



SBA Policy Notice

TO: All SBA Employees

CONTROL NO.: 5000-1324

SUBJECT: Streamlining the Community Advantage Pilot Program

EFFECTIVE: 10/23/14

SBA is announcing changes to the Community Advantage (CA) Pilot Program to refine and improve the program. These changes will, among other things, align the credit underwriting standards for CA loans with the credit underwriting standards for 7(a) Small Loans as those standards were recently updated in SOP 50 10 5(G). This will reduce the time and cost required to make a CA loan. SBA is taking this step to provide the benefit of these changes to the CA market and to eliminate multiple credit standards and approval processes in the SBA Loan Guaranty Processing Center (LGPC). These changes become effective upon publication of this notice.

Currently CA Lenders are required to follow the credit underwriting standards for Small/Rural Lender Advantage, which are very comprehensive, including among other things, a spread of the pro forma business balance sheet, specific ratio calculations, and a full analysis and calculation of cash flow relative to debt service. The requirements for credit underwriting for CA loans are being revised to allow utilization of SBA's credit score as part of the credit analysis in order to streamline loan processing for these smaller loans. This is a credit score that combines business and consumer data to expedite credit decisions. It is obtained by entering certain loan and applicant data into SBA's E-Tran system.

To further streamline the CA loan process, SBA is also revising the CA Pilot to permit CA Lenders to follow the procedures and requirements for 7(a) Small Loans with respect to collateral, environmental, closing and disbursement. See SOP 50 10 5(G), Chapter 4, paragraphs II and III for collateral and environmental requirements, and Chapter 7 for closing and disbursement requirements applicable to 7(a) Small Loans.

As SBA continues to refine and improve the CA Pilot Program, it is developing additional changes that will be announced in a revised participant guide in the coming months. SBA believes, however, that it is important to provide CA Lenders with the ability to utilize the credit underwriting standards for 7(a) Small Loans as soon as possible. Therefore, all CA loan applications received by SBA on or after October 1, 2014 must comply with the procedures and requirements for 7(a) Small Loans, including but not limited to the credit underwriting standards. Those standards, modified where necessary for the CA Pilot Program, are set forth below.

Replace Section IV, How do I apply for a Community Advantage Loan Guarantee? Step 2 in the CA Participant Guide 3.0 (pgs. 18-19) with:

Step 2: Credit Underwriting, Collateral, and Documentation Requirements

CA Lenders must analyze each application in a commercially reasonable manner, consistent with prudent lending standards. The cash flow of the Small Business Applicant for an SBA Loan is

EXPIRES: 10/01/15

PAGE 1 of 4

SBA Form 1353.1 (12-93) MS Word Edition; previous editions obsolete
Must be accompanied by SBA Form 58

the primary source of repayment. Historically, the CA Lender's financial analysis had to demonstrate that the Small Business Applicant had a reasonable assurance of repayment in a timely manner from the cash flow of the business. Otherwise the loan request had to be declined regardless of the collateral available or outside sources of cash. Effective October 1, 2014, CA Lenders must follow the credit underwriting standards for 7(a) Small Loans as set forth in the current version of SOP 50 10 5, Subpart B, Chapter 4. This means that an acceptable SBA credit score will satisfy the need to consider several required underwriting criteria, as noted below, most importantly part of the analysis to determine reasonable assurance of repayment from cash flow. CA Lenders should review the SOP and regulations for further guidance.

1. Screening for Credit Score

At the time of submission of the application for guaranty to SBA, all applications will begin with a screening for a credit score. The CA Lender will enter certain information into E-Tran and a credit score will be issued. (The specific information is described in the current version of SOP 50 10 5, Subpart B, Chapter 6.) If the applicant receives an acceptable credit score, the application may be submitted via E-Tran. If the applicant does not receive an acceptable credit score, the CA Lender may submit an application to the LGPC following the procedures for Standard 7(a) loans over \$350,000 set forth in the current version of SOP 50 10 5, Subpart B, Chapter 4. **CA Lenders with delegated authority may not process an application that does not receive an acceptable credit score under their delegated authority.**

The credit score is calculated based on a combination of consumer credit bureau data, business bureau data, borrower financials, and application data. (The 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 credit score is based on the lower end of the risk profile for the CA Pilot Program and may be adjusted up or down from time to time. SBA will post on its website the minimum credit score for CA applications at www.sba.gov/for-lenders. Effective October 1, 2014, the minimum credit score for CA Loans is 120, which is subject to change as noted above.

2. Credit Analysis

The applicant (including the Operating Company) must be creditworthy and loans must be so sound as to reasonably assure repayment. An acceptable credit score satisfies the requirement to consider the following:

- a. The 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 (character and reputation will be determined through the appropriate questions on SBA Form 1919 and, if required, SBA Form 912);
- b. The strength of the business;
- c. Past earnings, projected cash flow, and future prospects; and
- d. The applicant's ability to repay the loan with earnings from the business.

3. The CA Lender's credit memorandum will also be used to demonstrate reasonable assurance of repayment and must include the following:

- a. A brief description of the history of the business;
- b. A brief description of the management team of the company, considering the length of time in business under current management and, if applicable, the depth of management experience in this industry or a related industry;
- c. Owner/Guarantor analysis, including obtaining personal financial statements, consistent with CA Lender's similarly-sized non-SBA guaranteed commercial loans;
- d. Confirmation of the CA Lender's collection of business tax returns, and verification and reconciliation of the applicant's financial data against income tax data (received in response to IRS Form 4506-T, Request for Transcript of Tax Return) prior to submitting the application to SBA for non-delegated authority loans. Loans processed under delegated authority must comply with this requirement prior to first disbursement;
- e. CA Lender must determine 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 CA 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 CA loans;
- f. A list of collateral and its estimated value, if secured; and
- g. The effect any affiliates may have on the ultimate repayment ability of the applicant.

If the CA Lender does not have policies and procedures for similarly-sized, non-SBA guaranteed commercial loans, then under subparagraphs c and e above, it must use SBA 7(a) Small Loan policy as set forth in the current version of SOP 50 10 5.

Finally, CA Lenders must follow the collateral and environmental requirements applicable to 7(a) Small Loans. Please consult the current version of SOP 50 10 5, Subpart B, Chapter 4, Paragraphs II and III, for the applicable requirements.

Closing and Disbursing CA Loans

As stated above, to further streamline the CA loan process, SBA is changing the CA Pilot to permit CA Lenders to follow 7(a) Small Loan procedures and requirements when closing and disbursing CA Loans. Therefore, in Section V of the CA Participant Guide 3.0, Part Two, Loan Closing and Disbursement (pgs. 21-22), all references to "standard 7(a) loans" shall be deemed to read "7(a) Small Loans" and CA Lenders may follow the procedures and requirements set forth in the current version of SOP 50 10 5, Chapter 7 applicable to 7(a) Small Loans.

Delegated Authority Eligibility

SBA is also revising when CA Lenders will be able to utilize their delegated authority in the CA Pilot Program to better align with existing requirements in the Preferred Lender Program. All CA Lenders will continue to be evaluated at the time of application to the CA Pilot Program to determine if they are eligible for delegated authority. Previously, CA Lenders that were granted delegated authority when initially admitted into the CA Pilot Program were required to make at least ten CA loans to the satisfaction of SBA in their first year as a CA Lender before they were able to submit applications using their delegated authority. The Office of Credit Risk Management (OCRM), in consultation with the LGPC, would determine if the delegated CA Lender was ready to begin submitting applications under its delegated authority. Effective October 1, 2014, CA Lenders will be able to submit applications under their delegated authority after they have disbursed five CA loans if OCRM, in consultation with the LGPC, determines that they are ready to do so.

In addition, CA Lenders that were not granted delegated authority when initially admitted into the CA Pilot Program may request delegated authority after participating in CA for six months, rather than a full year, provided they have disbursed five CA loans. Upon receipt of such a request, OCRM will conduct a review of the CA Lender's performance (e.g., quality of underwriting, determination of eligibility, and servicing of CA loans, etc.), and determine if granting delegated authority is appropriate.

Community Advantage Associates will now be referred to as "CA Network Partners"

Finally, in order to avoid confusion with the definition of "Associate" in SBA regulations at 13 CFR §120.10, loan referral agents that work with CA Lenders will now be referred to as "Community Advantage (CA) Network Partners" rather than "Community Advantage (CA) Associates." As a reminder, any fees charged by CA Network Partners or any other agents in connection with a CA loan must comply with Agency regulations governing fees in 13 CFR Parts 103 and 120, as well as the current version of SOP 50 10 5, Subpart B, Chapter 3.

Notifications and Questions

SBA field offices must notify Lenders regarding the changes in this Notice. Questions regarding the Community Advantage Pilot Program should be directed to the lender relations specialist in the local SBA field office. The local SBA field office list and points of contact can be found at www.sba.gov/localresources.

Maria Contreras-Sweet
Administrator