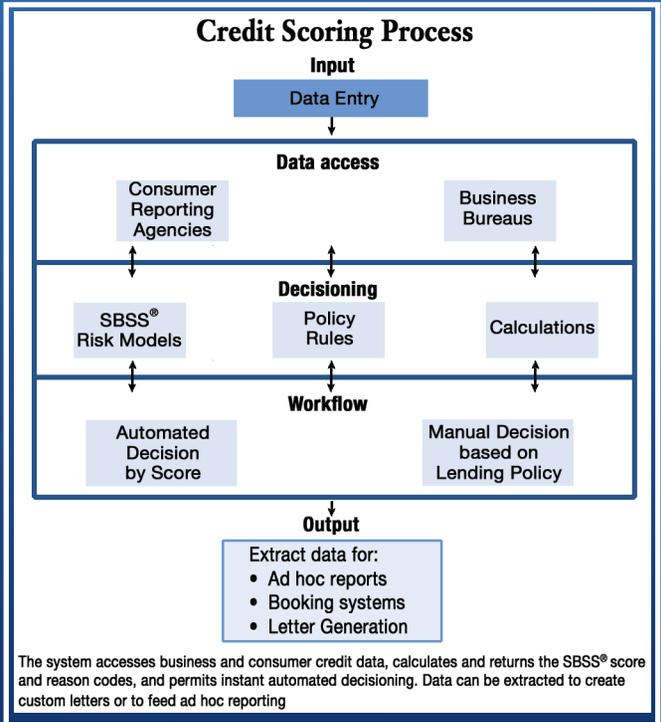


# STREAMLINING SMALL \$ LOANS

Increasing capital to small businesses is one of the key goals of the SBA. SBA has implemented streamlined underwriting guidelines that include credit scoring for loans under \$350,000, that especially benefit underserved communities. In 2012 our Small Loan Advantage Program began incorporating the use of business credit scoring for small dollar loans, and in 2014 we expanded its use to all 7(a) loans up to \$350,000 (excluding SBAExpress and Export Express).

The SBA credit scoring tool uses the FICO® Small Business Scoring Service® (SBSS) product to expedite credit decisions. This new tool automates a major piece of the required credit analysis through the use of a dynamic and predictive applicant scoring system. It draws on multiple data sources and more than 100 combinations of consumer and business analytical models to help streamline the loan approval process. Past payment behaviors of a small business and its owner(s) are used to predict the probability that the small business can successfully handle additional credit.



Graphic content courtesy of [www.fico.com](http://www.fico.com)

### How will this benefit lenders?

- Makes the lending process more objective, ensuring consistent credit decisions
- Automated process reduces reliance on manual reviews, resulting in faster credit decisions
- Time saved can be spent focusing on the “gray area” applications that may need more underwriting attention

The advanced analytics allow lenders to deliver small dollar loans (\$350,000 or less) with greater efficiency, less cost, and makes it a win-win for everyone.



THE SBA'S NEW CREDIT SCORING TOOL MAKES THE SMALLEST SBA LOANS EASIER AND COST EFFECTIVE FOR YOUR CUSTOMERS.

### *Application process:*

Lenders can access the credit scoring tool through E-Tran, the SBA's electronic processing system. Once applicant data is entered into the system, the lender will receive immediate notification whether the total credit score is acceptable. The lender can then enter and submit the remaining required transaction information, such as confirmation

of business tax returns, lender's credit memo, equity determination, SBA Form 1919 (borrower information), SBA Form 1920 (lender application), etc. into E-Tran.

We are continuously working to find new ways to provide lenders with the tools to efficiently increase the smaller dollar loans that especially benefit underserved communities.



## *Frequently Asked Questions*

### *For more information:*

To learn more about the SBA credit scoring tool, please contact your local SBA District Office, visit [www.sba.gov/for-lenders](http://www.sba.gov/for-lenders), or email questions to [7aQuestions@sba.gov](mailto:7aQuestions@sba.gov).

### *Your local SBA District Office:*

### *Is the new credit scoring tool all that I will need to approve the small SBA loan?*

- No. SBA still asks for you to prepare a brief credit memo on the management, history of the business, business tax returns and the owner guarantor information.
- Confirmation and verification of reconciliation of business tax returns (using the Form 4506-T transcript request) is to confirm that the small business pays its taxes and has reported any income accurately.
- SBA also asks for an equity determination consistent with your institution's policy.
- The credit scoring obtained from SBA, together with this limited information, satisfies SBA's requirements for credit approval.
- Once the credit score is obtained, the lender can then enter the remaining transaction information.
- SBA Forms 1919 (borrower application) and 1920 (lender application) can then be submitted electronically.

### *How do you know whether this credit scoring tool will work for my smallest loan customers?*

- Since the early 1990s credit scoring has been applied to small business lending in a reliable manner similar to consumer lending.
- In June 2012, we began using credit scoring to score loans of \$350,000 and under (SBA's definition of small) with excellent results.
- Our multi-year experience with a similar portfolio management credit scoring system demonstrated its reliability in predicting purchase rates. SBA also provides a Lender Portal to assist each lender in monitoring its SBA portfolio.
- The overall statistics on our \$60 billion plus portfolio show us that scores at, or above the designated cut-off have very good payment rates.