SBA ONE

Effective January 1, 2014

SOP 50 10 5(F) - Application Changes

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SBA ONE Processing Methods

- Standard 7(a) Guaranty, CLP & PLP
  - Small Loans up to and including $350,000 (All Processed Like "Small Loan Advantage" (SLA) Loans)
  - Larger Loans between $350,001 and $5,000,000
- SBA Express (delegated)
- ~~Patriot Express (delegated - Pilot Program)~~
- Export Express (delegated)

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SBA ONE

For ALL Requests for a 7(a) Guaranty

- Applicant completes Form 1919
- Lender completes Form 1920
  - Part B & Part C
- Form 4 and Form 4-I ARE NOT TO BE USED

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SBA ONE

Will require Lenders to provide Minimum Credit Underwriting Standards Separated Between

- 7(a) applications of $350,000 or less
- 7(a) applications of more than $350,000
- SBAExpress Loan

$350,000 or Less

The former

SLA Underwriting Standards

are the Standards for

Loans of $350,000 or Less

$350,000 and less (SLA)

The lender's credit memo must include as detailed in Pages 161-163 of SOP50-10-5(F):

- Pre-screening for credit score (140 or better)(Page 202 of SOP)
- Debt Service Coverage 1:1 or better
- Global Cash flow 1:1
- 4506-T verification & reconciliation

Pre-Screen Score

- E-Tran to develop pre-screen credit score
  - If below 140, either Express or provide documentation
- Credit score based on
  - Consumer credit bureau data
  - Business bureau data
  - Financials
  - Application data
  - DUNS #

$350,000 and Less (SLA)

The lender's credit memo must include:

- A determination 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 as part of its policies it must do so for SBA loans.

Loans over $350,000

Processing Standards for Loans Over $350,000 as detailed in Pages 163-165 of SOP50-10-5(F)

- Debt Service coverage of 1.15:1 (using EBITDA)

Loans over $350,000

The Lender's Credit Memo Must Include:

- Justification for the refinancing of any debts
- Include a transcript of the account for the prior 24 months for all debts
- Same Institution Debt (SID) requires a transcript for the prior 36 months

Loans over $350,000

- Specific requirements for debt service coverage and EBITDA calculations have been added
- Operating Cash Flow defined as: earnings before interest, taxes, depreciation and amortization (EBITDA)
- Minimum debt service coverage must be 1.15 to 1 or greater

Credit Standards - Collateral

- Must use commercially reasonable and prudent practices to identify collateral items
- First security interest in assets financed (aka PMSI)
- Refinancing existing debt, must be secured with at least the same security and lien priority as the debt that is being refinanced.

Credit Standards - Collateral

- $25,000 or less – Not required
- $25,000 - $350,000
  - Lender must follow its own Collateral Policies & Procedures that it has established and implemented for its Similarly-Sized Non-SBA-Guaranteed Commercial Loans
  - Minimum: lien on fixed assets

Credit Standards - Collateral

- For loans in Excess of $350,000, SBA requires Lender to:
  - Collateralize loans to the maximum extent possible up to the loan amount.
- If fixed assets do not fully secure the loan, lender must take available equity in personal real estate of principals as collateral.
  - Personal residence with equity of less than 25% does not apply.
  - Liens on personal real property may be limited to the collateral shortfall

Credit Standards - Collateral

- Lenders are to Strive to get each loan over $350,000 Fully Secured by taking a security interests in
  - All Assets Acquired With Proceeds
  - Any other Business Fixed Assets
- If Not Fully Secured
  - Business Trading Assets, and/or
  - Personal Residential and Investment Property

Credit Standards - Collateral

- Loan Deemed "Fully Secured"
  - Adjusted Net Book Values = The Asset's Original Price Minus Depreciation and Amortization.
  - New Machinery & Equipment Maximum is 75% of Cost
  - Used or Existing M&E Maximum is 50% of Net Book Value or
  - 80% of an Orderly Liquidation Appraisal Value
  - Commercial Real estate 85% of Appraised Value
  - Residential and Investment Real estate valued as Lender normally would if the loan was not guaranteed by SBA

Credit Standards - Collateral

- Lender may secure applicant's trading assets (using a 10% current book value for the calculation) if it does so for similarly sized non-SBA-guaranteed commercial loans.
- If there is a collateral shortfall (not fully-secured from fixed business assets) on the SBA-guaranteed loan, the lender may include trading assets as necessary (using 10% of current book value for the calculation)

Credit Standards - Collateral

- Liens on a personal residence or investment property may be limited to 150% of the equity in the collateral, if there are tax implications

Credit Standards - Collateral

Assets Owned by the Small Business Applicant's Spouse

- When spouses co-own 20%+ of the applicant, the lender must consider taking equity in personal real estate that is owned individually, by the applicant owner as well as available equity in personal real estate owned jointly.
- There is no requirement to secure loans with real property owned by a non owner spouse.
- Real estate transferred by the applicant to the non-owning spouse within 6 months of the date of the application will not be exempt from consideration as available collateral.

Application Process

- Business financial statements and/or tax returns can now be dated within 180 days of lender application for Guaranty
- *Personal financial statements* still must be dated within 90 days

Application Process

WHERE TO SUBMIT REQUESTS FOR GUARANTY

- Lender can no longer request a 7(a) Guaranty by submitting their application via Fax or Mail
- All Submissions via E-Tran

Required SBA Forms

- For all 7(a) loans, lenders have the option of using their own note and guaranty agreements rather than the SBA versions (SBA Forms 147, 148 and 148L).
- Secondary Market – use SBA forms

7(a) Change Summary

- Universal set of forms for all 7(a) lending (Forms 1919/1920)
- Lenders may use their own Note and Guaranty forms for all 7(a) loans
- Financial Statements now required to be dated within 180 days of submission to SBA, not 90
- Requires personal financial statements (in accordance with Chapter 4) to be dated within 90 days of submission to SBA

FY2014 Fees

- Loans $150,000 and Under
  - No Up-front Fee
  - No On-Going Servicing Fee (Colson)
  - 90-day rule applies
- Loans Over $150,000
  - Upfront Guaranty Fee – no change
  - On-Going Fee Reduced to .52%
- Express Loans to Veterans
  - No up-front fees

Questions?

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