



SBA Information Notice

TO: All SBA Employees

CONTROL NO.: 5000-1240

SUBJECT: Revised and Expanded Small Loan Advantage – Changes Incorporated into SOP 50 10 5(E)

EFFECTIVE: 05/25/2012

This Notice announces changes to Small Loan Advantage (SLA) that have been incorporated into an updated version of Standard Operating Procedure (SOP) 50 10 5. SLA was originally only available to Preferred Lender Program (PLP) lenders and included the use of the shorter, more streamlined loan application forms used in the Small/Rural Lender Advantage (S/RLA) program. Effective June 1, 2012, SBA is revising SLA to, among other things, include credit scoring of each application prior to loan approval and expanding SLA to all SBA participating lenders for small loans.

The key features of the revised and expanded SLA are as follows:

- An increase in the maximum loan size from \$250,000 to \$350,000;
- Expansion to all SBA participating lenders;
- All SLA loan applications will be credit-scored by SBA prior to loan approval (or issuance of a loan number for applications submitted by PLP lenders);
- Change in forms from the S/RLA forms (SBA Forms 2301 Parts A, B and C) and the PLP Eligibility Checklist (SBA Form 7) to the forms used in the SBA Express and Pilot Loan Programs (SBA Forms 1919 and 1920 Parts B and C);
- All SLA loan applications will continue to be submitted electronically;
- Lenders will continue to have the option of using their own notes and guaranty forms, rather than SBA Forms 147, 148 and 148L;
- In closing and disbursing SLA loans, lenders will follow the same closing and disbursement procedures and documentation as it uses for its similarly-sized non-SBA guaranteed commercial loans; and
- Revolving lines of credit continue to be prohibited under SLA.

The changes to SLA are explained in more detail below and have been incorporated into an updated version of SOP 50 10 5. This version of the SOP will be known as SOP 50 10 5(E) and will be effective June 1, 2012. This version of the SOP will apply to all applications received by SBA on or after June 1, 2012.

As with previous editions of SOP 50 10 5, SBA will post two versions on the web site. The first version will show all changes as “tracked changes” to enable users to more easily identify what has been modified. (As a note, the Table of Contents has been updated but, for ease of viewing, those changes are not shown.) The second version incorporates all of the changes into the document. The revised SOP may be found on SBA’s website at www.sba.gov.

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Revision and Expansion of SLA

Except as described below, the SBA Loan Program Requirements applicable to SLA loans are the same as those applicable to Standard 7(a) loans.

I. Maximum Loan Amount

SBA is revising the maximum loan amount under SLA from \$250,000 to \$350,000.

II. Lender Eligibility for SLA

Originally, SLA was open only to Preferred Lender Program (PLP) lenders. SBA is expanding SLA to permit all 7(a) lenders with an executed Loan Guaranty Agreement (SBA Form 750) to submit applications for loans under SLA. All lenders will submit SLA applications electronically.

Lenders will start with the instant credit screen discussed in more detail below. After the credit screen, lenders that do not have an executed Supplemental Guaranty Agreement-Preferred Lender Program (PLP) (SBA Form 1347) will enter certain information about the applicant and the loan into E-Tran and then will submit additional documentation electronically to the Standard 7(a) Loan Guaranty Processing Center (LGPC) for review of creditworthiness and eligibility and, if the application is approved, issuance of the Authorization.

PLP lenders also will start with the instant credit screen. After the credit screen, for SLA loans that may be submitted under a lender's PLP authority, the lender will continue completing the application via E-Tran. On SLA loans submitted under a lender's PLP authority, SBA will not conduct an eligibility review prior to issuing a loan number. The lender must retain in its loan file documentation supporting its eligibility determination and SBA will review this documentation as part of any guaranty purchase request or when conducting lender oversight activities. The eligibility requirements for SLA are the same as Standard 7(a) as set forth in SOP 50 10 5(E), Subpart B, Chapter 2. Those applications that cannot be processed under a lender's PLP authority (for example, they include refinancing same institution debt) may be submitted using the non-delegated procedures described more fully below.

For those lenders that do not have an executed Loan Guaranty Agreement (SBA Form 750), information on how to become a participant in SBA's 7(a) loan program, as well as the responsibilities of 7(a) lenders, can be found in SOP 50 10 5(E), Subpart A, Chapter 1.

III. Credit Standards

A. Credit Score Pre-Screening

All applications for a loan guaranty under SLA will begin with a pre-screening for a credit score. The lender will enter certain information into E-Tran (the specific information is described below) and a credit score will be issued. If the application receives an acceptable credit score,

the application may be submitted under SLA via E-Tran. If the loan application does not receive an acceptable credit score, the lender may submit a standard 7(a) loan application through the LGPC or, if the lender is an SBA Express lender, an SBA Express application via E-Tran for a 50% guaranty.

The SLA credit score is calculated based on a combination of consumer credit bureau data, business bureau data, borrower financials, and application data. (The SLA credit score is not to be confused with the Small Business Predictive Score (SBPS) used by SBA's Office of Credit Risk Management.) The minimum SLA credit score is based on the lower end of the risk profile of the current SBA portfolio and may be adjusted up or down from time to time. SBA will post on its website the minimum SLA credit score for SLA applications at <http://www.sba.gov/for-lenders>. The current minimum SLA credit score is 140, which is subject to change as noted above.

B. Credit Analysis

While each SLA application will be pre-screened to determine its credit score, SLA lenders must perform a thorough and complete credit analysis of the applicant in order to ensure that the loan is of such sound value as to reasonably assure repayment and this credit analysis must be documented in the loan file. The SLA lender's credit memorandum must, at a minimum, include all of the following:

1. A combination of factors for underwriting and credit decision consistent with its similarly sized, non-SBA guaranteed commercial loans, including:
 - a. Cash flow analysis to determine the adequacy, duration and dependability of cash flow or in the case of a small business applicant doing business less than two years, projected cash flow analysis; and
 - b. Owner/Guarantor analysis.
2. Lenders may use their own credit scoring criteria to assess the character, reputation, and credit history of the applicant (and the Operating Company, if applicable), its Associates, and guarantors, including historical performance as well as the potential for long term success. This may include a business credit scoring model (such a model cannot rely solely on consumer credit scores), as long as the lender uses the business credit scoring model for its similarly-sized, non-SBA guaranteed commercial loans. Although SBLCs do not make non-SBA guaranteed loans, SBA has determined that they may use credit scoring. Lenders must validate (and document) with appropriate and accepted statistical methodologies that their business credit scoring model is predictive of loan performance and they must provide that documentation to SBA upon request. In addition, the business credit scoring results must be documented in each loan file and available for SBA review.
3. Lender's credit decision must consider the length of time in business under current management and, if applicable, the depth of management experience in this industry or a related industry. Such analysis should include a brief description of the management team of the company.
4. Lenders must review the strength of the business including systematically analyzing key characteristics of the account such as internal Credit/Deposit behavior data, current consumer credit bureau data, and Small Business Financial Exchange data to determine ongoing

creditworthiness such as the probability of an account reaching 90 days past due in the next 6 months. This may be conducted using a risk management or credit scoring model if the lender uses such a model to review its similarly-sized, non-SBA guaranteed commercial loans. If the lender does not have the ability to systematically analyze the borrower, the lender must collect and analyze business tax returns.

5. Lenders must verify the accuracy of the applicant's financial data against income tax data by submitting IRS Form 4506-T, Request for Transcript of Tax Form to the Internal Revenue Service (IRS) as required in SOP 50 10 5(E), Subpart B, Chapter 5, Paragraph III.

6. Lenders must demonstrate the Small Business Applicant's ability to repay the loan from the cash flow of the business by documenting the following:

- a. The Small Business Applicant's debt service coverage ratio exceeds 1:1 on a projected basis; and
- b. With the exception of loans under \$50,000, the Small Business Applicant's global cash flow coverage ratio exceeds 1:1 on a projected basis. Lender must document in the loan file the definition or formula used to calculate global cash flow.

C. Equity Requirements

Adequate equity is important to ensure the long term survival of a business. The lender must determine if the equity and the pro forma debt-to-worth are acceptable based on their policies and procedures for their similarly-sized, non-SBA commercial loans. If the lender requires an equity injection and, as part of its standard processes for similarly-sized, non-SBA guaranteed commercial loans verifies the equity injection, it must do so for SLA loans.

IV. Collateral, Life Insurance and Environmental Policies

A. Collateral Analysis and Procedures

For SLA loans of \$25,000 or less, lenders are not required to take collateral. For SLA loans over \$25,000 and up to and including \$350,000, the lender must follow the collateral policies and procedures that it has established and implemented for its similarly-sized non-SBA guaranteed commercial loans, but at a minimum the lender must obtain a lien on the borrower's business assets to secure the SBA-guaranteed loan. In addition, for those loans that are more than \$250,000 and collateralized by commercial real estate, lenders must comply with the appraisal requirements set forth in SOP 50 10 5(E), Subpart B, Chapter 4, Paragraph II.C. With respect to collateral taken, lenders must use commercially reasonable and prudent practices to identify collateral items, which would include conformance with procedures at least as thorough as those used for their similarly-sized non-SBA guaranteed commercial loans.

B. Life Insurance

Lenders may follow their internal policy for similarly-sized non-SBA guaranteed commercial loans.

C. Environmental Policies

For all SLA loans, lenders will follow the environmental policies and procedures set forth in SOP 50 10 5(E), Subpart B, Chapter 4, Paragraph III that apply to SBA Express loans.

V. How to Apply for a Guaranty under SLA

A. Pre-screen for a Credit Score

The first step is to pre-screen an SLA application to obtain the credit score. To do so, Lenders will enter a minimal set of fields into E-Tran Loan Origination. At this point, the lender will not be required to complete the entire set of E-Tran screens, but the lender may choose to submit the entire set of E-Tran loan origination data if it is easier to keep the data set intact while processing via a third-party software product. The fields required to generate a credit score are listed below. (It should be noted that these data fields are part of the screens used for the E-Tran loan origination process and part of the specification for loan origination software packages, which will make it easier to move forward with the loan application if the credit score is acceptable.)

business_legal_name
business_address>
business_city
business_state
business_zip
business_phone
fed_tax_id
first_name
last_name
SSN
city
state
zip
DUNNs number (if available).

B. Contents of SLA Application

All SLA application packages must include the forms and information the lender requires in order to make an informed eligibility and credit decision. The lender's application must be certified by the applicant as true and complete.

The only form that SBA requires of the Small Business Applicant is SBA Form 1919, SBA Express, Export Express, Small Loan Advantage, PLP-CAPLines and Pilot Loan Programs (Patriot Express and Dealer Floor Plan) Borrower Information Form. Depending on the answers provided on SBA Form 1919, additional forms may be necessary, such as SBA Form 912 or SBA Form 159(7a). For further information on SBA Form 1919, see SOP 50 10 5(E), Subpart B, Chapter 6, Paragraph I.E.

SBA requires the lender to complete the following forms:

1. SBA Form 1920SX, Part B, Supplemental Information for SBA Express, Export Express, Small Loan Advantage, Pilot Loan Programs and PLP Processing;
2. SBA Form 1920SX, Part C, Eligibility Information Required for SBA Express, Export Express, Small Loan Advantage, PLP-CAPLines and Pilot Loan Program (Patriot Express and Dealer Floor Plan) Submissions; and
3. A credit memorandum addressing all of the requirements set forth in paragraph III.B. above.

C. Where to send the application

All SLA applications must be submitted using E-tran (SBA's electronic origination program). For those loans that are ineligible to be processed under a lender's delegated authority and for lenders that do not have PLP authority, the lender will submit general application information using E-tran and then submit the application documentation electronically to the Standard 7(a) Loan Guaranty Processing Center (LGPC). The lender must retain copies of the documentation identified in B above in its loan file for all SLA loans whether submitted under delegated or non-delegated authority.

Specific steps for submitting all SLA applications:

1. E-tran has been modified to include a SLA choice. After selecting SLA, the lender will complete the E-tran screens up to the point of "Eligibility."
2. E-tran will then ask the following questions: For non-PLP lenders: "Is the lender a PLP lender?" For PLP lenders, "Is this loan eligible to be processed under the PLP lender's delegated authority? If you answer "yes," you are also certifying that the SBA Form 1920SX, Part C (Eligibility Information Required for SBA Express, Export Express, Small Loan Advantage, PLP-CAPLines and Pilot Loan Program (Patriot Express and Dealer Floor Plan) Submissions) has been completed, signed, dated, and filed in the loan file."
 - a. If the lender has PLP authority and the lender is able to check "Yes" to indicate the loan is eligible for submission under its delegated authority, the lender will receive an SBA Loan Number indicating the loan is approved.
 - b. If the lender does not have PLP authority or must check "No" to indicate that the loan is not eligible for submission under its delegated authority, E-tran will generate a message instructing the lender to e-mail the application forms along with the SBA Loan Application Number provided by E-tran to the LGPC at slaloans@sba.gov. The attachments must include:
 - a. Form 1919 and 1920SX (Parts B and C);
 - b. Other SBA forms required by Form 1919 in response to "yes" answers on the form [for example, Form 912 (Statement of Personal History)]; and
 - c. Lender's Credit Memorandum.

Please be sure that the contact information (name, e-mail and phone number) of the lender's loan officer who can discuss the underwriting of the loan is on the top of the e-mail to the LGPC.

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Once the LGPC receives the e-mail and attachments, the LGPC will review the loan for creditworthiness and eligibility. If the loan is approved, the LGPC will prepare the Authorization.

If the loan is approved under a PLP lender's delegated authority, the PLP lender will prepare and execute the Authorization on SBA's behalf (as with all other PLP loans).

VI. Authorization, Closing and Disbursement

A. Authorization

The 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. All SLA loans will use the Standard 7(a) Authorization Boilerplate. In accordance with SOP 50 10 5(E), Subpart B, Chapter 5, SBA will draft and sign the Authorization for non-delegated SLA loans. For SLA loans processed under a PLP lender's delegated authority, the lender will draft and sign the Authorization on SBA's behalf.

B. Closing and Disbursement

When closing an SLA loan, lender must use the same closing and disbursement procedures and documentation as it uses for its similarly-sized non-SBA guaranteed commercial loans. The lender must obtain all required collateral and must meet all other required conditions before loan disbursement, including obtaining valid and enforceable security interests in any loan collateral. These conditions include requirements identified in the loan write-up, such as standby agreements, appraisals, business licenses, and cash/equity injections.

Lenders have the option of closing SLA loans with the lender's own note and guaranty agreements rather than SBA Forms 147, 148 and 148L. If the lender uses its own note form, the lender must ensure that the note is legally enforceable and assignable; has a stated maturity; and is not payable on demand. In addition, if the lender uses its own note form, the note must include the following language: *"When SBA is the holder, this Note will be interpreted and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, foreclosing liens, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control, penalty, tax, or liability. As to this Note, Borrower may not claim or assert against SBA any local or state law to deny any obligation, defeat any claim of SBA, or preempt federal law."*

If the lender uses its own guaranty form, the guaranty must include the following language: *"When SBA is the holder, the Note and this Guarantee will be construed and enforced under federal law, including SBA regulations. Lender or SBA may use state or local procedures for filing papers, recording documents, giving notice, foreclosing liens, and other purposes. By using such procedures, SBA does not waive any federal immunity from state or local control,*

penalty, tax, or liability. As to this Guarantee, Guarantor may not claim or assert any local or state law against SBA to deny any obligation, defeat any claims of SBA, or preempt federal law.”

The lender should not send any closing documentation to SBA after closing an SLA loan but should retain all documents in the loan file. For further guidance on loan closing and disbursement requirements, see SOP 50 10 5(E), Subpart B, Chapter 7, Paragraph IV.F., SBA Express, Export Express, Patriot Express and Small Loan Advantage.

Additional Information

Lenders, CDCs and other interested parties may continue to send suggestions concerning the SOP to SBA at SOP50-10Modernization@sba.gov. This e-mail box is set up to receive only.

Questions regarding SLA and/or SOP 50 10 5(E) should be directed to the lender relations specialist in the local SBA field office. The local SBA field office may be found at www.sba.gov/localresources.

Jeanne A. Hult
Associate Administrator
Office of Capital Access