

## INTERMEDIARY LENDING PILOT (ILP) PROGRAM

### Frequently Asked Questions and Answers

#### General Program Questions

**Question:** SBA has stated that it expects an ILP Intermediary to relend its ILP Loan funds 2.5 times over the loan term. Is this a requirement?

**Response:** No; SBA will not require an ILP Intermediary to relend its ILP Loan funds 2.5 times; that number is merely an estimate. The ILP regulations require that after the ILP Intermediary disburses the initial \$1 million, it maintain at least 75% of its outstanding principal balance to SBA in the form of loans to small business concerns (see 13 CFR § 109.340(b)). SBA recognizes that as the principal balance to SBA is reduced, the ILP Intermediary will have fewer funds available to relend to new small business concerns.

**Question:** Will SBA consider changing the maximum interest rates on loans made by an ILP Intermediary to small businesses if it becomes increasingly difficult for ILP Intermediaries to cover the costs of the program using the interest rate spread?

**Answer:** Yes, SBA may consider changing the maximum interest rates permitted for loans to small businesses under the ILP program in the future if it determines such a change is in the best interests of the ILP program. Changes to the interest rates would be published in the Federal Register.

**Question:** Does SBA require an ILP Intermediary to take collateral on its loans to small businesses under the ILP program?

**Answer:** No; SBA does not require an ILP Intermediary to take collateral, but it may choose to do so. Underwriting and collateral requirements of the small business loans are left to the ILP Intermediary.

**Question:** Does SBA require small business borrowers to contribute their own funds in order to receive a loan from an ILP Intermediary?

**Answer:** No; the ILP program does not have an equity injection requirement. The SBA requires the ILP Intermediary to practice prudent lending, but specific requirements are left to the ILP Intermediary to decide.

**Question:** Are ILP Intermediaries restricted to lending only in particular geographic areas?

**Answer:** No; there are no geographic limitations on small business loans made under the ILP program. However, SBA expects that an ILP Intermediary will make the majority of its ILP program loans in the targeted geographic area described in its ILP Application for Selection.

**Question:** **Are there restrictions on the total financing need of eligible small business concerns? Could other funds be combined with the ILP resources to finance the business concern? During the loan term, could the small business concern request additional financing in the form of a new loan funded by ILP resources?**

**Answer:** The ILP program allows multi-party financing and does not place a particular restriction on the total financing project. However, the ILP Intermediary must still ensure that the small business concern meets the credit elsewhere test. The ILP Intermediary would need to document why the business is otherwise unable to obtain traditional bank financing. The small business concern may request additional financing from the ILP Intermediary during the loan term, but at no time may the small business have more than \$200,000 outstanding in loans under the ILP program.

**Question:** **May an ILP Intermediary make loans to a non-profit organization?**

**Answer:** No; an ILP Intermediary may not use ILP loan funds to make loans to non-profit organizations. SBA regulations require that an eligible small business be organized for profit.

ILP Intermediary Eligibility Questions
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**Question:** **My organization makes and services SBA Microloans on behalf of our parent organization, which is an SBA Microloan Intermediary. The SBA Loan, Microloan Revolving Fund (MRF), and Loan Loss Reserve Fund (LLRF) are in the name of the parent organization, as are the loans to the microborrowers. Is my organization eligible to apply to become an ILP Intermediary?**

**Answer:** Yes. A subsidiary of an existing SBA Microloan Intermediary is eligible to apply to become an ILP Intermediary if:

- the SBA Microloan Program Note, MRF, and LLRF, as well as the loans to the microborrowers, are in the name of the parent organization; and
- the subsidiary meets all other eligibility requirements.

**Question: Under what circumstances may an organization applying to become an ILP Intermediary use the lending experience of another entity to meet the 1 year of lending experience requirement?**

Answer: An applicant organization may use the lending experience of a majority-owned subsidiary organization to meet the 1 year of lending experience required to become an ILP Intermediary. The subsidiary organization may be a non-profit or for-profit organization. An applicant organization may not use the lending experience of a parent organization or any other affiliated organization in which it does not have a majority ownership.

**Question: My organization used to be a Microloan Intermediary. We have fully repaid our loan to SBA, but still have some outstanding Microloans to borrowers. Is my organization eligible to become an ILP Intermediary?**

Answer: Yes; an organization that has fully repaid its loan to SBA is eligible to apply to become an ILP Intermediary regardless of whether the organization has any outstanding Microloans to borrowers.

**Question: My organization has applied to become a Microloan Intermediary, but has not yet closed the loan from SBA. Is my organization eligible to apply to become an ILP Intermediary?**

Answer: Yes; an organization that has applied to become an SBA Microloan Intermediary but has not yet closed its SBA loan may apply to become an ILP Intermediary. However, if the applicant organization is selected to become an ILP Intermediary, it must withdraw its application to become an SBA Microloan Intermediary.

**Question: May an ILP Intermediary apply to become a Microloan Intermediary?**

Answer: No; an organization may become an ILP Intermediary or a Microloan Intermediary, but not both.

Application Questions
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**Question: My non-profit organization has applied for tax-exempt status from the IRS, but has not yet received the tax-exempt certificate. What documentation should I include in my ILP Application for Selection?**

Answer: If the IRS certificate is not available by the time you submit your ILP Application for Selection, you should submit alternative evidence of your non-profit status plus evidence of your application to the IRS for tax-exempt status. If your organization is selected to become an ILP Intermediary, you will be required to provide the tax-exempt certificate in order to close the ILP Loan.

**Question:** The last column in the chart in question 3.12(c) calculates cumulative default rates based on cumulative charge-offs and cumulative originations. There may be a mismatch between loans made in any given year and the defaults in that year. For instance, my organization made a certain amount of loans in 2006. The defaults in that year may be loans from prior years. How do I account for that?

**Answer:** SBA realizes that the default rates calculated in the chart may not match exactly with what an organization has on its books. The purpose of the chart is to provide a snapshot trend. The next question in the application (3.12d) asks about how the applicant organization monitors and addresses delinquencies and defaults. Applicants may use this narrative to explain how the defaults it has calculated for a given year differ from the default rate calculated in the chart in question 3.12(c).

**Question:** If my organization does not meet the capital and operating liquidity ratios discussed in questions 4.5 and 4.6, is my organization ineligible to become an ILP Intermediary?

**Answer:** No; an organization is not ineligible if it does not meet the ratios described in the application, but it may not score as highly during the evaluation process. An organization must be able to demonstrate sufficient cash to cover short-term operating expenses and a sufficient cushion of net assets to cover unexpected losses. Generally, SBA considers an organization with an operating liquidity ratio (unrestricted cash and cash equivalents / current liabilities) greater than 1.0 and a net asset ratio (net assets / total assets) greater than 0.20 to meet this requirement.

**Question:** Employees and board members of my organization completed Statements of Personal History (SBA Form 1081s) when they joined the organization. May I submit the Form 1081s I have on file, or do I need to submit new 1081s with the ILP Intermediary Application for Selection?

**Answer:** You must submit updated forms so that SBA has the most current information available for its review.

**Question:** Question 14 on the Statement of Personal History (SBA Form 1081) asks about financial assistance requests made to any Federal agency. Should the response include funding requests that were declined or withdrawn? In responding to this question, may I refer to question 2.8 in the ILP Intermediary Application for Selection, which requests information on non-SBA Federal programs in which the Applicant participates?

**Answer:** Question 14 on the SBA Form 1081 includes those funding requests that were declined or withdrawn. You may not refer to the Form 1081 in response to question 2.8(a) of the ILP Intermediary Application for Selection, because the questions are not the same. Question 2.8(a) of the application asks about participation in non-SBA Federal programs; question 14 of the Form 1081 asks about requests for financial assistance from Federal agencies. Participation in a Federal program does not necessarily involve financial assistance.

**Question:** **Question 17 on the SBA Form 1081 asks whether any business directly or indirectly affiliated with the individual filling out the form has borrowed funds from any Non-Bank Lender, SBA Certified Development Company, or SBA Microloan Intermediary. What is a Non-Bank Lender, and what time period should the response to this question cover?**

**Answer:** As stated in the ILP FAQs dated May 20, 2011, “Non-Bank Lender” refers to an SBA lender that is not a Federally-regulated financial institution. Such lenders are also called “SBA Supervised Lenders,” and include Small Business Lending Companies (SBLCs) and Non-Federally Regulated Lenders (NFRLs) that make SBA 7(a) guaranteed loans.

There is no time period limitation for this question; individuals should report any funds ever received by an affiliated business concern from an SBA Supervised Lender, SBLC, or NFRL.