7(a) Loan Underwriting
December 12, 2017
Level: Basic

For technical assistance, call the AT&T Helpdesk at 888-796-6118
Thank you!

SBA West Virginia District Office
11:00 a.m. Eastern
UNDERWRITING BASICS
Presented by: Gary Griffin
President/CEO
Capital Growth Solutions, LLC
We would like to thank Gary Griffin for his time on this webinar and providing information regarding his experience in lending and working on SBA loans from his perspective.

All opinions, conclusions, and/or recommendations expressed herein are those of the presenter(s) and do not necessarily reflect the views of the SBA.
Conversation topics:

- The more dealt with on the front end, the faster the entire process. Obtain the detail upfront to eliminate surprises.
- Difficulty of refinancing existing SBA debt and why this is the case
- Interim loans should be a rarity, realistic timeframes need to be established
- Importance of experienced closing attorney
- Importance of third party reports and ordering them immediately upon receipt of SBA authorization
- Importance of each item of the authorization being adhered to in order to protect guaranty
- Each program: Small loan, Express, 504, FSA and USDA are their own animal. There are different rules, guidelines, etc.
Pre-screen

- Loan Application (What are we trying to accomplish?)
  - Synopsis of loan request (preliminary – this often changes during the underwriting process)
  - Provides details on Sources and Uses of funds

- Example:

  Purchase of Real Estate: $760,000 (Need contract)
  Real Estate Improvements: $40,000 (Need contract)
  Purchase Equipment: $50,000 (Need quotes)
  Refinancing existing debt: $50,000 (Need copy of note)
  Working Capital: $60,000 (Anticipated use)
  Closing Costs: $40,000
  Total: $1,000,000
  Less Equity Injection: ($100,000) (Source?)
  Loan Request: $900,000
Pre-screen

- Personal Financial Statement
  - Current (within 90 days of SUBMISSION)
  - Detailed

- Management resumes

- SBA Form 1919 and corresponding SBA Form 912, if applicable. Clearance must be granted prior to SBA submission
Please fill out the following form. You can save data typed into this form.

**PERSONAL FINANCIAL STATEMENT**

**U.S. SMALL BUSINESS ADMINISTRATION**

Complete the form for an individual, or for each married couple and each partner or, if more than one, for each generally partner, or any person or entity owning 5% or more of the voting or value of a corporation (or any portion thereof). If any person or entity owning 5% or more of the voting or value of a corporation (or any portion thereof) is not shown on the form, complete a separate form for that person or entity.

**Name**

**Business Name**

**Residence Address**

**City, State & Zip Code**

**Business Name of Applicant/Owner**

**Assets**

<table>
<thead>
<tr>
<th>Description of Accounts</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Accounts Receivable</td>
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<td>Accounts Payable</td>
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<td>Cash</td>
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<td>Investments</td>
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<tr>
<td>Loans from Banks</td>
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<tr>
<td>Other Accounts Receivable</td>
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</table>

<table>
<thead>
<tr>
<th>Description of Liabilities</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Accounts Payable to Others</td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
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**Section 1: Loans**

<table>
<thead>
<tr>
<th>Description of Loans</th>
<th>Amount</th>
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<tr>
<td>Other Loans</td>
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**Section 2: Accounts Payable to Others**

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<th>Description of Accounts Payable</th>
<th>Amount</th>
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<tr>
<td>Other Accounts Payable</td>
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**Section 3: Liabilities**

<table>
<thead>
<tr>
<th>Description of Liabilities</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Other Liabilities</td>
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**Appendix A: Description of Other Income**

**Appendix B: Description of Other Income**

**Appendix C: Description of Other Income**

These appendices must be signed and attached to this form. Each attachment must be identified on the front of this statement and signed.

**Name and Address of Nonresident**

**Date**

**Signatures**

**Company**

**Signature**

**Telephone**

**Date**
Please fill out the following form. You can save data typed into this form.

<table>
<thead>
<tr>
<th>Section 5: Stocks and Bonds</th>
<th>Period of Shares</th>
<th>Name of Securities</th>
<th>Cost</th>
<th>Market Value</th>
<th>Date of Purchase/Exchange</th>
<th>Date of Sale/Exchange</th>
<th>Total Value</th>
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Section 6: Real Estate Owned

<table>
<thead>
<tr>
<th>Property A</th>
<th>Property B</th>
<th>Property C</th>
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<tr>
<td>Address</td>
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<tr>
<td>Description</td>
<td>Description</td>
<td>Description</td>
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<td>Present Market Value</td>
<td>Present Market Value</td>
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<tr>
<td>Amount of Beneficiary Shares</td>
<td>Amount of Beneficiary Shares</td>
<td>Amount of Beneficiary Shares</td>
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<tr>
<td>Date of Mortgage</td>
<td>Date of Mortgage</td>
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Section 7: Other Personal Property and Other Assets

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<thead>
<tr>
<th>Description</th>
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<td>Value</td>
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Section 8: Liabilities

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<th>Description</th>
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Section 9: Signatures

<table>
<thead>
<tr>
<th>Name</th>
<th>Date</th>
<th>Social Security Number</th>
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This information is collected by the U.S. Small Business Administration, Washington, D.C. 20410, and is not considered a disclosure of any kind. All information is subject to Federal law regarding confidentiality of personal and business information. Please visit the U.S. Small Business Administration website for more information.

Protective Services: The information provided is for the purpose of determining eligibility for government assistance or grants. It is not intended to be used for personal or business purposes. If you believe that any of the information provided is incorrect or has been obtained through fraud, please contact the U.S. Small Business Administration immediately.
Please fill out the following form. You cannot save data typed into this form. Please print your completed form if you would like a copy for your records.
Supporting docs to checklist

- Debt Schedule(s)
  - Borrower and affiliates
- Purchase contracts
- Business financials
  - 3 years tax returns
  - Current Interim profit & loss statement and balance sheet dated within 180 days of SUBMISSION
- Notes to be refinanced
  - Must have a current maturity; original use must have been eligible for SBA; collateral must remain; must obtain a copy of the original note.
- Business Plan
  - Must have an actual plan to reference and submit if the prospect is a start-up, change of ownership or significant changes will be taking place to improve historical DSC.
- 4506T – tax transcripts from selling entity or borrower must be obtained and verified PRIOR TO SUBMISSION
# BUSINESS / REAL ESTATE DEBT SCHEDULE

**Company Name:** ____________________________

Please complete this schedule for all loans, contracts, notes payable, and lines of credit, not accounts payable or accrued liabilities.

<table>
<thead>
<tr>
<th>Creditor Name, Address, &amp; Account Number</th>
<th>Original Date</th>
<th>Original Amount</th>
<th>Term</th>
<th>Maturity</th>
<th>Present Balance</th>
<th>Interest Rate</th>
<th>Monthly Payment</th>
<th>Collateral</th>
<th>Loan Purpose</th>
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**TOTAL PRESENT BALANCE**

This information is certified correct to the best of my knowledge.

**SIGNED** ____________________________ **DATE** ________________
The Loan Story

- Name of borrowing entity including tax ID # & organizational documents
  - Will this be the only entity utilizing funds?

- What is the loan request?
  - What is the purpose of the loan request?
  - What is the borrower trying to accomplish?
  - Detailed list of all categories to fully understand uses
    - Contracts and/or invoices
  - This must be precise as disbursement MUST follow SBA Authorization

- Who are the owners?
  - 20% or more ownership must be full and unlimited guarantor
  - What are their duties within the business?
The Loan Story continued…

- What does the company do?
  - Include industry cycles, competitive nature, unique attributes
  - Where is the business located
  - How will this loan benefit the business?
What Makes This an SBA Loan

- It is a good deal with weaknesses
  - Low Liquidity of the owners
  - Less desirable industry
  - Under-collateralized
  - Historical financials struggles, but current financials are showing improvement


- Differs from Conventional Loan Policy
  - A longer amortization would benefit the business
  - Start-up business for experienced owners
  - Less than 20% equity injection
Types of SBA loans

- **SBA 7a**
  - 75% guarantee for loans over $150,000 up to $5,000,000
  - 85% guarantee for loans $150,000 or less
  - Greater than $350,000
    - Must take personally owned real estate as collateral to the extent loan is fully secured
  - $350,000 or less:
    - Follow loan policy regarding personal assets required as collateral, liquidation LTV, etc.
Some Other Types of SBA loans

- International Trade/Export Working Capital Line of Credit
  - Must export to foreign countries (directly or indirectly)
  - 90% guarantee

- SBA 504
  - Only for real estate and/or machinery acquisition
Some eligibility issues

- Change of Ownership
  - Applicant acquiring 100% interest in exiting owner(s)
  - Applicant purchasing 100% ownership interest in another business
  - Applicant must be a business
  - Sellers may NOT remain affiliated with business for more than a short transitional period
- Leasing portion of a building
  - For an existing building, must occupy at least 51%
  - New construction, must occupy 60% (May permanently lease 20%; May temporarily lease additional 20% with intent to use some within 3 years and all within 10 years)
Business Viability

- History and nature of business
  - Business plan, website, etc.
  - Future viability (growth; economy)
- Financial condition of the business
- If start-up; need and competition
  - If spouse has outside income they need to be a guarantor for global cash flow
- Experience of owners
  - Personal credit of owners (EVERYTHING must be current)
Financial Analysis

- SBA is a cash flow lender not a collateral lender
- Repayment Ability – Historical and Projected
  - DSC historically including *existing* and proposed debt
  - Explanation for fluctuations/trends
  - Compare gross margin, COGS and material expense trends
  - Projections (if necessary)
    - Reasonableness
    - Justification (supporting assumptions)
    - Determine breakeven point
- Global Debt Service Coverage
  - Personal debt obligations
  - Affiliate performance
  - Outside income sources
  - Continuation of income?
Financial Analysis

- Start-up
  - 3 years projections (first two years monthly)
  - Reasonableness of projections
  - Justification (supporting assumptions)
  - Competition
  - Adequate liquidity
  - Experience
  - RMA???

- Balance Sheet
  - Industry trends
  - Proforma
  - RMA???

NOTE: All loans with amortizations of 15 years or more will carry a three year prepayment penalty (5-3-1)
Equity Injection

- How much is necessary
  - Prudent Lending (new rules?)

- What is the source?
  - Statements (three months prior to closing and month post closing)

- Seller financing
  - Full Standby for LIFE OF LOAN

- Gifted/Borrowed funds
  - Gift letter and statement
  - Payback terms
  - Only if historical cash flow consistently supports
Equity Injection

- Always first dollars spent
- Verification of equity injection must be done prior to closing
  - Bank statements three months prior and month following closing
  - Canceled checks/bank statements and/or wire confirmations
- Working Capital
  - Follow up post closing (operating account statements)
SBA guaranty is not a substitute for available collateral
- Any assets purchased with proceeds must be pledged
- Liquidation value is utilized to determine “fully secured”
  - Lender may not utilize LTV’s any higher than they would non-SBA
- 1. 75% of new equipment
- 2. 80% of “orderly liquidation value” of equipment appraisal
- 3. 50% Net Book Value equipment
- 4. 85% of real estate

Refinancing debt
- Existing collateral must stay
- Fully secured
Personal assets as collateral

- Personal assets
  - Owners of 20% or more are subject to pledging personal real estate assets
  - Fully secured with liquidation value

- 20% or more ownership
  - 20% combined with spouse

- Personal residence or other real estate

- Even if spouse has NO ownership the lender must consider the individually owned assets of said spouse
  - Spouse MUST be on personal financial statement
Life Insurance

- Assignment of life insurance is not considered collateral

- Lender should adhere to bank policy
  - Weak collateral needs an assignment equal to the loan amount

- Explanation must be given should a life insurance assignment amount less than the full loan amount be accepted

- Assignment must be obtained prior to closing
Site Visit

- Must (in my OPINION) be performed prior to SBA loan submission

- Written documentation in file

- Notation of collateral
  - Pictures are always helpful

- Business history line up with what is on-site?
Guaranties

- Individuals who own 20% or more of the business
  - If no one owns at least 20%, must choose at least one to be full and unlimited

- Must obtain a personal financial statement and SBA Form 1919 for ALL guarantors

- Reducing ownership interest
  - Any person holding 20% or more ownership interest within six months prior to loan application would be subject to the requirements as if still 20% owner
  - Complete divestiture
Commercial Real Estate

- If loan amount is $250,000 or more, a real estate appraisal is required.
- If less than $250,000 lender should follow internal loan policy.
- Loan Amount > $250,000 and collateralized by commercial real estate:
  - The appraiser must be independent and have no appearance of conflict of interest.
  - Appraiser must be state-licensed or state-certified.
    - Must be state-certified if estimated value is over $1,000,000.
  - Appraisal must be requested by and prepared for the lender.
Appraisals

- Construction Loans
  - As completed appraisal must be performed prior to closing
  - Monthly construction draws from contractor utilizing AIA documents
  - Third-party inspection reports

Other Fixed Assets
- If the valuation is greater than their depreciated book value, an appraisal must be obtained
Appraisals

Business Valuations

- If the loan amount being financed less real estate and/or equipment is $250,000 or less an internal lender valuation may be performed (if internal loan policy allows). Add to Policy and pick a method.

- If the loan amount is $250,000 or more OR there is a close relationship between buyer and seller and independent business valuation must be obtained

1. The business valuation must be requested by and prepared for the lender

2. The business valuation must be completed prior to SBA submission

A going concern appraisal may be acceptable if:

- Special Use Property
- Appraiser is experienced in particular industry
- Separate values are allocated to land, building, equipment, intangible assets
Environmental

SBA requires an Environmental Investigation of all commercial properties.

The type and depth of the investigation varies with the risks of contamination.

- Does NAICS code fall within an environmentally sensitive industry (do not assume anything)
  - If yes, must begin with Phase I

- If loan amount is less than or equal to $150,000 may begin with environmental questionnaire

- If loan amount is greater than or equal to $150,000 must also have records search.

- Animals!!!
Loan Authorization

The SBA Authorization is SBA’s written agreement between the SBA and the lender providing the terms and conditions under which SBA will guarantee a business loan.

The SOP supersedes the SBA Authorization and YOU are responsible.
Application Requirements

- Borrower information form (Form 1919)
- Statement of Personal History (Form 912), if applicable
- Personal financial statements dated within 90 days
- Three years personal tax returns
- Interim business financial statements dated within 180 days
- Three years business tax returns
- Tax returns and interim financials for affiliates
- History of Business
- Resumes of Principals
SBA Submission

Application Requirements Continued

- Copies of any leases (must match maturity of note)
- Detailed use of proceeds
- Purchase Agreements
- Business valuation, if applicable
- Projections, if applicable
- Detail of equity injection
- Check the franchise registry
- IRS Form 4506-T (prior to submission)
Post-Approval

ALWAYS perform a thorough review of the authorization (ALMOST always corrections)

Any changes must be submitted for approval by the SBA via a stamp action request letter (SBA is great right now!).
Loan Disbursement

Entire equity injection MUST be utilized prior to first loan disbursement.

The loan must be fully disbursed within 48 months of approval or any remaining undisbursed funds will be canceled.
Loan Disbursement

Funds must be disbursed in accordance with the Authorization.

Each disbursement must be documented (EXCEL). The SBA MUST be able to determine:
- Who was the recipient of the disbursement
- The date and amount of each disbursement
- The purpose of each disbursement

Evidence must be obtained to support disbursements (invoices, etc.)

Working capital
Capital Growth Solutions, LLC is a full service SBA loan service provider serving lending institutions throughout the country. We provide complete “back-room” functions of an outsourced SBA Department or specific services on an hourly basis, as well as group training on all topics SBA. Please contact me at ggriffin@capgs.com to see what we could do to make YOUR SBA operations more profitable! We WANT your business!!! G²
Contact Info

- Rick Haney at Richard.haney@sba.gov or (304) 623-7449
- Leo López at Leopoldo.Lopez@sba.gov or (304) 347-5220
- Maria Lloyd at anna.lloyd@sba.gov or (615) 736-7427 x232
- Lisa Denson at lisa.denson@sba.gov or (615) 736-2991 x247
- Gary Griffin at Ggriffin@capgs.com or (423) 475-5700/(423) 593-0976
- Or contact your local LRS (www.sba.gov)