS). L/LMS provides performance information that allows SBA to monitor and conduct off-site reviews of all lenders. CA Lenders will be able to access their individual performance information via the Lender Portal. L/LMS contains historical, current and projected performance data for each individual lender. SBA uses it for monitoring and oversight purposes, including the following:

- As a system to monitor lenders;
- To identify lenders whose performance warrants increased oversight activity;
- For use in planning and conducting on-site reviews or examinations; and
- For renewals of delegated authority as needed.

The lender portal also provides an invaluable tool for lenders to track their CA portfolio performance. All CA Lenders are expected to have at least one employee who is experienced in accessing this web based application and is responsible for routinely reviewing the CA Lender's portal information.

Reviews and Examinations

OCRM's oversight strategy employs various tools, the employment of which depends upon the underlying risk of the Lender's SBA portfolio (considering all SBA programs). Oversight tools include, but are not limited to Desk Reviews, Agreed Upon Procedures On-site Reviews, Targeted On-Site Risk Based Reviews, On-site Risk Based Reviews and On-Site Examinations. OCRM will evaluate the lender's level of activity, performance metrics, risk rating, effectiveness in reaching SBA targeted underserved market segments and other relevant information to determine the appropriate tool(s) to employ. Lender risk evaluation will also include review of information from SBA's processing, servicing and liquidation/guaranty purchase centers. A general overview of SBA oversight activities, including estimated costs, is included in the following table[2]:

[2] SBA reserves the right to make adjustments as SBA determines in its discretion is warranted on a case-by-case basis based upon SBA's assessment of the risk. The costs identified below are only estimates and are subject to change.

Oversight Strategy for Community Advantage				
When Required	**Oversight Tool**	**Description/Comments**	**Criteria/Timing**	**Estimated Cost**
I. Required for all Lenders	Off-Site Monitoring	Lender Portal information supported by Loan and Lender Monitoring System. Quarterly data supplied by OCRM.	Continuous	Approx. $150 per $1 million outstanding; Lenders invoiced annually
	Quarterly report with detailed financial information	Lender submits to OCRM quarterly	Within 45 calendar days after the end of each calendar quarter 13 CFR 120.464(a)(2)	No payment to SBA*
	Annual report with audited financial statements	Lender submits to OCRM annual report and audited annual financial statements.[3]	Within 90 calendar days after the end of Lender's Fiscal Year 13 CFR 120.464(a)(1)	No payment to SBA*
	Ad hoc Loan File Desk Review	Interactive review of Lender's loan files. Required files and documents imaged and sent to OCRM to conduct desk review.	Periodic	No payment to SBA*
	Full Desk Review	Interactive review of Lender's policies, procedures and internal control documents, plus sample of loan files. Required files and documents imaged and sent to OCRM to conduct desk review.	Where active CA balance is >**$1.5** million	No payment to SBA*
II. Renewal of Delegated Authority	Renewal decision of Delegated Authority	Lender performance evaluation and decisioning for renewal of delegated authority.	Prior to expiration of current delegation.	No payment to SBA*
III. As needed, based upon OCRM's assessment of Lender risk	Agreed Upon Procedures On-site Review	Audit conducted by independent auditor (e.g. by internal audit unit reporting directly to the Board or outside audit firm). Audit procedures and guidelines provided by OCRM.	Where active CA balance is >**$3** million and **when OCRM's risk assessment indicates such action is needed.** e.g.** $ Weighted Average Mean Origination SBPS < **160.**	Outside auditor cost determined by market; SBA must concur selected auditor is independent.

[3] CA Lenders must be diligent in complying with SBA reporting requirements. See 13 CFR 120.465, Civil penalty, for late submission of required reports.

	Targeted on-site Risk Based Review	Focused assessment conducted by SBA/contractor personnel centered on specific issue(s) with SBA portfolio performance, management and operations, credit administration, compliance.	Where active CA balance is >**$6** million and **when OCRM's risk assessment indicates such action is needed.** e.g.** $ Weighted Average Mean Origination SBPS < **165.**	$15,000
	On-site Risk Based Review	Assessment conducted by SBA/contractor personnel.	Where active CA balance is >**$10** million and **when OCRM's risk assessment indicates such action is needed.** e.g.** $ Weighted Average Mean Origination SBPS < **170.**	$15,000-$20,000
			Where active CA balance is >**$20** million. If conducted, generally expect no greater than a 24 month frequency.	$20,000-$25,000
	On-site Examination	Safety and Soundness Examination conducted by SBA/contractor personnel.	Where active CA balance is >**$20** million and **when OCRM's risk assessment indicates such action is needed.**e.g.** $ Weighted Average Mean Origination SBPS < **170**. If conducted, generally expect no greater than a 24 month frequency.	$60,000+

*Subject to change depending on SBA resources to conduct this oversight activity.
** Measures of risk are identified in SOP 50 53 Lender Supervision and Enforcement, page 5. Please see Appendix A for a discussion of Small Business Predictive Score (SBPS). The average SBPS for 7 (a) loans of $250,000 or less is about 184. The criteria/timing of this oversight strategy will undergo review and revision on or before the end of the pilot (3/15/17).

In addition, a CA Lender must allow SBA-authorized representatives access to its files for the purposes of inspection and review of all records and documents relating to SBA-guaranteed loans upon request (13 CFR 120.1010). SBA may also require CA Lenders to submit copies of loan files or other information for purposes of oversight (13 CFR 120.464(a)(7)). Reviews and examinations will follow the requirements established in 13 CFR 120.1025 through 120.1060 and SOP 51 00.

Oversight Review Fees
CA Lenders are required to pay fees to cover the costs of reviews and examinations (13 CFR 120.1070). Estimates of these costs are detailed in the chart above.

Billing
For on-site reviews and examinations, SBA will invoice each lender for the amount owed following the review.

For off-site monitoring, reviews, and other lender oversight 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 less 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.
- A 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 lender's authority as a participant, including a participant's delegated authority as authorized by 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 the regulations or SOP. Regulations from 13 CFR 120.1400 through 120.1600 apply, as well as the provisions of SOP 50 53, Lender Supervision and Enforcement, except that SBA has modified 13 CFR 120.660 to allow the D/OCRM discretion to suspend 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: TERMS AND DEFINITIONS

Associate of Lender – As defined in 13 CFR 120.10, an Associate of a Lender is:

(i) An officer, director, key employee, or holder of 20 percent or more of the value of the Lender's or CDC's stock or debt instruments, or an agent involved in the loan process;

(ii) Any entity in which one or more individuals referred to in paragraphs (1)(i) of this definition or a Close Relative of any such individual owns or controls at least 20 percent.

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 guarantee purchase requests are sent for CA Lenders located in SBA Regions 1, 2, 3, 4, 5 and the states of Arkansas, Oklahoma and Texas. (http://www.sba.gov/LittleRockCLSC)

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

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

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 please visit: http://www.hud.gov/crlocator or http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/tour/index.cfm.

E-Tran – A secure website where CA Lenders must enter loan information for a single loan or send multiple applications simultaneously via an XML (Extensible Markup Language) file transfer. Several software developers have E-Tran functionality built into their SBA loan software. For more information go to: http://archive.sba.gov/aboutsba/sbaprograms/elending/etran/index.html.

HUBZone – means a 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 site: http://www.sba.gov/content/hubzone-maps.

Lender Portal – A secure web-based tool that shares SBA's data with the lender community and increases transparency of the data used for oversight. It displays confidential information, including the lender's Risk Rating score, rating components, other performance factors and credit quality factors, net cash flow factors, and other information. The Portal is updated quarterly.

LGPC – The Standard 7(a) Loan Guaranty Processing Center in Citrus Heights, CA.

Loan and Lender Monitoring System (L/LMS) – OCRM's offsite monitoring and review system. 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. The L/LMS data can be accessed using the **Lender Portal** which allows an institution to proactively manage and monitor its SBA portfolio performance.

OCRM – The Office of Credit Risk Management.

Patriot Express – An SBA loan program that offers streamlined and expedited loan procedures for veterans and members of the military community. For more information, please visit: http://www.sba.gov/content/express-programs.

Principal – "Principal" includes: 1) for a sole proprietorship, the sole proprietor; 2) for a partnership, each general partner and each limited partner owning 20 percent or more of the business; 3) for a corporation, each owner of 20% or more of the corporation and each officer and director; 4) for a limited liability company, each member owning 20% or more of the company and each officer, director and managing member; 5) any person hired by the business to manage day-to-day operations ("key employee"); 6) married couples where both own some interest in the applicant and together they own at least 20 percent; and 7) any other person who is guaranteeing the loan, if that guaranty is required by SBA.

Small Business Predictive Score (SBPS) – The SBPS is a composite score comprised of Consumer Credit Bureau and Business Credit Bureau data. 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 predicts the likelihood of a loan going into default. 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.

Small/Rural Lender Advantage (S/RLA) – An SBA loan program designed to meet the needs of small community banks and rural lenders that do not make a large number of 7 (a) loans. These lenders have access to a simplified loan application process and dedicated staff in the LGPC. Key features include centralized and expedited processing through SBA's Standard 7(a) Loan Processing Center. The CA program was based on this approval platform and also has expedited process and dedicated resources.

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 http://www.sba.gov in the online library.

APPENDIX B: BUSINESS PLAN COMPONENTS

1. **Organization Chart.** Organization chart with narrative description of organizational units. The organizational chart must also present and describe affiliated entities and the relationship between them.

2. **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.

3. **CA Lending Activity.** Volume projections for planned CA loan activity for the first three years of participation.

4. **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.

5. **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.

6. **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.

7. **Market and Client Information.** Description and data on the applicant's (a) client demographics; and (b) 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.

APPENDIX C: CHANGE OF LENDER AUTHORITY

Scenario	**Response**
If a CA Lender continues as the same legal entity that signed the SBA Form 750CA and Addendum for Delegated Lenders, and …	***Then …***
(1) The CA Lender changes its name.	The Lender Transaction Team (LTT) in 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. The CA Lender continues as a separate legal entity.	The LTT records the holding company name. The lender's CA authority is not changed. A new SBA Form 750CA or Addendum is not needed.
If a CA Lender continues as the same legal entity that signed the SBA Form 750CA and Addendum and …	***Then …***
(3) The CA Lender acquires another lender. 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. The acquired lender continues as a separate entity.	The acquired lender may not make CA loans. The acquired lender may apply to participate in CA.
(5) The lender is closed or taken over by a regulatory authority.	The 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. The LTT notifies the lender, SBA Field Office(s), and the LGPC that the lender may not make any more CA loans.
(6) The lender changes its operations so much that it cannot show that it handles SBA loans appropriately.	SBA will not renew the CA Lender's authority, or will suspend or revoke the lender's CA authority.
If a CA Lender DOES NOT continue as the same legal entity that signed the SBA Form 750CA and Addendum and …	***Then …***
(1) The CA Lender is merged into 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 apply for CA authority and execute a 750CA, or cooperate with SBA to transfer responsibility for servicing and liquidating the original CA loan portfolio.
(2) The CA Lender is merged into another CA Lender.	The original CA Lender no longer has authority to make CA loans. 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. The LTT notifies the lender, SBA Field Office(s) and the LGPC that the lender may not make any more CA loans.