

SBA 7(a) Loan Steps

For lenders / ver. 07.21.15

A. Recent Developments in the SBA Regular 7(a) Program:

1. Effective 05.01.15, SBA loan processing is governed by [SOP 50-10-5H](#). This SOP is cited further below for additional information in processing a 7(a) loan.
2. Under the regular 7(a) guaranty program (as distinct from *SBAExpress* and other subprograms), all loans are now categorized as either \leq \$350,000 or \$350,001 – 5,000,000. The “Small Loan Advantage” (SLA) name essentially disappears.
3. All SBA applications are now required to be processed via E-Tran. Lenders responsible for processing applications must establish E-Tran accounts to do this.
4. Regular 7(a) loans \leq \$350,000 must be scored via E-Tran as they were under SLA. A passing score is 140, and this will prompt you to submit the paperwork to SBA for further processing. If the score falls below 140, you may submit the application via SBA Express. You may also submit the application for regular 7(a) processing in spite of the failing score, but the likelihood of approval is not strong without compelling factors.
5. For loans approved between 10.01.14 and 09.30.15, for all 7(a) loans \leq \$150,000, the SBA guaranty fee and ongoing servicing fee are waived.
6. Also for loans approved between 10.01.14 and 09.30.15, for regular 7(a) loans, for veteran-owned applicant businesses, the SBA guaranty fee is half the normal fee structure and the ongoing guaranty fee is 51.9 basis points. To clarify, an eligible applicant is a small business that is 51% or more owned and controlled by an individual or individuals in one or more of the following groups: veterans (other than dishonorably discharged); service-disabled veterans; active duty military service member participating in the military’s Transition Assistance Program (TAP); reservists and National Guard members; or current spouse of any veteran, active duty service member, or any reservist or National Guard member; or widowed spouse of a service member who died while in service or of a service-connected disability. This waiver will end 09.30.15. *Refer to Notice 5000-1319.*
7. Effective March 1, 2014, The Ten Tab loan processing format is required, and in a PDF format. This site contains the relevant information and tabs; click [here](#). Further instructions are stated below.
8. Clearance of bank personnel and borrower’s agents: Individuals and entities suspended, debarred, revoked, or otherwise excluded under the SBA or Government-wide debarment regulations are not permitted to conduct business with SBA, including participating in an SBA-guaranteed loan. Lenders are responsible for consulting the System for Awards Management (SAM) Excluded Parties List System (EPLS) or successor system to determine if an employee or Agent has been debarred, suspended or otherwise excluded by SBA or other federal agency.
 - a. Clearance of bank personnel (processing and approving the loan) is required only once. Lender must document in its files that this due diligence was performed satisfactorily.

- b. Set up an account at www.sam.gov . When account is set up, at the top of screen, click “Data Access”, then “Public Extracts” on the left. Scroll down to “Exclusions extract data package” and open file. Scroll down to determine if 1) bank and bank officer and/or 2) borrower agent company and individual are excluded from doing business with the government.
 - c. Additionally, lenders are responsible for reviewing SBA’s webpage list of Agents that have been subject to an enforcement action or have been otherwise excluded from the privilege of conducting business with SBA and must refrain from doing business with any Agent appearing on the list during the time that an Agent is suspended or revoked from SBA programs. See <http://www.sba.gov/about-sba-services/18351> .
 9. Electronic signatures are now permitted on SBA applications provided they comply with guidelines established by the Office of Management and Budget: [Procedural Notice 5000-1323](#).
 10. **GLS is no longer available.** Effective 5.26.15, all existing logins will be accessible in Capital Access Financial System (CAFS) via https://caweb.sba.gov/cls/dsp_login.cfm. New lender accounts will require each lender to have an authorizing official in the system. The authorizing official will be responsible for approving lender accounts and recertifying the accounts bi-annually.
- B. Prior to submitting an application

1. Ensure you have an E-Tran account. You must follow these steps:
 - a. Step One: Obtain E-Tran User Id and Password
 - i. Apply on-line at [SBA Capital Access Login System \(CLS\)](#) for ETRAN password. Left-hand side under New Users: click “Create New SBA CLS to Request SBA user ID & Password”. Helpful Tips: User ID – must be between 8 and 15 characters long. Contact info – Use your lending institution’s address, phone number and email exchange (no gmail, yahoo, etc.). Be sure to select “lookup zip” and then complete remaining fields.
 - ii. Once complete, click SUBMIT at the bottom of the page, you will receive an email indicating that your account has been created in CLS. Next your bank’s approving official will receive an emailed asking them to approval your request for access to the SBA database systems. Log back into the “CLS website” using the user ID and password you created.
 - b. Step Two – Obtain Access Rights to E-Tran Origination and Servicing
 - i. Go To: [SBA Capital Access Login System \(CLS\)](#) and login with username and password from step one. At the top of the page after login, click the ACCESS button on the top of the screen.
 - ii. Scroll down to “Electronic Lending - Origination (E-Tran)” and click the check box directly below next to “Enter/Edit Loan Applications”. Enter your Bank’s SBA Location ID# using the drop down box.
 - iii. Scroll Down to “Electronic Lending – Servicing (E-Tran)” and click the check box directly below next to “Update Loan & Guaranty Portfolio

Servicing”. Enter your Bank’s SBA Location ID# using the drop down box.

- iv. Scroll to the bottom of the page and click “Submit”. Your access will be granted in 72 hours.
 2. As a precaution, lenders should screen the applicant for general eligibility before processing the loan internally. Lenders should complete [SBA Form 1920](#). Non-PLP lenders are welcome to contact their SBA points-of-contact in North Carolina to discuss eligibility issues at the outset.
 3. Bank must approve loan first, then begin the SBA application process with E-Tran:
 - a. For loans \leq \$350,000, lender must incorporate specific underwriting guidelines into the credit memo (beginning on p. 158 in SOP 50-10-5H); credit scoring criteria are permissible for loans \leq \$350,000.
 - b. For loans \$350,001 – 5,000,000, underwriting guidelines are also contained in SOP 50-10-5H, starting on p. 159. Pay particular attention to global cash flow, debt service coverage ratios, etc., applicable to these loan submissions only.
 - c. Lender must also ensure that a “credit elsewhere test” has been applied to the applicant; i.e., that the Small Business Applicant is unable to obtain the loan on reasonable terms without a Federal government guaranty. See SOP, p. 87 – 88 for explanation.
 4. Input the SBA application into E-Tran. Time-saving tips:
 - a. Complete only the fields bordered in blue. Skip the rest.
 - b. Skip the collateral section completely. If you accidentally input any field, click “clear” at the bottom and then “next”.
 - c. Skip the business financial statement section. “Clear” if necessary.
 - d. Skip the personal financial statement section. “Clear” if necessary.
 - e. At this time, a DUNS number is helpful if there is one for the borrower, but is not necessary. This could change in the near future.
 5. Loans \leq \$350,000 will be scored. If the score is 140 or greater, lender will then send the application forms (see section C below) to SBA for approval. If the score is less than 140, the application may be submitted via SBA Express. Alternatively, the lender may submit the loan to the Loan Guaranty Processing Center (LGPC) for reconsideration, but it is not likely to be approved without compelling factors.
 6. Loans $>$ \$350,000 will not be scored. After E-Tran inputting, follow section C below.
 7. Prepare the application forms below for upload to SBA.
- C. Processing the Application: Regardless of loan amount, the following forms must be completed. See <https://www.sba.gov/lender-documentation-tool/forms> for updated forms in case the links below become obsolete.
1. For existing small businesses and business acquisition, lender must order the business tax transcripts and compare the income statement information reported to IRS vs. that reported in financials submitted to the lender. The IRS will reject the request if the signature titles are incorrect, click [here](#) for a listing of acceptable titles.

2. Lender must verify in is credit memo whether there are any discrepancies between the two. Borrower must authorize IRS to release the tax transcripts to the lender who then sends the form to the proper IRS office serving NC indicated on the form. SBA Form 4506-T: <https://www.sba.gov/sites/default/files/forms/Form4506T.pdf> .
3. Lender must complete these forms:
 - a. SBA Form 1919, Borrower Information:
https://www.sba.gov/sites/default/files/forms/SBA%20Form%201919%204-28-14_review.pdf
 - a. SBA Form 1920:
https://www.sba.gov/sites/default/files/forms/SBA%201920_1.pdf
4. Guarantors/principals must complete:
 - a. SBA Form 413, Personal Financial Statement:
<https://www.sba.gov/sites/default/files/forms/SBA%20Form%20413%20%287a-504-SBG%29.pdf> .
 - b. SBA Form 912, Statement of Personal History, is required only if a character issue is identified in response to character questions listed in the above SBA Form 1919. Form 912:
<https://www.sba.gov/sites/default/files/forms/SBA%20%20Form%20912%200%202-13.pdf>
 - c. Non-citizen owner(s)? Then the lender must verify legal residency with U.S. CIS (formerly INS): <http://www.uscis.gov/files/form/g-845.pdf>
5. Risk Management Database Form:
http://www.sba.gov/sites/default/files/bank_risk_database_mangment.pdf : This form is requested by SBA in the event of a guaranty purchase request. It is recommended to be completed at the front end of the process and retained in the credit file.
6. Organize your SBA application using the Loan Guaranty Processing Center (LGPC) “Ten Tabs” format. Information and forms located here:
<https://www.sba.gov/content/7a-submission-instructions-and-checklist>
 - a. Option 1: Lenders are encouraged to use Adobe Acrobat Professional 9.0 or higher to organize their applications (see “Alternative Submission Tools”):
<https://www.sba.gov/content/7a-submission-instructions-and-checklist> . . The Ten Tabs will then be sent using SBA’s “Send this File” Internet link; or:
 - b. Option 2: Use the Tabs located here: <https://www.sba.gov/content/7a-submission-instructions-and-checklist> depending on small (up to \$350,000) or other (\$350,001 – 5,000,000). Send three separate PDF files containing the tabs and attachments:
 - i. File 1: Tabs 1 – 5 with exhibits
 - ii. File 2: Tabs 6 – 7 with exhibits
 - iii. File 3: Tabs 8 – 10 with exhibits
 - iv. Ensure you use the “naming conventions” for your exhibits as stated here:
http://www.sba.gov/sites/default/files/files/LGPC%20Alternative%20Loan%20Submission%20Instructions_20140314.pdf
7. Send the application using one of these options:

- a. Preferred: upload your application forms and documents via the upload link on the E-Tran web site; 10Mb per file described in section C.5.b above; or:
 - b. Use the send-this-file application: <http://www.sba.gov/content/send-file> and click the “Send a file” link for “Standard 7(a) Loan Guaranty Processing center (LGPC) – CA or KY”
8. If approved, SBA will notify you in writing as discussed below.

D. Closing the SBA Loan:

E.

1. Upon approval, SBA will mail you the SBA Authorization and Loan Agreement specifying the terms and conditions under which the SBA is prepared to offer a government guaranty on your loan.
2. Guaranty fee payments must be made via pay.gov. See this link and go to pay.gov (at bottom of screen) and follow prompts to make payment:
<http://www.sba.gov/category/lender-navigation/lender-e-payments>
3. Prior to final disbursement, lender may request modifications to the Loan Authorization via email to 7aloanmod@sba.gov. Prior SBA approval is required.
4. Lenders must use the SBA forms listed in Section D of the Authorization. Lenders may use computer-generated versions of mandatory SBA Forms, as long as the text is identical.
5. Complete Form 159 and send that to Colson Services, the SBA’s fiscal transfer agent for 1502 reporting, with your first Colson 1502 reporting:
https://www.sba.gov/sites/default/files/forms/SBA_159_7a.pdf
6. If loan proceeds are for more than \$10,000 in construction, complete this form:
<https://www.sba.gov/sites/default/files/forms/SBA%20601.pdf> .
7. For all 7(a) loans, whether processed under non-delegated or delegated authority, lenders have the option of using their own note and guaranty agreements rather than the SBA versions (SBA Forms 147, 148 and 148L). If using its own forms, lender must incorporate the verbiage specific in the above SOP, p. 206-207.

The following areas are critical in closing an SBA loan. The top reasons for SBA to deny a guaranty purchase request include failure to document properly the use of proceeds and failure to document a required equity injection.

8. Lender must disburse the loan in accordance with the use of proceeds specified in the Loan Authorization.
 - a. Lender and borrower must complete and sign SBA Form 1050 at the time of first disbursement. If there are subsequent disbursements, lender must document each disbursement and attach the documentation to the original SBA Form 1050. The documentation must contain sufficient detail for SBA to determine:
 - i. The recipient of each disbursement;
 - ii. The date and amount of each disbursement; and
 - iii. The purpose of each disbursement.
 - b. The lender must obtain evidence to support disbursements, such as cancelled checks or paid receipts, to ensure that the borrower used loan proceeds for

purposes stated in the Authorization. If the Authorization identifies working capital as a use of proceeds and those proceeds will be used to pay normal operating expenses (e.g., payroll, utilities, etc.), then the working capital disbursement does not need to be documented. The following documentation is acceptable to verify disbursement in accordance with the Authorization:

- i. Joint payee checks;
- ii. Copies of receipts, invoices or other supporting documentation marked paid by the seller or vendor; or
- iii. Evidence of an electronic funds transfer to a vendor along with a copy of the invoice. (SOP, p.207)

9. Equity injection documentation requirements:

- a. Loans \leq \$350,000: If the lender requires an equity injection and, as part of its policies and procedures for its similarly-sized, non-SBA guaranteed commercial loans verifies the equity injection, it must do so for SBA loans. (SOP, p.159)
- b. Loans \$350,000 - 5,000,000: if required, Lenders must verify the injection prior to disbursing loan proceeds and must maintain evidence of such verification in their loan files. Lenders are expected to use reasonable and prudent efforts to verify that equity is injected and used as intended, and failure to do so may warrant a repair or partial/full denial. Lenders must submit with each purchase request on a loan for which the loan authorization required an equity injection, documentation to show that they verified the equity injection. Verifying a cash injection requires the following documentation:
 - i. A copy of a check or wire transfer along with evidence that the check or wire was processed showing the funds were moved into the borrower's account or escrow;
 - ii. A copy of the statements of account for the account from which the funds are being withdrawn for each of the two most recent months prior to disbursement showing that the funds were available; and
 - iii. A subsequent statement of the borrower's account showing that the funds were deposited or a copy of an escrow settlement statement showing the use of the cash. (SOP, p. 164)

10. Loan servicing: Many servicing actions can be done unilaterally or with prior SBA approval. Consult this [Unilateral Matrix](#) for allowable lender actions. While many actions are within a lender's unilateral authority, bear in mind that all servicing actions must have appropriate justification and approvals (internal/otherwise required) on file.

sdo 07-21-15