

SOP 52 00

Microloan Program

U.S. Small Business Administration
Office of Economic Opportunity



SMALL BUSINESS ADMINISTRATION STANDARD OPERATING PROCEDURE

SUBJECT: Microloan Program	S.O.P.		REV
	SECTION	NO.	
	52	00	

INTRODUCTION

1. Purpose: Provide comprehensive guidance regarding the procedures and program requirements of the Microloan Program.
2. Personnel Concerned: All SBA employees.
3. Originator: Office of Capital Access

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CHAPTER 1. GENERAL DESCRIPTION OF THE MICROLOAN PROGRAM

1.1. Introduction and Authority- This Standard Operating Procedures (SOP) document provides guidelines for the management and administration of the U.S. Small Business Administration (SBA) Microloan Program. It is for use by SBA personnel, program participants, and other interested parties.

Any discussion of program funding is provided with the understanding that the amount of available funding may change depending on the appropriated level of funds from one year to the next.

The Microloan Program was initially authorized on October 28, 1991 via Public Law 102-140 which added subsection (m) to section 7 of the Small Business Act, 15 U.S.C. 636, authorizing SBA to establish a Microloan Demonstration Program. Section 201(c)(1) of P.L. 105-135 eliminated the word “Demonstration” on December 2, 1997.

Section 7(m) of the Small Business Act (15 U.S.C. § 636(m)) and 13 C.F.R. Part 120, Subpart G set forth the legal authority and framework for the Microloan Program.

1.2. Purpose, Mission, and Objectives- The purpose of the Microloan Program is to assist women, low income, veteran, and minority entrepreneurs, and other small businesses in need of small amounts of financial assistance. Under the Microloan Program, SBA makes direct loans to Intermediaries that, in turn, use the proceeds to make small loans to eligible Microborrowers. SBA may also make grants under the program to Intermediaries and other qualified non-lending technical assistance providers (NTAPs) to be used to assist Microborrowers and potential Microborrowers with marketing, management, and other business based training and technical assistance. Grants to NTAPs have not been available since FY2005.

The mission of the Microloan Program is to integrate micro-level financing with training and technical assistance for start-up, newly established, existing, and growing small businesses.

The major objectives of the Microloan Program include:

- Continued availability of business capital and business based training and technical assistance for start-up, newly established and growing small business concerns in need of micro-level financing;
- Development and expansion of efficient and effective local non-profit Intermediaries committed to economic and microenterprise development in their communities;
- Provision of sound program support and customer assistance;
- Ensure broad geographic availability of the Microloan Program

- Appropriate portfolio management and oversight to limit Agency risks against loss, waste, fraud, or abuse;
- Proper administration of grant funding to ensure timely and effective delivery of training and technical assistance; and
- Develop and provide timely, accurate, and useful output and outcome data.

1.3. Other Applicable Requirements- Microloan Program participants, including Intermediaries, Grantees, and Microborrowers, must comply with the Microloan Program regulations found in 13 CFR 120.700 et seq. In addition, Microloan Program participants must comply with Parts 112, 113, 117, 120 (as applicable), and 121 of Title 13, Code of Federal Regulations. Part 112 prohibits discrimination on the ground of race, color, or national origin. Part 113 prohibits discrimination based on race, color, religion, sex, marital status, disability, or national origin. Part 117 prohibits discrimination based on age. Part 120 states loan policy. Part 121 details size standards.

For purposes of this document, unless otherwise noted, when a specific official is mentioned, it is assumed that when that official is not available, an authorized designee will fulfill the responsibility being discussed.

1.4. Sources of Guidance -In addition to this SOP, users should also be aware of the following related documents:

- (i) SBA Office of Management and Administration SOP 00 11 1 (general policies and procedures related to grant administration);
- (ii) SBA Office of Credit Risk Management (OCRM) SOP 50 53, Lender Supervision and Enforcement (general monitoring, supervision, and enforcement policies and procedures related to SBA's lending programs);
- (iii) OCRM SOP 51 00 On Site Lender Reviews and Examinations;
- (iv) Office of Management and Budget (OMB) Circulars covering cost principles (2 C.F.R. Parts 220, 225, and 230) and administrative requirements (2 C.F.R. Part 215); and
- (v) 13 C.F.R. Part 143

1.5 Exceptions to Policy - When the policy set forth in this SOP does not adequately address the unique circumstances regarding a particular matter, an exception to policy may be approved by the Program Office Chief. The Program Office Chief may not approve an exception to policy if such exception would be inconsistent with a statute or regulation. A Microloan Intermediary must submit any requests for an exception to policy to its Financial Analyst in the Microenterprise Development Branch. The Analyst will consider the request and make a recommendation to the Program Office Chief, or individual acting in that capacity, who will make the final decision. This decision must be documented in the file. This procedure may only be used in situations where a minor deviation from standard policy is necessary for the specific situation. Exceptions to policy will be considered on a case-by-case basis and the decision will only apply to the specific request.

CHAPTER 2. DEFINITIONS

For purposes of the Microloan Program, the following definitions will be used.

2.1. Agency- The U.S. Small Business Administration (SBA)

2.2. Associate-

(1) An Associate of an Intermediary is:

- (i) An officer, director, key employee or holder of 20 percent or more of the voting rights of the Intermediary, or an agent involved in the loan process;
- (ii) Any entity in which one or more individuals referred to in paragraph (1)(i) of this definition or a Close Relative of any such individual owns or controls at least 20 percent of the voting rights;

(2) An Associate of a Microborrower is:

- (i) An officer, director, owner of more than 20 percent of the equity, or key employee of the Microborrower;
- (ii) Any entity in which one or more individuals referred to in paragraph (2)(i) of this definition owns or controls at least 20 percent; and
- (iii) Any individual or entity in control of or controlled by the small business (except a Small Business Investment Company (SBIC) licensed by SBA).

(3) For purposes of this definition, the time during which an Associate relationship exists commences six months before the following dates and continues as long as the Microloan note or the loan to the Intermediary is outstanding:

- (i) For an Intermediary, the date of the Note;
- (ii) For a Microborrower, the date of the Microloan application to the Intermediary.

2.3. Budget Period – the 12-month period in which expenditure obligations are incurred by a grant recipient as stated in the Program Announcement.

2.4. Close Relative - A spouse, a parent, a child or sibling, or the spouse of any such person.

2.5. Consortium of Intermediaries- A group of eligible organizations that applies to become a single Intermediary. Each member of the group must be eligible and qualified to be an Intermediary lender in its own right. Accordingly, if at least one member of the group is found to be either not eligible, not qualified, or both, the entire group will be so considered and will not be funded.

2.6. Cost of Funds- The actual interest paid by an Intermediary on its loan from SBA. The interest rate calculation is the interest rate charged on the Note, minus the applicable discount (buy-down). The buy-down will be equal to either 1.25 percentage points or 2.00 percentage points based on the average size of Microloans made by an Intermediary during its participation in the Microloan Program. In no case will the cost of funds be less than zero.

2.7. Counseling – individual advice, guidance or instruction given to a current or prospective Microborrower.

2.8. Credit Alert Verification Reporting System (CAIVRS)- a Federal government database used by SBA to determine if an organization applying to become a Microloan Intermediary has a Federal debt that is currently in default or foreclosure or has had a claim paid by a reporting agency within the last three years.

2.9. Current Rate of Lending- The amount of Microloans made over the previous five years (or over the total time of participation in the Microloan program if less than five years) divided by the number of months in that period.

2.10. Deposit Account- a demand, time, savings, passbook, or similar account maintained with an insured depository institution (not including an account evidenced by a Certificate of Deposit).

2.11. District Office- The local office of SBA responsible for the geographic area in which an Intermediary is located.

2.12. Economically Distressed Area- A county or equivalent division of local government of a State in which the small business is located, in which, according to the most recent data available from the Bureau of the Census, not less than 40 percent of the residents have an annual income that is at or below the poverty level, as defined.

2.13. Grant- A Federal award of money, or property in lieu of money, to an eligible grantee that must account for its use in accordance with its Notice of Award. For Microloan Program purposes, funds are to be expended for the provision of training and technical assistance to program funded Microborrowers and to some extent, potential Microborrowers.

2.14. Grant Appeals Committee (GAC) – an ad hoc committee composed of SBA officials and employees drawn from the Office of Management and Administration and other offices with grant management responsibilities. It is convened on an as-needed basis solely to resolve payment related disputes between grant recipients and SBA grant program offices. The committee has no authority to review disputes that do not concern the payment or recoupment of SBA grant funds.

2.15. Grantee- an entity that receives a grant.

2.16. In-Kind Contribution- A non-monetary contribution to costs associated with program implementation, measurable in dollars by converting the market value of goods and services directly benefiting and specifically identifiable to the Program. It may be property, facilities, services, or other non-monetary contributions from non-federal sources committed by the recipient organization to support the conduct of project activities.

2.17. Insured Depository Institution- Any bank or savings association the deposits of which are insured by the Federal Deposit Insurance Corporation (FDIC). The term Insured Depository Institution also includes any credit union that is insured by the National Credit Union Administration.

2.18. Intermediary- an entity participating in the Microloan Program that makes and services Microloans to eligible small businesses and that provides marketing, management, and technical assistance to its Microborrowers and potential Microborrowers. An Intermediary may be:

- a. A private, nonprofit community development corporation or other entity,
- b. A consortium of private, nonprofit community development corporations or other entities,
- c. A quasi-governmental economic development entity, other than a state, county, municipal government or any agency thereof, or
- d. An agency of a nonprofit entity established by a Native American Tribal Government

2.19. Loan Loss Reserve Fund (LLRF) – An interest-bearing deposit account established at an Insured Depository Institution used to pay any shortage in the MRF caused by delinquencies or losses on Microloans, which an Intermediary must maintain at a required level until it has repaid its loan to SBA.

2.20. Matching Funds- There are two types of matching funds:

Loan Match- An amount equal to 15% of the amount to be borrowed from SBA which must be in the form of cash, and deposited into either the Microloan Revolving Fund or the Loan Loss Reserve Fund prior to the disbursement of loan funds from SBA to the Intermediary. Cash for the Loan Match must be non-borrowed, non-Federal funds.

Grant Match- An amount equal to 25% of the grant amount which may be in the form of cash or in-kind contributions or a combination of both. Such matching funds will be required at the time a grant disbursement is requested. The cash contribution for the Grant match must be non-borrowed, non-Federal funds allocated specifically to the operation of the technical assistance project. Grant Match includes direct costs committed by the recipient organization to the extent that such costs are committed as

verified, specific line item direct costs. Grant Match does not include indirect costs, overhead costs, in-kind contributions or borrowed funds.

2.21. Microborrower- an individual or small business concern that borrows SBA Microloan Program funds from an Intermediary for the purpose of starting, continuing, or growing a business. Microborrowers must have legal status in the United States. Microborrowers are also subject to the general requirements for borrowers referenced in 13 CFR Part 120.

2.22. Microloan- a short-term (six years or less), fixed interest rate loan of not more than \$50,000 made by an Intermediary to an eligible small business.

2.23. Microloan Deposit Account Control Agreement – The agreement, formerly known as the Tri-partite Agreement, signed by the Intermediary, the Intermediary’s Insured Depository Institution, and SBA that perfects SBA’s security interest in the MRF and LLRF accounts.

2.24. Microloan Intermediary Application System (MIAS) - The web-enabled system through which an organization interested in applying to become an Intermediary submits initial application information and the Agency reviews initial application data.

2.25. Microloan Program Electronic Reporting System (MPERS) - The web-enabled system through which Intermediaries submit data and information regarding Program lending and technical assistance/training activities.

2.26. Microloan Program Participants- Intermediaries, Grantees, and Microborrowers

2.27. Microloan Revolving Fund (MRF) - An interest-bearing deposit account established at an Insured Depository Institution used by an Intermediary to receive SBA loan funds, fund Microloans, receive repayments from Microloan borrowers, and repay SBA.

2.28. Non-Federal Sources- Funds from sources other than the Federal Government that may include, but are not limited to, indirect costs and in-kind contributions paid for under non-Federal programs. Funds from Community Development Block Grants (CDBG) are considered non-Federal for purposes of the Microloan Program.

2.29. Non-Lending Technical Assistance Provider (NTAP) – a nonprofit entity that receives grant funds, but not loan funds, from SBA to provide marketing, management, and technical assistance to low-income individuals seeking to start or enlarge their own businesses and to help these individuals to obtain private sector financing of \$50,000 or less.

2.30. Notice Of Award (NOA) – the legal instrument by which SBA provides funding to recipients of TA grants. Also known as the grant agreement, the NOA consists of Standard Form

1222 and the program-specific terms and conditions attached to it, as well as any other documents which it incorporates by reference.

2.31. Option Period – an additional 12-month budget and project period under a TA grant that may be exercised at the discretion of SBA immediately following a grant recipient’s satisfactory completion of a base year or prior Option Period. Only grants to NTAPs may contain Option Periods.

2.32. Poverty Level- The level of income, in relation to household size, as determined by the Department of Health and Human Services, and published annually in the Federal Register.

2.33. Program Income- Gross income earned by a Grant recipient from federally supported activities. Such earnings exclude interest earned on advances and may include, but will not be limited to, income from service fees, sale of commodities, usage or rental fees, and royalties on patents and copyrights. Program income in this regard pertains only to grant funding.

2.34. Program Office- the Microenterprise Development Branch at SBA Headquarters.

2.35. Project Period – the period of time, usually one year, during which a grant recipient conducts activities under a TA grant.

2.36. Quarter- A three month period in accordance with the following dates:

Calendar Year Quarters	Federal Fiscal Year Quarters
January 1 - March 31	October 1 - December 31
April 1 - June 30	January 1 – March 31
July 1 – September 30	April 1 – June 30
October 1 – December 31	July 1 – September 30

2.37. Quasi-Governmental Economic Development Entity- A legal entity created by or associated with one or more state or local governmental entities that is organized as a non-profit entity to carry out commercial economic development projects.

2.38. Service Area - The geographic area in which SBA has approved the Intermediary to provide Microloan Program services. A client shall be considered inside an Intermediary’s service area if the primary physical address of the business is or will be in that service area. All service areas must be domestic in nature (within one or more States, as defined.)

2.39. Specialized Intermediary- An Intermediary that is eligible for a reduced interest rate and a bonus grant because it maintains a portfolio of Microloans averaging \$10,000 or less.

2.40. Start-up- A business which has been operating for two years or less.

2.41. State- Any of the 50 States of the United States of America (or the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, or American Samoa).

2.42. Technical Assistance (TA)- Counseling or training services provided to current or prospective Microborrowers under a TA grant. TA includes assistance in marketing, management, business counseling and training. Counseling may include giving advice, guidance, or instruction specifically tailored to an individual or a group of individuals associated with a single business. Topics must include information necessary to start, manage, market, and/or operate a small business. Information delivery media may vary and expand beyond person to person oral communication to include teleconferencing, electronic media, printed materials, or any like delivery mechanism provided it is effective in assisting clients to reach their training goals.

2.43. Training – advice, guidance, or instruction provided to groups of current or prospective Microborrowers, whether by in-person group sessions or by other modes of delivery such as teleconferences, videos, publications, electronic media, and the internet. Training may include teaching a group of individuals, not necessarily associated with a single business, in classroom or other public settings.

2.44. Year- There are several different definitions of year, as follows:

- a. Calendar Year- the period of time beginning on January 1 and ending at midnight on the following December 31.
- b. Federal Fiscal Year- the period of time beginning on October 1 and ending at midnight of the following September 30.
- c. Note Year- the period of time beginning on the date of the ratification of the Note and ending on midnight of the date preceding the date of the Note.

CHAPTER 3- PROGRAM IMPLEMENTATION

Sub-Chapter 3-A SELECTION OF MICROLOAN PROGRAM PARTICIPANTS

To be approved to participate as a Microloan Program Intermediary Lender (Intermediary), an applicant must be deemed both eligible to receive funding and qualified to administer the program. The eligibility determination and qualification process are based on the review of information submitted in the application for participation. District Office personnel may provide limited guidance on the application process and the eligibility criteria to applicants. However, they may not provide assistance in development of the application.

3.A.1. Eligibility to Participate as an Intermediary- Only those applications from organizations SBA deems eligible will be further reviewed for qualification. Throughout its participation in the Program, an Intermediary must remain eligible to participate. To be considered eligible, an applicant must meet each of the following requirements:

- a. At time of application, the applicant must have a minimum of one year of internal experience directly making and servicing short-term, fixed rate loans of not more than \$50,000 to startup, newly established, or growing small business concerns. The applicant must have directly funded the Microloans and not simply provided referrals to, or guarantees against, loans made by another entity.
- b. At time of application, the applicant must have at least one year of experience providing intensive marketing, management, and technical assistance, in house, to its Microborrowers. In-house TA refers to TA that is provided by the Applicant's own staff or contract staff, rather than by another organization. In-house TA can be provided on-site, remotely, by webinar, via the internet (when combined with one-on-one discussion) or by other means.
- c. The applicant must be one of the following types of organizations:
 - i. A private, nonprofit community development corporation or other private, nonprofit entity;
 - ii. A consortium of private, nonprofit organizations or nonprofit community development corporations (each member of the consortium must meet eligibility requirements in order for the consortium to be eligible);
 - iii. A quasi-governmental economic development entity (such as a planning and development district) other than a state, county, municipal government, or any agency thereof if-
 - A. No application is received from an eligible nonprofit organization, or
 - B. SBA determines that the needs of a region or geographic area are not adequately served by an existing, eligible nonprofit organization that has submitted an application, or
 - iv. An agency of or a nonprofit entity established by a Native American Tribal Government.
- d. The applicant must be located within the United States, including the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa.

3.A.2. Application Submission- Applicants must submit an application for participation as an Intermediary via hard copy or through the Microloan Intermediary Application System, accessed through SBA's General Login System (GLS).

In addition to the online application submission, Microloan Intermediary applicants must also submit the following forms to the Program Office:

- Copy of IRS tax-exempt certification;
- Certificate of Good Standing from the Secretary of State;
- Copy of Articles of Incorporation and By-laws, as amended. In reviewing the mission statement and Bylaws, SBA will evaluate the congruency of the applicant's goals and objectives with those of the Microloan Program. Applicants that provide assistance exclusively to certain groups may be required, as a condition of loan approval, to change their Bylaws in order to conform to fair-credit lending requirements.
- Organizational chart(s). The chart(s) should make clear each staff position integral to the operation and delivery of the Microloan Program (including any contractors) and delineate appropriate management control and oversight of those individuals. Applicant consortium charts should show both the organization of each member of the consortium and the interrelationship of the groups as members of the whole.
- Resume and signed SBA Form 1081 for each Officer, Director, and person key to the Applicant's lending and technical assistance operations. SBA will evaluate the responses on the Forms 1081 to determine if further background checks on any individuals are needed. SBA will analyze the resumes of the Officers, Board members, and key personnel for demonstration of knowledge, experience and commitment to small business lending.
- Loan policies and procedures. SBA will review these documents to ensure that the Applicant has sound underwriting, lending, and servicing requirements in place and to determine any organizational requirements regarding training and technical assistance for its clients.
- Signed SBA Form 1711, Certification Regarding Lobbying;
- Signed SBA Form 1623, Certification Regarding Debarment; and
- Signed SBA Form 160, Resolution of the Board of Directors.

SBA will use the information submitted in the application and the documents indicated above to determine whether the Applicant is eligible. Except for the IRS Tax Exempt Certificate which has no expiration date, all documents and forms submitted must be no more than 12 months old. Ineligible Applicants will be notified of the reasons for ineligibility and all materials submitted will be returned to the Applicant. Such Applicants are encouraged to re-apply after resolving the eligibility issues. Applications from eligible entities will undergo a qualification review.

3.A.3. Qualification Review- Only applications from eligible entities will be evaluated for qualification. As detailed further below, SBA will evaluate applications using four major qualification categories: (1) the applicant organization's strengths and weaknesses; (2) its history of providing Microloans and technical assistance; (3) the qualifications of its governing board,

officers, and key staff; and (4) its financial health. Regarding key staff, Applicants should have at least three full time staff members, including an Executive Director or its equivalent, who are not members of the Board of Directors. The existence of at least three staff members will indicate that the applicant is organizationally ready to operate under a system of checks and balances and that it will be able to continue operating in the event a staff person leaves. In addition, SBA recognizes that some intermediaries use contractors. When using contractors, the following guidelines will apply:

1. Back-room activities can be contracted out. This would include the printing of bills, utilizing a collection company for defaulted loans, and other such items that have no effect on the provision of loans or grants to microborrowers.
2. Intermediaries may choose to pay some staff as independent contractors as long as they are providing the same kind of services that staff would provide. However, independent contractors may not be used to substitute for an adequate full time staff of employees as described above.

Regarding the organization, Applicants should have a physical location that Microborrowers and potential Microborrowers can visit, at a minimum during normal business hours, and at which records can be stored and training can be provided.

Each eligible application will be scored and reviewed by Program Office staff. All applications are scored out of a total possible 100 points. Applicants that score at least one-half of the available points in each of the four categories and at least 80 total points are considered qualified and undergo a due diligence review.

QUALIFICATION	QUESTIONS	MAXIMUM AVAILABLE POINTS
Organization	Mission Statement, Geographic Area, and Lending Policies & Procedures	10 Points
History of Microlending & Technical Assistance	Lending History and Technical Assistance History matrices, includes demographics	30 Points
Personnel Resources	Board of Directors, Officers, and Key Personnel matrices and Loan Committee composition	20 Points
Financial Health	Key financial ratios, Audited financial statements, and Auditors'	40 Points

	Opinions	
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3.A.4. Due Diligence Review

Each application that meets the eligibility and qualification requirements will be reviewed by a Program Office Financial Analyst. The Analyst will review and validate all information submitted to ensure accuracy and validity. This review may include an inquiry to CAIVRS to ensure that the applicant does not have any delinquent debt to the Federal Government. Additionally, the Analyst will review information provided by the District Office responsible for the geographic area in which the intermediary applicant is located. The District Office will be asked to provide any knowledge of the applicant’s history of providing Microloans and technical assistance, whether the applicant has the capacity to deliver the proposed services and whether there is sufficient demand to support a Microloan program in the applicant’s service area.

3.A.5. Limitations on Selection and Funding of Intermediaries: Maximum Number of Intermediaries, Geographic Restrictions, and Funding Availability - In general, SBA will award funds based on the order in which applications are received. Selection and funding of Intermediaries is subject to the following limitations:

- a. Maximum Number of Intermediaries. The maximum number of Intermediaries that may participate in the program at any given time is 300.
- b. Geographic Limitations. During the first two quarters of each Fiscal Year, at least \$800,000 or 1/55 of new funds (whichever is less) will be made available for loans to Intermediaries in each state. An Intermediary’s state is determined based on its primary physical location, regardless of its Service Area. Any applications that cannot be funded during the first two quarters due to geographic limitations will be kept on file in the order they were received. Subject to the availability of funds, such applications will be funded during the third quarter.
- c. Quasi-governmental economic development entities. SBA will consider an application from a quasi-governmental economic development entity seeking to become an Intermediary only when it determines that program services for a particular geographic area would be best provided by such an organization.
- d. Funding Availability.
 - Preference for existing applicants: If the amount of requested loan funds from existing and new Intermediaries exceeds the amount of available funds, SBA will give preference to existing Intermediaries over new applicants in order to maintain continuity in the provision of Microloans.

- Preference for applicants in underserved locations: If the amount of requested loan funds from new Intermediaries exceeds the amount of available funds, SBA may choose to select a new intermediary in an underserved location, as determined by the Agency, over a new applicant in an area that is already served by one or more existing Intermediaries.
- SBA may choose to negotiate loan amounts.

3.A.6. Approval of Application- The Program Office Financial Analyst will consider the applicant's score, the District Office recommendation, due diligence information, and any applicable funding limitations to determine whether to recommend approval of an application and for what amount. The loan amount will be determined based on the applicant's requested loan amount and the Analyst's determination that the applicant can reasonably be expected to loan out the funds requested within a two year time frame. Reasonable expectations will be based on the historical lending patterns and the financial health of the applicant.

The recommendation will be submitted to the Program Office Chief, who will review all information and make the final decision whether to approve an application for participation as an Intermediary. Final approval will include a statement of the approved loan amount and any conditions that must be met prior to loan closing. An applicant that is not accepted will not be offered appeal rights. Rather, the materials submitted by unsuccessful applicants will be handled as follows:

- Applicants that are not eligible will be notified of the reasons and all materials submitted will be returned.
- Applicants that are eligible but not qualified will be notified and asked whether they want their materials returned so that they can apply at a later date, OR, whether they would prefer that their materials be retained in the Program Office for one year so that they can continue to submit information that will strengthen their applications.

Sub-Chapter 3-B. Terms of SBA Loans to Intermediary Lenders

3.B.1 Maximum Loan Amount- An Intermediary may not borrow more than \$750,000 in the first year of participation in the Microloan Program. After the first year, the maximum loan amount is \$1,250,000. An Intermediary's total outstanding Microloan Program debt must not exceed \$5 million.

3.B.2. Use of Proceeds - Proceeds of the loan shall be used for no other purposes than to make Microloans or to repay SBA.

3.B.3. Loan Maturity - Any loan made by SBA to an Intermediary under this program will have a maturity of ten years from the Note Date.

3.B.4. Accruing Interest- Interest on funds loaned to an Intermediary will begin to accrue at the time funds are disbursed by SBA. Interest will accrue only on funds which have been disbursed to the Intermediary.

3.B.5. Cost of Funds – The interest rate for a loan to an Intermediary is based on the rate applicable to five year obligations of the United States Treasury (5-year Treasury Bill Rate), adjusted to the nearest one-eighth of one percent. This Base Rate is then adjusted downward, based on the average size of Microloans made by the Intermediary during its participation in the Program as follows:

1. Rate discounted by 2% if the Intermediary maintains an historical portfolio of Microloans averaging \$10,000 or less (Specialized Intermediaries)
2. Rate discounted by 1.25% if the Intermediary maintains an historical portfolio of Microloans averaging more than \$10,000

The Base Rate, after adjustment, is the Intermediary's Cost of Funds. The Intermediary's Cost of Funds is calculated annually, beginning one year from the date of the Note. The Cost of Funds will be reviewed annually and adjusted as necessary in accordance with the anniversary date of the Note. This process is called "recasting." In the event of a disbursement that takes place after the initial deferral period, SBA will automatically recast the loan. At no time will an interest rate charged to an Intermediary be less than zero. An Intermediary may request a special recasting in the event of an early partial repayment.

Any change in the Cost of Funds will be applied to the total outstanding principal balance due SBA at the time of recalculation. SBA will notify the Intermediary in writing of the new monthly payment amount. Recalculations will only affect the interest rate going forward so that with the exception of the first year, a recalculated cost of funds will not be applied retroactively.

The Intermediary should contact its assigned Analyst in the event of a system error resulting in miscalculation of the proper Cost of Funds or monthly payment amount. If, upon review, SBA determines that payments were miscalculated, SBA will adjust the monthly payment amount. Any payments will be made up via increased payments to SBA; any overpayments will be applied to reduce the principal debt. SBA will not issue refunds for over-payments, unless the overpayment is made at the time of full payoff of debt.

3.B.6. Deferral Period- Repayment of the principal and interest on the SBA loan to the Intermediary is deferred for the first year. During the deferral period, interest will accrue on funds which have been disbursed. Because an Intermediary's Cost of Funds is based on the average size of its Microloans, SBA does not calculate the Cost of Funds until one year from the date of the Note. Therefore, the rate of interest accrued during the deferral period will be retroactively applied after the Cost of Funds has been determined. Following the initial twelve month deferral, the loan will fully amortize over the remaining nine years (108 months).

Interest accrued during the first year will be divided equally by 108 and added to the calculated payment over the remaining life of the loan.

3.B.7. Repayment by Intermediary to SBA - Monthly payments to SBA will begin on the 7th day of the thirteenth month after the Note Date. Payments will be withdrawn from the Microloan Revolving Fund through www.pay.gov.

In the event the payment cannot be automatically withdrawn from the MRF, or if the Intermediary wishes to make a prepayment, the Intermediary is required to mail a check, made payable to SBA, or make a pre-authorized debit payment through www.pay.gov. Checks should be mailed to:

US Small Business Administration
Microenterprise Development Branch
409 Third Street, SW
Washington, DC 20416

Timely payments are the responsibility of the Intermediary regardless of system errors or any other issue that causes a failure in notification of payments due. Failure by the Intermediary to make timely payments may cause the Agency to require a more frequent reporting schedule (monthly rather than quarterly), take enforcement actions, or result in a referral to the Office of the Inspector General or debarment from eligibility for Federal funding.

Pre-payment of any loan made to an Intermediary under this program will be accepted at any time without penalty. Prepayment of a loan does not guarantee that SBA will make a new loan to the Intermediary.

3.B.8. Collateral Requirements–

a. General: The full measure of collateral is made up of the cash available in the Microloan Revolving Fund (MRF), the cash available in the Loan Loss Reserve Fund (LLRF), and the total principal balance of outstanding SBA Microloans made by the Intermediary. At all times, the sum of the amount in the MRF, amount in the LLRF, and total principal amount of outstanding, performing, Microloans must equal 115% of the amount owed to SBA by the Intermediary. Therefore, if any part of the collateral fluctuates to the extent that the total collateral falls below 115% of the debt due to SBA, the Intermediary must inject cash into the MRF and/or LLRF accounts to ensure that the collateral is maintained at the required level.

b. MRF and LLRF:

Intermediaries should be careful to manage their funds so as not to exceed federal deposit insurance coverage. Deposited funds that are in excess of the federal deposit insurance coverage amounts are deposited at the Intermediary's risk. Intermediaries should ensure that their MRF

account(s) remain active and strive to maintain unused funds at levels equal to or lower than the FDIC limits. From time to time, LLRF funds may grow beyond Federal Insurance limits. When this occurs, the Intermediary should contact the Agency regarding the establishment of a second LLRF account, the withdrawal of extra LLRF funding, or another solution as deemed appropriate by the Agency.

If the value of the cash available in the MRF, the cash available in the LLRF, and the total principal balance of outstanding SBA Microloans is greater than 115% of the debt due to SBA, an Intermediary may request permission to withdraw excess funds from the MRF or LLRF. The Intermediary must submit a written request to the Program Office indicating the requested withdrawal amount and the reasons for the withdrawal. In deciding whether to allow the withdrawal, SBA will consider the Intermediary's portfolio performance and compliance with Microloan Program requirements, and any other factors that may impair the Intermediary's ability to repay its debt to SBA. SBA may, in its sole discretion, approve, deny, or place restrictions on any request for withdrawal of collateral.

c. Microloan Notes: A UCC financing statement (Form UCC-1) will be filed to perfect SBA's security interest in the Microloan notes. The Intermediary is responsible for covering the costs of filing, including any renewal filings. The Intermediary is also responsible for disaster safe storage of its Microloan notes. SBA may take physical possession of the Microloan notes at any time at its discretion. To protect SBA's security interest in the Microloan notes receivable, the following statement must appear on each Microloan note:

“This note has been pledged to the U.S. Small Business Administration (SBA) as collateral. Further assignment cannot be made without prior written consent of the SBA.”

Sub-Chapter 3-C.

Closing and Disbursement of SBA Loans to Intermediary Lenders

3.C.1. General Loan Closing Procedures- Upon approval of a loan to an Intermediary, the Program Office will notify the appropriate District Office and the Intermediary. Microloan Program Intermediary Loans are closed at the District Office level. Because not all District Offices have an attorney on staff, SBA will inform the Intermediary as to which District Office will perform the closing. The Program Office will provide the Intermediary and the appropriate District Office with closing instructions and documents. See paragraphs 3.C.5. and 3.C.6. for a list of required closing documents.

Loan closing must take place within 120 days of the date of loan approval. Failure of the Intermediary to close its loan from SBA in a timely manner may result in cancellation of the loan. SBA may, in its sole discretion, consider an extension of the closing date. A request for

extension of the closing date must be made in writing prior to the expiration of the initial closing period, and should clearly state the reason for the request. Because an extension is considered a modification of the Loan Authorization and Agreement (LAA), an SBA Form 327, “Modification or Administrative Action reflecting the modified date must be completed, executed, and maintained in the Intermediary file. Closing extensions are limited to thirty days.

3.C.2. Letter to the Intermediary- Upon approval of the Intermediary Loan, the Program Office will send a letter to the Intermediary with closing instructions and materials included (the Notice Letter). The letter informs the Intermediary of the loan approval, the amount approved, the Intermediary’s Service Area, and the requirement for closing the loan within 120 days of approval. The letter also provides closing instructions and a point of contact.

3.C.3. Closing Costs Incurred by the Intermediary- The Intermediary will be responsible for payment of the closing costs for the SBA loan. These include any lien and judgment search fees and Uniform Commercial Code (UCC) filing fees necessary to secure SBA’s lien position on the Microloan notes. Additionally, the Intermediary will be responsible for costs associated with the renewal of a UCC filing, which generally occurs when a filing reaches the age of five years.

3.C.4. Establishment of the MRF and LLRF Bank Accounts - Prior to closing, the Intermediary must establish its MRF and LLRF accounts in an Insured Depository Institution. The Insured Depository Institution in which the MRF and LLRF accounts are established must not be owned by, or affiliated with, the Intermediary. MRF and LLRF funds may be deposited to Federally-insured money market accounts provided the funds are liquid and can be accessed at any time without penalty. They may NOT be deposited to a “sweep” account, or any other investment instrument that exposes the funds to risk. Because they must remain liquid, MRF or LLRF funds may not be deposited to one or more Certificates of Deposit or other accounts that may cause the funds to become unavailable. An Intermediary must establish new MRF and LLRF accounts for each subsequent loan it receives from SBA. (Intermediaries with SBA loans that currently share MRF and LLRF accounts may continue to share those accounts until the loans are paid in full.)

The Intermediary will enter into a Microloan Deposit Account Control Agreement with SBA and the Insured Depository Institution (formerly known as the Tri-partite Agreement). This agreement perfects the Agency’s security interest in the MRF and the LLRF accounts. Under the Microloan Deposit Account Control Agreement, SBA has the right to freeze the Intermediary’s MRF and LLRF accounts, at its discretion, if SBA determines that the Intermediary’s actions may increase SBA’s financial risk. In the event the Intermediary defaults on its obligations to SBA, goes out of business, or chooses to cease participation in the Microloan Program, SBA has the right to any and all proceeds in the MRF and LLRF accounts up to the amount due to the Agency under the Microloan Program.

3.C.5. SBA District Office Loan Closing Responsibilities- The Intermediary loan will be closed in the District Office within 120 of the loan approval date. The entire closing package will be returned to the Program Office via overnight mail after all documents are properly signed and recorded as necessary.

The closing package sent by the Program Office to the District Office will include:

- a. A copy of the LAA.
- b. A copy of the Notice Letter to the Intermediary
- c. A copy of the Intermediary Loan Closing Checklist.
- d. A copy of each of the documents referred to in the Loan Closing Checklist and in this SOP, except the Microloan Deposit Account Control Agreement, the Opinion of District Office Counsel, SF 3881 (ACH Vendor/Miscellaneous Payment Enrollment Form) and SF 5510 (Authorization Agreement for Preauthorized Payments).

The SBA District Counsel is responsible for ensuring that the loan is properly closed in accordance with state requirements and using the forms as listed on the Loan Closing Checklist. In addition, the District Counsel must provide a letter indicating that the loan has been closed in accordance with local requirements. The SF 3881 and the SF 5510 are to be completed by the Intermediary and its Insured Depository Institution and returned to the Program Office for completion of the SBA section by the District Counsel.

SBA will take security interests in both the MRF and the LLRF accounts and in the Microloan notes. The District Counsel will prepare the Microloan Deposit Account Control Agreement for execution by the Intermediary, the District Director, and the Insured Depository Institution where the MRF and LLRF accounts are located. The District Counsel will consult with the Office of General Counsel as necessary to make any appropriate changes to the Microloan Deposit Account Control Agreement.

The SBA District Counsel will also prepare and file a UCC financing statement (Form UCC-1) to perfect SBA's security interest in the Microloan notes. The Intermediary is responsible for covering the costs of filing, including renewal filings.

3.C.6. Closing Documents- The closing documents, also listed on the Loan Closing Checklist, are described below.

- SBA Form 349MR, "Loan Authorization and Agreement" (LAA) - Executed by the Program Office Chief upon approval of the SBA loan, and executed and delivered by the Intermediary at closing.
- SBA Form 147M, "Note" - Executed by the Intermediary and delivered at closing.

- SBA Form 1059, “Security Agreement”- Prepared by District Counsel, executed by the Intermediary and delivered at closing.
- Microloan Deposit Account Control Agreement- Executed by the District Director or his/her designee, the Intermediary, and the Intermediary’s Insured Depository Institution.
- SBA Form 160 Resolution of the Board of Directors- provides evidence that the Board of Directors is in agreement with participation in the Program, entering into debt for the Program, and operating under Program terms and conditions
- Opinion of District Office Closing Counsel – A letter, written and executed by District Counsel, indicating that the loan has been closed in accordance with the laws of the State and that the MRF and LLRF are properly secured. The letter is shipped to the Program Office as a part of the closing package.
- Standard Form 3881, “ACH Vendor/Miscellaneous Payment Enrollment Form” – This form facilitates SBA’s loan disbursements to the Intermediary’s MRF. SBA will complete the top section of the form and forward it to the Intermediary to be completed by the Intermediary and the Insured Depository Institution housing the MRF account. The completed form is to be returned to the Program Office by the District Office as a part of the closing package.
- Standard Form 5510, “Authorization Agreement for Preauthorized Payments – This form authorizes and facilitates automated loan payments from the Intermediary’s MRF to SBA. The Intermediary will complete and sign the top portion of the form. The bottom half is completed and signed by the Insured Depository Institution housing the MRF account. The completed form is to be returned to the Program Office, by the District Office, as a part of the closing package.

3.C.7. Closing Package Returned to Program Office – After closing, the SBA District Office will return the Loan Closing Checklist, along with all required documents, to the Program Office. The Checklist must be signed and dated by the SBA District Counsel.

Upon receipt of the closing package by the Program Office, copies will be made of all of the closing documents. An SBA Form 649, “Listing Collateral Documents,” will be completed listing the following original Intermediary Loan closing documents:

- Original LAA
- Original Note, noting the amount and the execution date
- Original Security Agreement, noting the execution date
- Original Microloan Deposit Account Control Agreement pertaining to the MRF and LLRF Accounts and noting the execution date.
- Original Resolution of the Intermediary’s Board of Directors
- SF 5510 for LLRF
- SF 3881 and 5510 for MRF

The SBA Form 649, along with the originals of the documents listed, will be delivered to the SBA Collateral Cashier, who will verify receipt by dating and signing the SBA Form 649. The executed SBA Form 649 and copies of all the Intermediary Loan closing documents will be placed in the Intermediary Working File in the Program Office.

3.C.8. Enrollment of Intermediaries in the ACH Disbursement System – After the Intermediary loan closing has been completed, the Program Office will enroll the Intermediary in the PMDI00, or any successor system, using information from the SF3881 MRF Automated Clearing House System (ACH) form. This step is required before the loan disbursement can be scheduled. Scheduling is accomplished using SBA form 1416 which is an internal form that facilitates communication between the Denver Finance Center and the Program Office.

Enrollment of the Intermediary must be performed by a Program Office Analyst other than the Analyst responsible for servicing the new Intermediary's portfolio. The Analyst who enrolls the new Intermediary is not allowed to disburse funds to that Intermediary. The Agency loan enrollment, disbursement and accounting systems will automatically disallow this.

To enroll the Intermediary, the enrolling analyst accesses the PMDI00 System, enters information regarding the Intermediary, and enters MRF account data from information provided on the SF3881, including the Routing Transit Number. The enrollment must then be verified by a different Analyst in the Program Office who will service the Intermediary lender. For check and balance purposes, these two people should not be the same.

3.C.9. Entering the Intermediary into the Agency Systems- After approval of the Intermediary application, the Program Office will retain the application package in accordance with Federal record retention requirements. Intermediary Lender and loan information will be entered into the ETRAN, PIMS and/or successor system(s).

- a. The Analyst will complete the Partner Information Management System (PIMS) Form to assign an eight digit Intermediary Lender Number and deliver the PIMS Form to the appropriate staff for entry of the information into PIMS. (Note that for an existing Intermediary, the Intermediary Lender Number will already exist so this step will not be necessary.)
- b. Once the Intermediary Lender information is entered into PIMS, the Analyst will use ETRAN to generate the Intermediary Loan Number.
- c. Upon generation of the Loan Number, the Analyst will generate the Intermediary Loan closing documents by accessing the Microloan Closing System.
- d. The Program Office Chief will approve the Intermediary Loan closing documents and execute the Loan Authorization and Agreement (LAA). The Intermediary Loan is approved when the Program Office Chief signs the LAA.

3.C.10. Loan Match Requirement- Each Intermediary must deposit a 15% cash Loan Match into either the MRF or the LLRF prior to the disbursement of loan funds from SBA to the Intermediary. The Intermediary may deposit the full match amount for the entire SBA loan amount before the initial disbursement or it may deposit 15% of the disbursement amount prior to each disbursement. Matching funds must be from non-Federal sources and must not be borrowed. For the purposes of the Microloan Program, Community Development Block Grant (CDBG) funds are considered to be from non-Federal sources. Matching funds may include an Intermediary's retained earnings.

3.C.11. Limits on Loan Disbursements- SBA will disburse only up to 35% of the initial loan amount as the first disbursement. The first disbursement on subsequent SBA loans is not subject to the 35% limit. Subsequent disbursements will be made on an as needed basis. The disbursement amount requested must be based on the anticipated lending needs of the Intermediary. Intermediaries should anticipate loan fund needs in advance and request funds no more often than quarterly. SBA will not disburse loan funds on a Microloan by Microloan basis. With the exception of the first disbursement to an Intermediary, no loan disbursements will be made to an Intermediary unless it has utilized at least 75% of its previously disbursed funds to make Microloans, or it has less than six months' worth of debt service coverage, in a MRF that has been fully loaned out, from which to make new microloan.

Subsequent disbursements may also be withheld if the Intermediary fails to comply with Microloan Program requirements, such as collateral or reporting requirements, or does not demonstrate acceptable portfolio performance.

3.C.12. Limit on Disbursement Period- Disbursements on a loan of \$750,000 or less from SBA to the Intermediary will be made within twenty-four (24) months of the Note Date. Disbursements on a loan of more than \$750,000 from SBA to the Intermediary will be made within thirty-six (36) months of the Note Date. Funds not requested by the deadline may be de-obligated unless the Intermediary has requested an extension. Additionally, Intermediaries that fail to draw down the entire loan amount may be subject to reduced loan amounts on future loan requests.

To request an extension of the disbursement period, the Intermediary must submit a written request at least 30 days in advance of the expiration date. The request must include a written explanation of the need for the extension explaining how the Intermediary plans to use the remaining funds. SBA reserves the right to deny any request for an extension. Any disbursement made after the 12 month deferral period will result in a recalculation of the monthly payment amount to reflect the increase in loan principal balance. This will not alter the maturity date of the loan.

3.C.13. Disbursement Process- The initial disbursement of loan funds to the Intermediary will be made as soon as possible after receipt of a satisfactory loan closing package by the Program

Office from the District Office handling the closing. When determining the amount of a disbursement request, the Intermediary should anticipate its microlending needs (pipeline) in advance and request a disbursement that will cover its needs for a minimum of three months (one quarter).

To request a disbursement of loan funds, the Intermediary must send a written request to its assigned Program Office Analyst. E-mail is an appropriate substitute for a formal letter of request provided it comes from an authorized person on the Intermediary Staff, generally the Executive Director, the Director of Lending, or the finance officer. The Intermediary's request must specify the amount requested and must include the following:

- (1) Evidence of the Intermediary's 15% Loan Match deposit to the MRF or LLRF. Any request by an Intermediary for a disbursement from SBA must be accompanied by account statements and deposit slips from the applicable Insured Depository Institution demonstrating that the required match has been deposited to the MRF or LLRF.
- (2) Evidence of Need for Funds- Anticipated Pipeline. The request for disbursement must indicate the current and anticipated pipeline for use of loan funds.

Upon receipt of the disbursement request, the Program Office will assess the Intermediary's pipeline demands, available funds, portfolio performance and compliance with Microloan Program Requirements. The Program Office will notify the Intermediary in writing whether the disbursement request is approved. If the disbursement request is approved, SBA loan proceeds will be disbursed to the Intermediary through direct deposit to the MRF account. If the disbursement request is not approved, the Program Office will notify the Intermediary in writing of the reasons and contact the Intermediary to discuss.

3.C.14. Disbursement Instructions – Upon determination that a disbursement is appropriate, the Analyst will complete the “Disbursement Instructions” (See Appendix).

The disbursement of loan funds to the Intermediary is electronically managed through the use of SBA Form 1416 (Loan Disbursement/Closing). The assigned Analyst will generate a Form 1416 and a Control Number by accessing the LAB000 system (or successor system), entering the required loan and disbursement information, and printing the 1416. The Analyst will recommend disbursement by initialing and dating the Disbursement Instructions and signing and dating the SBA Form 1416. The Disbursement Instructions and 1416 will be forwarded to the Program Office Chief, who will approve the disbursement by initialing and dating the Disbursement Instructions and signing the 1416.

The Program Office will send a signed copy of the SBA Form 1416 to the Administrative Accounting Branch at the Denver Finance Center, which will order a wire transfer of funds from the Department of Treasury. The wire transfer will be deposited to the MRF.

3.C.15. Intermediary Requests for Supplemental Loans – SBA will consider additional loans to Intermediaries (Supplemental Loans) as warranted by the Intermediary’s needs and by its performance as an SBA Intermediary.

Upon receipt of the final disbursement of a loan from SBA, an Intermediary may apply for another loan, provided that the supplemental loan would not cause the Intermediary’s total outstanding Microloan Program debt to exceed \$5 million. The Intermediary should send written notification to the appropriate Financial Analyst stating the amount of the request and justifying the need. Such loan applications will be reviewed as soon as possible after receipt. The review will include a financial analysis of the Intermediary’s Microloan Program portfolio, collateral, MRF and LLRF; lending performance to date; compliance with Microloan Program Requirements to date; the amount of the loan request in relation to the Intermediary’s capacity to loan the funds over a reasonable amount of time. If the Intermediary is not performing satisfactorily, is under collateralized, unable to efficiently utilize the loan funds, or has not loaned out at least 75% of its most recent SBA loan, the request may be denied.

The Financial Analyst will consider the information described above and any applicable funding limitations (see paragraph 3.A.5.) to determine whether to recommend approval of the supplemental loan request and for what amount. The loan amount will be determined based on the applicant’s requested loan amount and the Analyst’s determination that the applicant can reasonably be expected to loan out the funds requested within a two year time frame. Reasonable expectations will be based on the historical lending patterns and the financial health of the applicant.

The recommendation will be submitted to the Program Office Chief, who will review all information and make the final decision whether to approve the supplemental loan request. If the loan is approved, it will be closed following the same procedures outlined above in paragraphs 3.C.1 through 3.C.7. Note that the Intermediary must establish a new MRF and LLRF for each supplemental loan. If the supplemental loan request is denied, the Analyst will notify the Intermediary of the reasons.

Sub-Chapter 3.D. Program Operational Requirements for Intermediaries

3.D.1. Intermediary Responsibilities

Intermediaries have two overriding responsibilities under this program. First, an Intermediary must use the funds borrowed from the SBA exclusively to provide Microloans to those small and

micro businesses the Intermediary deems qualified to borrow, manage and repay a loan. Second, Intermediaries must provide an integrated program of business and technical assistance for their Microborrowers and potential Microborrowers.

Microloans are often successful due to the mentoring/lending relationship between the Intermediary and the business client. Such clients may be new to self-employment, unaccustomed to the requirements of debt repayment, and in need of basic business skills. A strong Technical Assistance program will increase the probability of Microborrower success and help ensure a healthy loan repayment rate. An Intermediary must put forth and document a good faith effort to provide Technical Assistance to each Microborrower. SBA recognizes that in some instances a client may abandon its business aspirations or become unresponsive to an Intermediary's efforts. Under such circumstances, an Intermediary must document its efforts to follow-up with a Microborrower in the loan file. Such documentation may include, for example, copies of communications to the client encouraging it to participate in Technical Assistance opportunities being provided by the Intermediary.

3.D.2. Service Area- Each Intermediary will operate within its assigned Service Area. The Service Area assigned to the Intermediary will be indicated in the initial letter of acceptance into the program. The Intermediary should not operate outside of its Service Area without prior written authorization from the Program Office. Any modification of the Service Area must be approved in writing at the Microloan Program office. The Program Office will consider the effect of the expansion on any other Intermediary already serving the requested area, the availability of Microloans (if any) in the requested area, and whether the area is already saturated with lenders. The Program Office Chief may call the District Director to discuss the expansion and gain further understanding of the probable effects of the proposed expansion. In highly contentious situations, the Director of the Office of Financial Assistance will have final decision making authority as to whether lending territories will be allowed to overlap.

An Intermediary may not operate in more than one state unless the Program Office has approved the Intermediary for a multi-state Service Area. With any request for a Service Area of non-contiguous states, the Program Office must be satisfied that:

- a. the Intermediary's current market is being adequately serviced
- b. the proposed new Service Area is underserved, and
- c. the Intermediary has the organizational structure, capacity, and expertise to effectively deliver Microloans and technical assistance to the proposed area.

3.D.3. Microloan Revolving Fund (MRF) –The MRF is to be used only for the following purposes:

- To receive funds from SBA;
- To make payments to SBA;

- To disburse Microloans;
- To receive Microloan repayments; and
- To fund the LLRF (Intermediaries may choose to deposit matching funds into the MRF or directly into the LLRF. When the match is deposited to the MRF, funds may be transferred to the LLRF each time a Microloan is made. When the match is deposited to the LLRF this is not necessary).

All microlending activity should be managed through the MRF. An Intermediary that uses an operating account or general fund to collect payments for its organization may request permission from SBA to utilize the operating account for deposit of SBA Microloan payments. All SBA Microloan payments must be transferred from the operating account to the MRF within two weeks (10 working days) of receipt or by the end of the quarter, whichever occurs first. SBA reserves the right to revoke permission to use an operating account if an Intermediary fails to transfer the SBA Microloan payments to the MRF in a timely manner.

3.D.4. Loan Loss Reserve Fund (LLRF) –The LLRF will be used to pay any shortage in the MRF caused by delinquencies or losses on Microloans. The LLRF is considered to be collateral against the debt owed to SBA. In the event of failure on the part of the Intermediary, SBA may use all or part of the LLRF to repay the Intermediary’s debt to the Agency.

The LLRF must be maintained in an amount equal to at least fifteen percent (15%) of the outstanding balance of Microloans owed to the Intermediary under the corresponding loan from SBA, unless the Intermediary has been granted a reduction in the reserve requirement.

At any time after 5 years of participation in the Microloan Program, an Intermediary may request a reduction in the required LLRF amount from 15% of the outstanding Microloans owed to 10% of the outstanding Microloans owed provided the Intermediary’s five-year average default rate is less than 10%. When reviewing such a request, SBA will consider such factors as the pre-recovery loss rate, the continued ability to repay debt to the Agency, the level of collateral on debt to the Agency, and general compliance with program requirements. Permission for a reduction in the LLRF requirement is not necessarily permanent. SBA will review the Intermediary’s performance on a quarterly basis and reserves the right to restore the LLRF requirement to the 15% level based on the results of the quarterly review. A reduction in the amount required in the LLRF does not constitute a reduction in the collateral requirement. Rather, a reduction in the LLRF requirement frees funding for increased microlending.

The Intermediary may use its Loan Match funds to fund the LLRF. The Intermediary must maintain the LLRF in the required amount until it has fully repaid its loan to SBA. Deposits may be made to the LLRF at any time. All deposits will become a part of the LLRF and may not be withdrawn from the LLRF except under the following circumstances:

A. In the event of a Microloan default: Any Microloan with an uncured loan payment of 120 days (or more) is considered to be in default and must be charged off before the next set of quarterly reports is due. When the Microloan is charged off, the amount of the outstanding principal balance of the defaulted Microloan must be transferred from the LLRF to the MRF. If the replenishment of the MRF by the LLRF causes the LLRF to fall below 15% of the remaining outstanding Microloan portfolio balance (or 10% if the Intermediary's requirement has been reduced), the Intermediary must raise additional non-borrowed, non-Federal funds to bring the LLRF up to the appropriate amount before the end of the following quarter.

B. In the event the LLRF is over funded, the Intermediary may send a letter of request to the Program Office seeking specific authorization to withdraw funds from the account. SBA will review the Intermediary's program performance, financial position, repayment capacity, and collateral position to determine whether such a withdrawal may be approved. A withdrawal will not be allowed if it would cause the collateral to fall below 115% of the debt owed to the Agency, or if it would cause the LLRF to fall below 15% of the outstanding balance of performing Microloans made by the Intermediary.

3.D.5. Training- SBA will provide program based training opportunities for Program participants at various times throughout each calendar year. It is expected that when the training is deemed mandatory, at least one of each Intermediary's staff members will attend. Based on the type of training, this should include at least one person other than the Executive Director. Generally, the Intermediary may include, in its grant budget, the cost of up to two people from its organization attending SBA Microloan Program training.

3.D.6. Notification of Changes- The Intermediary should notify SBA in advance of the following changes:

- a. Mergers involving an SBA Intermediary: Because any merger involving an Intermediary may affect the eligibility and/or ability of the entity to participate in the Microloan Program, SBA should be consulted prior to any merger. A merger may cause SBA to require a new Microloan Deposit Account Control Agreement for the MRF and LLRF accounts or other documentation to ensure continued Program delivery.
- b. Significant changes affecting the MRF or LLRF accounts, such as moving the accounts to a different Insured Depository Institution or opening additional MRF or LLRF accounts for insurance purposes. Such actions may require modifications to the Microloan Deposit Account Control Agreement.
- c. Changes in the Intermediary's address, telephone number, officers, directors, professional staff, bylaws, or articles of incorporation. Note that a Statement of Personal History (SBA Form 1081) must be submitted to the Program Office for any new officer, director, or professional staff member.

Name changes should be submitted to the Program Office upon filing of the Amended Articles of Incorporation.

3.D.7. Voluntary Separation from the Program - At any time, an Intermediary may choose to terminate its Microloan Program participation. The following steps should be taken:

A. When the Intermediary will leave the program but remain in business: The Intermediary must submit written notification to the Agency regarding its intent to terminate its participation. SBA will review the notification and determine the total outstanding debt owed to the Agency by the Intermediary. A payoff amount will be provided to the Intermediary by SBA. SBA will also determine the amount of funding available in the MRF and LLRF accounts so that those funds can be applied to the debt.

The Intermediary will pay, in full, the balance of debt owed to SBA. The Intermediary will continue to service Microloans made by the Intermediary under the program. Once the debt to the Agency is paid in full, SBA will release its liens on the MRF, LLRF, and the Microloan notes. Any grant funds already obligated for use by the Intermediary may continue to be used for the provision of technical assistance to existing Microborrowers. However, no new grants will be awarded once the Intermediary's debt has been paid in full. Intermediaries voluntarily leaving the program and paying their debts in full may re-apply for participation in the future.

B. When the Intermediary will leave the program and go out of business: The Intermediary must notify the Agency, in writing, as soon as the decision to go out of business is made. Upon notification, SBA will invoke its liens on the MRF, LLRF, and Microloan notes. SBA will apply the funds from the MRF and LLRF accounts to the Intermediary's outstanding debt.

- If the amount in the accounts pays off the debt, SBA will release its liens on the Microloan notes. The Intermediary will dispose of the notes at its discretion.
- If the amount in the accounts does not pay off the debt, the Intermediary may request to sell its Microloan notes, at either at par or for the amount of debt owed to SBA, whichever is less, to another Intermediary and apply the proceeds to the debt owed SBA. If the Intermediary chooses not to sell its Microloan notes, SBA will take possession of all Microloan notes outstanding. The notes will be retrieved by the SBA District Office, and sent to the appropriate SBA Loan Servicing Center (The Center). The Center will set up each Microborrower with a note receivable and will collect the debt directly from the Microborrower.

3.D.8. Final SBA Loan Payoff by Intermediary— Upon payoff of an SBA Loan by an Intermediary, SBA shall release its security interest in the MRF and LLRF accounts (unless the accounts are actively being shared by another SBA loan that has a balance). The liens on the

notes for the Microloans made under the paid loan will be released only if there is adequate collateral remaining available against Program debt owed to the Agency. If, after payoff, the Intermediary will have additional Program debt to the Agency, it may request that the Microloan notes originally associated with the paid-in-full loan be re-associated with an existing SBA loan in order to strengthen the collateral for the existing loan. Re-association will not change the terms or conditions of the re-associated Microloan notes. The Intermediary must continue to report on each re-associated Microloan until the Microloan has either been paid in full or charged off, or until the SBA loan has been paid in full.

An Intermediary shall be considered to have left the Microloan Program six months after final payoff of all Program debt to SBA. An Intermediary that leaves the Program must reapply as a new Intermediary in order to receive any additional Microloan Program loans from SBA.

Sub-Chapter 3-E. Grants from SBA to the Intermediary for the Provision of Training and Technical Assistance

This Sub-Chapter provides comprehensive guidance for the issuance and administration of Microloan Program Technical Assistance (TA) grants.

3.E.1. General Guidelines- SBA is authorized to provide grants to both Intermediaries and non-lending technical assistance providers (NTAPs) for the purpose of providing intensive marketing, management, and technical assistance to small businesses that are borrowers or prospective borrowers under the Agency's Microloan Program. The NTAP sub-program has not been active since 2005.

Intermediaries must use their TA grant funds to deliver ongoing training to their Microborrowers, including training and counseling on topics such as business formation; pro forma financial/breakeven planning/analysis; marketing; bookkeeping and accounting; basic tax, licensing and legal requirements; and personnel/labor issues. TA services, and their method of delivery, are not universal. The effectiveness of any single approach to providing technical assistance, or any combination of approaches, may differ from one community to the next. As such, SBA allows each grant recipient to determine the best approach for assisting its clients. Each Intermediary will be expected to document, in the loan/client file, the individual TA needs of each Microborrower/client.

Intermediaries are restricted by law from using more than 25 percent of their grant funds to provide TA to prospective Microborrowers. Therefore, Intermediaries should develop partnerships with other SBA funded TA providers, such as Women's Business Centers, Veteran's Business Centers, Small Business Development Centers, SCORE Chapters, and PRIME recipients to assist with pre-loan TA.

Grant recipients must administer and expend TA grant funds, including Grant Match funds, in accordance with the applicable OMB cost principles and administrative requirements. The rules regarding the administration and expenditure of grant funds may be found in the Office of Management and Budget (OMB) Circulars covering cost principles (2 C.F.R. Parts 220, 225,

and 230) and administrative requirements (2 C.F.R. Part 215), as well as in 13 C.F.R. Part 143. In general, this means that all grant expenses must be allowable, allocable, and reasonable. With the exception of approved indirect costs, all costs claimed under a TA grant must be directly related to the provision of Technical Assistance to prospective and actual Microborrowers. Grant recipients seeking to claim indirect costs (e.g., general administrative costs, overhead, etc.) must either have a current approved indirect cost rate agreement or negotiate an indirect cost rate with SBA. In no event will SBA allow a TA grant recipient to allocate more than 25 percent of its grant funds to indirect costs, regardless of whether it has a higher negotiated rate with another Agency. SBA allows Intermediaries to include the cost of an A-133 audit (also known as a Single Audit) as an indirect cost if the A-133 audit is required as a result of the Intermediary's participation in the Microloan Program.

3.E.2. Types of Intermediary Grants - SBA is authorized to make two categories of grants to Intermediaries for the purpose of aiding them in providing TA to their borrowers.

1. Standard Grants - An Intermediary is eligible to receive a standard grant if it:

- A. has outstanding balances on SBA Intermediary loans;
- B. continues to meet the requirements for participation in the Microloan Program;
- C. has a satisfactory record of performance (including meeting the minimum loan production requirements); and
- D. is otherwise in good standing with SBA.

The maximum amount of standard TA grant funding an Intermediary may receive will vary from year to year based upon the availability of funds and will be determined in accordance with the procedures outlined in paragraph 3.E.4. However, in no event will an Intermediary receive a standard grant in an amount greater than 25 percent of the debt it owes to SBA under this program.

2. Bonus grants for certain Intermediaries. In addition to standard grants, Intermediaries will be eligible to receive a Bonus grant, in an amount equal to 5 percent of the balance of Microloan Program debt owed to SBA if:

- A. 25 percent or more of its Microloans are made to small business concerns located in or owned by one or more residents of an Economically Distressed Area, as defined; or
- B. Its portfolio of Microloans averages \$10,000 or less (i.e., it is a Specialized Intermediary).

Following the end of the Federal fiscal year, at the time SBA calculates annual Microloan Program grant amounts, SBA will use MPERS data to calculate the average size of an Intermediary's Microloan portfolio in order to determine whether the Intermediary qualifies as a Specialized Intermediary and is thus eligible for a bonus grant. Bonus grants do not require a

Grant Match

3.E.3. Grant Funding Levels - The amount of TA grant funding made available to SBA varies from year to year and is dependent on annual Congressional appropriations. Thus the maximum authorized standard grant percentage (25 percent of the amount owed to SBA under the Microloan Program) may not be available in every year. Regardless of the amount of TA grant funding received from SBA, each Intermediary is required to provide the appropriate level of TA to its portfolio of Microborrowers

Because grants are awarded to Intermediaries as a percentage of Microloan Program debt owed to the Agency, SBA may award a TA grant to a new Intermediary, but will not disburse grant funds until that Intermediary receives a loan disbursement.

3.E.4 Allocation of Grant Funds - Each year, the Program Office will calculate the amount of each standard grant based on each Intermediary's outstanding debt to SBA and the availability of funds. It will also consider loan making activity. The amount needed to cover bonus grants to Intermediaries attaining a mean average Microloan amount of \$10,000 or less will be calculated first. Then, the range of grant funding available to Intermediaries for standard grants will be calculated. SBA will strive to make grant awards that are at least equal to 15% of each Intermediary's outstanding debt to the Agency.

Loan production data must be complete in order to properly calculate bonus and standard grants. Such data will be obtained via MPERS. As such, it is crucial that all Microloans made during a fiscal year be entered into MPERS by the Intermediary within 7 days of the end of the Federal Fiscal Year. Loan production numbers will be taken directly from MPERS and only Microloans reported through that system, by midnight, October 7 of each year will be considered when determining an Intermediary's production.

Intermediaries reporting a higher number of Microloans may receive a higher percentage of grant funds per outstanding loan balance than those reporting a smaller number of new Microloans.

Once the available grant amount for each Intermediary has been determined, the Program Office will inform each Intermediary of the specific dollar amount of grant funding the Agency anticipates it will be eligible to receive and how to submit its application and budget information. Each Intermediary must then respond to that notification in writing declaring its intention to either apply for, or decline, all or part of the TA grant for that year.

3.E.5. Submission and Review of Grant Applications and Award of Grant Funds - The Office of Grants Management (OGM) will post a Program Announcement for Microloan Program grantees only, along with forms, on Grants.gov. Because Program grants are only available to Intermediaries and are non-competitive in nature, the Program Announcement will be published as a private announcement which will typically be open for a limited period.

Intermediaries must submit their Grant application packages via Grants.gov in accordance with the Program Announcement. Items to be included in the Grant application package will be specified in Grants.gov.

In order to submit an initial Grant application, an Intermediary must first obtain a DUNS number from Dun & Bradstreet and register with the Central Contractor Registry (CCR).

All applications and required documents must be submitted no later than the due date designated in the Program Announcement. Any application packages submitted after that date will be automatically rejected by Grants.gov and those organizations may be ineligible to receive a grant. As such, unused funding may be awarded to other entities. Applications missing any of the required documents will be considered incomplete and rejected.

Upon closing of the Program Announcement, OGM will download all grant applications submitted on a timely basis from Grants.gov and forward them to the Program Office for review. The Program Office will verify the amount of funding requested against the amount allocated to the Intermediary. The Program Office will also verify that activities stated in the submission are eligible for funding. The Program Office will not attempt budget negotiations beyond verifying eligibility. OGM will complete budget negotiations. In any given year, when the amount requested or planned activities do not meet the appropriate standard, SBA may afford the Intermediary the opportunity to correct its application. However, it will not re-open the application deadline.

3.E.6. Award of Grant Funds- Upon receipt of the Approval List, OGM will prepare an SBA Form 1222, "Notice of Award" (NOA). OGM will obligate the grant funds and send an Agency signed copy of the NOA to the Intermediary. The Intermediary MUST countersign and return the NOA to OGM. OGM will forward a copy of the countersigned NOA to the Program Office. Only then will the Program Office be able to process grant payment requests. SBA will not consider a request for reimbursement until the Agency receives the countersigned NOA from the grantee.

3.E.7. Grant Match- Grant Match must be derived solely from non-Federal, non-borrowed sources. For purposes of the Microloan Program, Department of Housing and Urban Development Community Development Block Grant (CDBG) funds are non-federal and may be used as matching funds. Grant Match may take the form of cash, in-kind contributions, or indirect costs. The prohibition against using borrowed funds as match includes "refundable" grants (i.e., grants that must ultimately be repaid and are therefore considered by SBA to constitute borrowed funds).

Acceptable sources of Grant Match include funds pledged by the grant recipient itself, its parent entity, and its affiliates; as well as donations from outside sources. Grant Match sources may also provide in-kind contributions to the Intermediary, including volunteer time and donated equipment, publications, software or space.

A grant recipient must fully document all Grant Match it provides against the grant (e.g., cancelled checks, letters of donation, etc.). For each contribution, a grant recipient must maintain documentation identifying the name and phone number of the donor/grantor, the amount/value (along with the basis for valuation), the intended purpose and any requirements, restrictions or stipulations. Grant Match funds do not need to be maintained in a separate account, but they must be clearly traceable via an audit trail. SBA does not require that all Grant

Match funds be available at the time of Application. It will, however, withhold payment of advances or reimbursements unless documentation that Grant Matching funds have been expended is received with a request for payment.

3.E.8. Special Conditions and Restrictions

1. Newly selected Intermediaries.
 - a. For Grant purposes, an Intermediary will be considered newly selected if it is accepted for Program participation after the closing date for grant applications in the current grant year.

Because eligibility for TA grant funding is founded in part upon an Intermediary's Program debt, a newly selected Intermediary will be eligible to receive not more than \$50,000 in grant funds during its initial year of participation, or the maximum allowable standard grant that year based on the loan amount, whichever is less.

- b. No grant disbursements will be made until loan funds have been disbursed to the Intermediary. In the case of partial loan disbursement, grant funds will be disbursed as a ratio of the actual loan debt.
 - c. Any Intermediary that is newly selected after grant funds have been awarded for the year will have to wait until the next annual round of grant funding before it can be awarded grant funds. However, a newly selected Intermediary may receive a grant award in the event there are un-obligated funds available after all calculated awards are made, and the grant application is received prior to August 15th of any given year.
2. All Intermediary grants will be for a term of one year. The grant year will be specified in the Notice of Award.
3. Intermediaries are restricted by law from using more than 25 percent of their grant funds to provide TA to prospective Microborrowers. Expenditures of at least 75 percent of grant funds must be related to providing assistance to existing SBA Microborrowers.
4. Intermediaries may not use more than 25 percent of their grant funds to contract with third parties for the provision of TA to Microborrowers. While SBA generally expects Intermediaries to be able to provide routine TA to Microborrowers, in some circumstances it may be more cost effective for an Intermediary to occasionally contract with a trainer with specialized experience or knowledge to assist one or more Microborrowers than it would be for the Intermediary to retain such a trainer on a full time basis.

3.E.9. Payments to Grant Recipients

1. Submission of Payment Requests- A new Intermediary, receiving its first grant under the

Program, may request a single advance payment provided it has taken a loan disbursement. Thereafter, grant recipients will generally be paid on a reimbursement basis. SBA generally reimburses grant funds quarterly. Reimbursement will cover only those actual expenses incurred by a grant recipient in support of its provision of Technical Assistance to Microborrowers and prospective Microborrowers. Reimbursement requests must be received by SBA no later than 30 days after the end of the quarter during which they were incurred, with the exception of fourth quarter costs which must be requested within 90 days of the end of the quarter.

a. A grant recipient must submit all requests for payment to the Program Office using a Standard Form 270 "Request for Advance or Reimbursement," along with a Detailed Expenditures Worksheet a Standard Form 425 "Federal Financial Report", and a Standard Form PPR "Performance Progress Report" with a Technical Assistance Narrative Report and Matrix attached. In addition, all costs claimed under a reimbursement request must be properly documented and kept in the Intermediary's files. Acceptable forms of documentation include receipts, invoices, contracts, cancelled checks, employee timesheets/payrolls, etc.

b. Requests for advances. Although payment of grant funds is typically conducted through the reimbursement process, TA grant recipients are eligible for a first quarter advance of grant funds at the start of their initial Budget Period (First time grant recipients only). The amount of any advance will be limited solely to the grant recipient's projected first quarter Technical Assistance expenses. After the first quarter of the Intermediary's initial Budget Period, The Intermediary will be required to shift to a reimbursement basis for further payment requests. This means that while the Intermediary may request an advance for the first quarter, it must wait until the end of the second quarter to request reimbursement for that quarter.

To request an advance, the Intermediary must submit a Standard Form 270 "Request for Advance or Reimbursement" and Standard Form 425 "Federal Financial Report" to its assigned Program Office analyst. The Intermediary must also include a projection of how and when it expects to expend the advance over the quarter. Any advanced amounts that are not used within the quarter must be reconciled with the following quarterly reimbursement request. Interest earned on advanced funds in excess of \$125 must be returned to the Agency.

2. Processing Payment Requests- No payment request should be submitted for less than \$1,000 unless the total amount of grant funding awarded in a single year is equal to \$4,000 or less, or the request is for a final payment on a grant.

Upon receipt of a request for payment, the Program Office will review the request for completeness and accuracy; to ensure that the level of activity and success with milestones warrants payment, that statutory expenditure requirements are being met, and that costs are appropriate to the budget and the NOA. Once all questions are answered, and issues responded to by the Intermediary, the Program Office will retain a copy of the approved request in the file and forward the request for payment under a cover sheet initialed by the appropriate Analyst and the Program Office Chief to OGM.

After receiving the payment request from the Program Office, OGM will review the request to confirm that it has been properly completed, adequately supported, and is otherwise ready for

payment. If OGM identifies any remaining issues with the payment request, OGM will work directly with the grant recipient, and inform the Program Office of same. Once all issues are corrected, OGM will approve, stamp, and sign the request, add a copy to the file and forward it to SBA's Office of Fiscal Operations (OFO) in Denver for payment.

3. Grant Award Closeout- Within 90 calendar days of the end of a grant Project Period, grant recipients must submit all required reports and any outstanding reimbursement requests. SBA will reimburse the recipient for allowable amounts. If the SF 425 indicates any unused balance, SBA will confirm that balance, prepare an SBA Form 1223 and forward it to OGM for de-obligation of remaining, unused funds.

3.E.10. Carryover Requests – A carryover request may be submitted if an Intermediary is scheduled to receive a new grant at the conclusion of its current Project Period, and it believes that it will have funds remaining under the current award. Carryover requests must be received by the Program Office at least 60 days prior to the end of the project period. A request for carry-over received less than 60 days prior to the end of the Project Period will not be honored.

3.E.11. No Cost Extension Requests – A No Cost Extension request may be submitted if an Intermediary is not receiving a follow-on award and will have funds remaining under its current award. No Cost Extensions will be limited to twelve months. If the Program Office Chief approves the request for a no-cost extension, the Intermediary will be able to continue to conduct project activities and draw down against its remaining grant funds expended through the next quarter. A request for a no-cost extension must be received at least 45 days prior to the end of the grant period. No extension request will be honored if it is received less than 45 days prior to the end of the original grant period.

3.E.12. Training for Intermediaries - SBA will provide training for Intermediaries each year. SBA may opt to provide a single annual training conference, regional training conferences, training via electronic media, or any combination thereof. Because SBA expects Intermediaries to take full advantage of Microloan Program training offerings, Intermediaries are authorized to budget the cost for attendance at such training, for up to two people, into their grant budget documents. Intermediaries are not authorized to budget the cost of attendance at any non-SBA training or at any SBA training unrelated to the Microloan Program into their Microloan Program grant budgets. Intermediaries may only include the cost of attendance at one SBA Microloan Program training meeting per year in their Microloan Program grant budgets.

3.E.13. Marketing Costs –Intermediaries may include costs of marketing the Microloan Program to prospective borrowers into their Microloan Program grant budgets. Marketing includes, for example: advertising of the Microloan Program, community seminars, and website development designed to lead to an increase in Microborrowers assisted. Marketing the program is considered a part of pre-loan technical assistance costs, and is therefore limited to 25% of grant funds.

Sub-Chapter 3-F. Microloans from the Intermediary to the Microborrower

The Intermediary will be responsible for determining whether a Microborrower is qualified to receive a Microloan using SBA's eligibility and Program guidelines and its own lending policies. SBA will not review any Microloan applications nor will it become involved in any appeal of a declination, unless the appeal is made on grounds of failure to comply with the Civil Rights Compliance sections of 13 CFR Part 12.

3.F.1. Agency Oversight- SBA conducts periodic risk assessments on each Intermediary. SBA may perform site visits to the Intermediary or its Microborrowers. Site visits may be conducted by the District Office, by the Program Office, or by a team consisting of both Program Office and District Office personnel. Other Agency personnel may be invited to join site visits as well. Personnel conducting site visits will use a site visit checklist to be provided by the Program Office.

SBA reserves the right to inspect any and all records of the Intermediary, as well as its offices, files, organizational and Program documentation. SBA may conduct random Microloan file reviews to determine whether the Intermediary is keeping appropriate records, ensuring Microborrower eligibility, and adhering to Program requirements. Intermediaries that are not in compliance may be subject to increased reporting, limitations on disbursement of loan and/or grant funds, removal from the Program, or other sanction as appropriate to the situation.

SBA oversight begins at the application stage when SBA reviews the application (key personnel, service area information, loan policies and procedures, eligibility documents, financial documents, and other items called for in the application information), verifies information, and accepts or rejects an Applicant as qualified or not qualified to become an Intermediary. Oversight of the Intermediary continues throughout each Intermediary's period of participation in the Microloan Program as SBA continually reviews reports, account information, Microloan portfolio performance, technical assistance milestones, repayment anomalies, collateral, and other such information for compliance with program requirements.

Intermediaries are subject to OCRM SOPs and other oversight documents as indicated in paragraph 1.4 of this document.

3.F.2. Small Business Concerns eligible to become Microborrowers - Microborrowers must be eligible to receive financial assistance under Section 7(a) of the Small Business Act and Parts 120 and 121 of SBA regulations, which discuss SBA business loan policy and small business size regulations. In every case, the following eligibility requirements must be met:

- The Microborrower (including its Affiliates, if any) must:
 - be a start-up, newly established, or growing for profit small business concern or, a non-profit child care center.
 - be located within the Intermediary's approved service area.

- meet type of business eligibility standards at the time of application for the Microloan.
 - be considered small under 7(a) business loan size requirements. Reference 13 CFR §121.201 for applicable Size Standards.
 - if a franchise, follow the guidance for franchises provided in 13 CFR Part 121 and SOP 50 10 5.
- A Microbusiness applying for a loan of \$20,000 or more must meet a “no credit elsewhere” test and must have good prospects for success. That is, a Microloan cannot be made for more than \$20,000 if similar rates and terms are available from private sector lenders using non-federal dollars. For loans of \$20,000 or more, the Microborrower’s application file must contain documentation that such credit is not available elsewhere. Documentation may include a letter of denial (which is not required but may be used), a survey of local loan products available at the time of application, or other such information. In the case of a multi-party financing package, in which the Microloan will exceed \$20,000, there must be written documentation from the other lender(s) that but for the Microloan (and the attendant TA if appropriate), said lender would not participate in the financing package.
 - If the small businesses applicant is a franchisee, the Intermediary must review the Franchise Registry (www.franchiseregistry.com) to identify which franchise agreements SBA has reviewed and approved. If the particular franchise agreement is not on the registry, the Intermediary has the responsibility to review the agreement to ensure that it meets SBA’s requirements. The Intermediary must also go to <http://www.sba.gov/content/franchise-findings> to check the SBA Franchise Findings List for information with respect to a specific Franchise/License/Dealer/Jobber or similar agreement to review specific findings and see if SBA counsel has determined if a specific agreement is ineligible. (Refer to SOP 50 10 for further guidance on franchise eligibility.)

3.F.3. Ineligible types of businesses – Intermediaries are responsible for ensuring the eligibility of each Microborrower. The following types of businesses are not eligible to receive a loan under the Microloan Program.

- a) Any nonprofit business other than a nonprofit childcare center;
- b) Any financial business primarily engaged in the business of lending;
- c) Life Insurance companies;
- d) Any businesses located in a foreign country;
- e) Any pyramid sale distribution plan;
- f) Any business deriving more than one-third of its gross annual revenue from legal gambling activities;

- g) Any business engaged in illegal activity;
- h) Any private club or business that limits membership for reasons other than capacity;
- i) Government-owned entities (except businesses owned or controlled by a Native American tribe);
- j) Any businesses principally engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting;
- k) Consumer and marketing cooperatives; however, the following types of cooperatives may be eligible if they meet all other SBA eligibility requirements:

Producer Cooperatives: A producer cooperative is eligible to receive a Microloan if (1) It is engaged in a business activity; (2) the purpose of the cooperative is to obtain financial benefit for itself as an entity AND its members in their capacity as businesses; and (3) it is small and each member of the cooperative is small.

Agricultural Marketing Cooperatives: An agricultural cooperative acting pursuant to the provisions of the Agricultural Marketing Act (12 USC 1141j) is considered to be a producer cooperative and is eligible if it meets the requirements for eligible producer cooperatives in above.

Worker Cooperatives: A worker cooperative, in which the employees of the small business cooperatively own the company, is eligible if it meets all other SBA eligibility requirements.

- l) Loan packagers earning more than one third of their gross annual revenues from packaging SBA loans;
- m) Any business in which the Intermediary or any of its Associates owns an equity interest;
- n) Any business with an Associate who is incarcerated, currently on probation or parole, or is currently under indictment for a felony or a crime of moral turpitude.
 - The Intermediary has the authority to determine whether it will make a Microloan to an individual with an arrest record who is not currently incarcerated, on probation or on parole.
- o) Any business that presents live performances of a prurient sexual nature; or derives directly or indirectly more than 5 percent of gross revenue through the sale of products or services, or the presentation of any depictions or displays, of a prurient sexual nature;
- p) Any business that has caused a Prior Loss to the Government unless the Delinquent Federal Debt or Prior Loss to the Government is fully satisfied. The Intermediary must document its file

as to how the debt or loss has been fully satisfied. (See Appendix for further discussion of Prior Loss)

- q) Small Business Concerns that have Delinquent Federal Debt, other than an SBA Microloan, that is more than 90 days past due. (See Appendix).
- r) Any business primarily engaged in political or lobbying activities;
- s) Any speculative business (such as oil wildcatting);
- t) Any businesses located in a Coastal Barrier Resource Area (as defined in the Coastal Barriers Resource Act);
- u) Any businesses owned or controlled by an applicant or any of its Associates who are more than 60 days delinquent in child support under the terms of any administrative order, court order, or repayment agreement;
- v) Any businesses in which an Associate is an undocumented (illegal) alien; or
- w) Any business owned or controlled by an applicant or any of its Associates who are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation by any Federal department or agency.

3.F.4. Microloans to Businesses owned by Non-Citizens – Legal permanent residents and other non-citizens legally admitted into the country are eligible for Microloans. An Intermediary must not make a Microloan to a business owned by an individual who is in the country illegally. An Intermediary must obtain evidence of legal status for all borrowers that are not citizens. Examples of such evidence include a Social Security Number (SSN), Individual Taxpayer Identification Number (ITIN), a Permanent Resident Card, or other documentation of legal status from the United States Citizenship and Immigration Services (USCIS).

3.F.5. Use of Microloan Proceeds- Microloans may be used for the purchase of furniture, fixtures, supplies, materials, equipment, and/or for working capital. Microloans may not be used for real estate. Microloan program funds should not be used to improve any part of a private home unless that part is specifically dedicated to the funded business. Intermediaries may choose, at their discretion, to refinance Microborrower debt. However, this should only be considered when it will improve the debt position/cash flow of the Microborrower.

Microloan proceeds may not be used for the following purposes (including the replacement of funds used for any such purpose):

- 1) Payments, distributions, or loans to an Associate of the applicant except for compensation for services actually rendered at a fair and reasonable rate;
- 2) Refinancing debt owed to an SBIC;

- 3) Floor plan financing;
- 4) Investments in real or personal property acquired and held primarily for sale, lease, or investment.
- 5) Payment of delinquent taxes including payroll taxes, sales taxes, or other funds payable for the benefit of others. However, payment of delinquent income taxes may be permitted if the applicant has an approved payment arrangement with the IRS.

3.F.6. Other Requirements - Intermediaries and Microborrowers must comply with all applicable laws including (but not limited to) the following:

1. Flood Insurance requirements (13 CFR 120.170) based on the Standard Flood Hazard Determination FEMA Form 81-93
 - a) If any portion of collateral on a Microloan, is located in a special flood hazard area, the Intermediary must require the Microborrower to obtain flood insurance under the National Flood Insurance Program (NFIP). This requirement extends to all collateral located in a building, or on unimproved property, that is in a special flood hazard area.
 - b) Insurance coverage must be in amounts equal to the lesser of the insurable value of the property or the maximum limit of coverage available.
2. Flood-Plain and Wetlands Management requirements (See 13 CFR 120.172).
3. Lead-Based Paint requirements when loan proceeds are for the construction or rehabilitation of the business section of a residential structure (See 13 CFR 120.173).
4. Civil Rights Laws- SBA funded Microloans are subject to all applicable laws, including laws prohibiting discrimination on the grounds of race, color, national origin, religion, sex, marital status, disability, or age (see 13 CFR parts 112,113,117, and 136)

3.F.7. Microloan Amounts - The maximum loan that may be made to a Microborrower under this program is \$50,000. Intermediaries that maintain a portfolio of Microloans averaging \$10,000 or less are eligible for a reduced interest rate and a Bonus grant. There is no minimum loan amount requirement. In no case shall an Intermediary make a program Microloan of more than \$50,000 to one borrower; or have more than \$50,000 outstanding and committed to any single borrower, including its affiliates. Intermediaries should use due diligence to ensure that the Microloan applicant is not in debt to the program due to having borrowed from more than one Intermediary.

3.F.8. Multi-Party Financing - In order to allow small businesses to grow while maintaining a connection to a technical assistance delivery system, SBA permits the use of Microloan funds as part of a multi-party financing package. Not more than \$50,000 may be in the form of a Microloan. The remaining amount must come from private sector, non-federal sources.

The non-Program part of the package may be in the form of an SBA 7(a) guaranteed loan or any other source. However, Microloan funds may not be used in connection with an SBA 504 loan due to restrictions under that program. A Microloan made as a part of a multi-party financing package must meet the “no credit elsewhere test” if it exceeds \$20,000 described in paragraph 3.F.2.

3.F.9. Microloan Interest Rates - Interest rates for Microloans are calculated based on the Intermediary’s Cost of Funds.

(A) The Intermediary may charge a Microborrower up to seven and three quarters percent (7.75%) over the Intermediary’s Cost of Funds on a Microloan of more than \$10,000

(B) The Intermediary may charge a Microborrower up to eight and one-half percent (8.50%) over the Intermediary’s Cost of Funds on a Microloan of \$10,000 or less.

First Year Microloan Interest Rates - For the purpose of making Microloans during the first year of Program participation, the Intermediary may assume a 2.0% discount on its interest rate for the loan from SBA . That is, if the Note for the loan from SBA is signed at X%, the Intermediary may make Microloans based on X-2%. However, if the Intermediary knows in advance that it will most likely be making loans that are greater than \$10,000, it should use the 1.25% (X-1.25%) discount during the first year.

See paragraph 3.B.5. for further discussion of the Intermediary’s Cost of Funds.

3.F.10. Microloan Maturity- The maximum maturity of any Microloan made under this program will be six years. In the event an Intermediary restructures a Microloan or otherwise puts a Microborrower into a workout situation, the life of the Microloan must not exceed 6 years from the date of the Microloan note.

No Microloan may be made as a line of credit.

3.F.11. Microloan Collateral Requirements – Underwriting requirements for Microloans are determined by the Intermediary. Although the Intermediary is not specifically directed regarding collateral, SBA expects the Intermediary to implement prudent lending practices. Such practices may or may not include requiring collateral and/or Microborrower equity. It is noted that a Microborrower may have a history of unsuccessful attempts at obtaining financing or credit from traditional lending sources. Therefore, Intermediaries are urged to temper collateral requirements with strong technical assistance and to be creative in their definitions of acceptable collateral.

No Intermediary, and no Associate of an Intermediary, may take, or hold, an equity interest in any business receiving financing under this Program. Equity presents a conflict of interest between the Intermediary and the Microborrower.

3.F.12. Credit Life and Disability Insurance - Credit life insurance requirements are disallowed unless the following criteria are met:

- (A) Local law requires that it be offered to all borrowers, OR
- (B) When, at the time an Intermediary joins the program, it is the internal policy of the Intermediary to require such coverage, provided said coverage will not be required on Program Microloans of less than \$10,000, AND
- (C) Any proceeds to the Intermediary from the sale of credit life insurance are limited to use either as an addition to the MRF, an addition to the LLRF, or for administrative expenses directly related to the cost of providing microlending services.

Disability insurance is viewed by the Agency as an imposition of excessive loan related costs. It is not allowed under the Microloan Program unless required by State Law.

3.F.13. Microloan Fees and Closing Costs- The Intermediary may charge reasonable application and origination fees limited to up to 2% of the amount of the Microloan.

Actual out-of-pocket closing costs may also be charged to the Microborrower, such as filing or recording fees, collateral appraisals, credit reports, and other such direct charges related to loan closing.

Fees charged to a microborrower may be added to the loan amount and financed over the life of the Microloan provided the total loan amount, including the fee, does not exceed \$50,000.

No fees may be charged for the provision of TA.

3.F.14. Servicing Microloans - Each Intermediary will service the Microloans it makes. Servicing includes, but is not limited to, payment processing, collection, and liquidation. Any Microloan payments that are initially received by an account other than the MRF account must be moved to the MRF account within ten business days of receipt or by the end of the quarter, whichever comes first.

Loan servicing costs are not payable from Grant funding. Loan servicing is considered a cost of doing business. Intermediaries are expected to use earnings to help pay for loan servicing costs. Over time, earnings appear as excess funding in the MRF and/or LLRF. Permission to withdraw excess funds may be submitted to the Program Office. After an analysis of the position of the Intermediary is completed, SBA will determine whether a withdrawal will be allowed and the amount of such withdrawal.

Microloans that are more than 30 days late are considered delinquent. Intermediaries with delinquency rates of greater than 15 percent may be subject to increased oversight. Such Intermediaries will also be asked to submit a plan for reducing the delinquency rate. In some instances, disbursements may be limited until the Intermediary's position improves.

It is incumbent on the Intermediary to work with each Microborrower to avoid Microborrower defaults. Intermediaries should consider restructuring Microloans before they fail but only if a restructure will assist the Microborrower in meeting its goals. No Microloan should be restructured only to delay a failure. At no time will an Intermediary be allowed to make payment for a Microborrower.

Any Microloan that is more than 120 days delinquent must be charged off. At the time the Microloan is charged off, the amount of the outstanding principal balance of the charged-off Microloan must be transferred to the MRF. If the transfer of funds from the LLRF to the MRF causes the LLRF to fall below 15% of the outstanding balance of Microloans, the LLRF must be replenished with non-borrowed, non-federal funds.

3.F.15. Microloan Closing Documentation - Microloans will be closed in accordance with local requirements. SBA will require the following documentation be retained in the Microborrower file for each Microloan closed:

(A) A copy of the Microborrower's original intake form or application materials, and evidence of any pre-loan technical assistance that may have been provided.

(B) A copy of the materials reviewed as part of the underwriting process, including, but not limited to, any credit analysis documentation, correspondence and credit report (if there is a credit report), and the final decision document regarding approval or denial of the loan.

(C) A copy of the Microloan Note. The following statement must appear in each Microloan note, either in the body of the language or as an addendum initialed by the Microborrower:

“This note has been pledged to the U.S. Small Business Administration (SBA) as collateral. Further assignment cannot be made without prior written consent of the SBA.”

(D) Evidence that the proceeds of the Microloan were used for the purpose for which application was made.

3.F.16.- Signature Requirements for Microborrowers- Each State has its own set of laws regarding marital signature requirements. Intermediaries should be aware of, and operate under, their respective State laws in this regard. Any Intermediary may ask for a co-borrower. However:

(A) An Intermediary may not require that the co-borrower be a spouse simply by virtue of the borrower being a married person.

(B) An Intermediary may require signature of the spouse, for security purposes only, if the collateral being offered is owned jointly by the borrower and the spouse.

Intermediaries should familiarize themselves with “Regulation B” to assist with making decisions regarding co-borrowers. “Regulation B” is published on the Federal Reserve website at: <http://www.federalreserve.gov/boarddocs/press/bcreg/2003/20030305/attachment.pdf>

3.F.17. Microloan Repayments – The initial payment on a Microloan should be scheduled for within 60 days of the closing of the Microloan. Subsequent Microborrower payments must be scheduled on a monthly or more frequent basis except that an Intermediary may choose to defer payments in the event of a workout or restructure. All Microloans should amortize so that no Microloan will have a balloon payment at the end of the loan term.

Payments are to be deposited directly into the Intermediary’s MRF account. In some cases, and only with advance written approval from the Program Office, payments may be deposited to the Intermediary’s operating or collection account. Microloan payments deposited to an operating or collection account must be moved to the MRF within ten business days of receipt of the payment or the end of the quarter, whichever occurs first.

At the Intermediary’s discretion, a Microloan repayment schedule may be changed to help ensure full repayment of the Microloan. No deferment may extend beyond 6 months. And, no deferment may cause the life of the Microloan to extend beyond 6 years. For example, a natural disaster, the sudden incapacitation of the business owner, or a regional economic downturn may call for an Intermediary to consider a deferment on a Microloan.

3.F.18. Late Fees and NSF Fees Chargeable to the Microborrower – Late fees are permitted when the Microborrower fails to make a payment to the Intermediary on time as long as they are discussed in the Note between the Intermediary and the Microborrower. A late fee may not exceed 5% of the payment amount.

An Intermediary may also require Microborrowers to reimburse the Intermediary for any non-sufficient funds (NSF) fees incurred as a result of insufficient funds for a microloan payment.

3.F.19. Paid-in-Full Microloans – Loan and TA files for paid-in-full Microloans are to be retained by the Microlender for at least three years after full repayment. Upon repayment of a Microloan, the Intermediary will update the MPERS to show the Microloan as paid-in-full.

3.F.20. Technical Assistance and Training Provision, Design, and Limitations – Intermediaries must provide Technical Assistance (TA) to Microborrowers. Intermediaries may also provide TA to potential Microborrowers.

No fees may be charged to Microborrowers for Technical Assistance.

TA should be integrated into lending and post loan follow-up. Any TA provided after a Microloan is made is considered post-loan TA for that Microborrower. The majority of such TA must be provided internally and will, by nature, be general business training. However, industry

specific, specialized TA may be provided by an outside entity. Upon selection to participate in the program, each Intermediary must have a TA program in place.

TA is to be provided to Microborrowers throughout the life of each Microloan. Intermediaries will be asked to produce follow-up data regarding business success at the time a Microloan is paid in full. No client may be refused TA due to race, gender, age (provided they are legally of age to enter into a loan agreement), ethnicity, religion, disability, or any other reason as stated in Fair Credit lending laws. Clients enter TA programs at varying levels of business competency. Intermediaries must be prepared to deliver TA accordingly and offer more than one style of TA.

An Intermediary may, as a part of the Microloan application process, require that an applicant avail itself of TA so as to help ensure loan readiness. Whether or not an Intermediary receives grant funding, it must provide post-loan TA to SBA Microborrowers.

Note that the simple availability of TA on an Intermediary's website is not considered sufficient for the provision of adequate TA. While on-line training is a useful tool, it should never be used as the sole source of TA. It is important that the Intermediary develop an ongoing relationship with each Microborrower, that it conduct site visits, and that it provide face-to-face counseling and training from time to time.

(See also the definition of TA at paragraph 2.43 and subchapter 3.E)

3.F.21. Denial of Microloans by the Intermediary - Microloan applications will be approved or denied at the discretion of the Intermediary. The Intermediary is responsible for ensuring that all denial of credit documentation is in order (clear, concise, detailed) and retained in its files for a minimum of three years.

CHAPTER 4. – INTERMEDIARY RECORD KEEPING, REPORTING, and OVERSIGHT

SBA must ensure that the Microloan Program is effectively administered and controlled and is reasonably protected from waste, fraud, mismanagement, or undue risk. To accomplish these objectives, SBA has developed critical recordkeeping and reporting requirements for Microloan Program participants. Each Intermediary will be required to fulfill these reporting requirements until it pays its Program debt in full or otherwise leaves the Program.

SBA reserves the right to inspect the offices, files, and documentation of Microloan Program participants. SBA may perform site visits to Intermediaries and/or Microborrowers. As discussed in this chapter. Reports, account information, Microloan portfolio performance, technical assistance milestones, repayment anomalies, collateral, and other such information will be reviewed regularly to ensure that Program participants are in compliance with Program requirements. Intermediaries that are not in compliance may be subject to enforcement actions.

Sub-Chapter 4.A. Intermediary Recordkeeping and Reporting

4.A.1. General Loan Record Requirements -Intermediaries must establish and maintain a separate case file on each SBA Microloan borrower. Each case file must be maintained in a disaster protected and properly controlled storage environment. Original Microloan notes (which are SBA collateral) must be stored in a disaster safe separate from the working file. A copy of the Microloan note should be in each working case file. Access must be carefully limited as the files contain personally identifiable information.

All Microborrower case files must contain the Microloan application, documentation substantiating the Microborrowers’ eligibility (including “no credit elsewhere” documentation for loans over \$20,000), information regarding technical assistance provided, loan servicing activities, and chronological communications records.

Electronic Microloan files and records must be fully protected, disaster safe, and safe from inappropriate access. They must be accessible to SBA in the event of a site visit.

4.A.2. Microloan Portfolio Electronic Reporting System (MPERS) - The MPERS is a web-based, electronic reporting system that facilitates SBA’s collection of critical information on the characteristics and status of each SBA Microloan. MPERS is used by the Intermediary to report Microloans made and to provide and update aging information on each Microloan until all Microloans are either paid in full or charged off. MPERS also allows SBA to efficiently track and assess the accomplishments of each Intermediary as well as the Microloan Program as a whole, to provide accurate and timely summary data to SBA oversight officials, and to monitor the performance and strength of Intermediary portfolios. The data reported is used for statistical, portfolio management, and reporting purposes. Personally Identifiable Information is protected.

SBA Intermediaries must have access to the Internet and have an appropriate web browser installed so that they may report as required. Additional information and instructions on MPERS are available in the MPERS User’s Manual, which can be found in the MPERS system help section. Intermediaries will be provided with access to, and training regarding, this system.

4.A.3. Periodic Loan Reports – Intermediaries will submit loan reports using the following schedule.

Report	Within 7 days of Microloan Closing	Quarterly	Annually	Upon Request	Submission Method
Portfolio ID	X				MPERS
Portfolio Status		X			MPERS
MRF/LLRF Status		X with bank statements			MPERS and PDF
Audited			X		MPERS or PDF

Financial Statements					
Other Documentation				X	As Requested

Electronic reporting on SBA microlending activity must be completed and submitted as detailed below. A pattern of failure to submit accurate and complete reports in a timely manner will be viewed as a failure to comply with Microloan Program requirements.

A. Within Seven days of the making of a Microloan— Each time a Microloan is made, the Intermediary must submit a Portfolio ID Report via MPERS. The Portfolio ID Report contains basic identifying information for each Microborrower, including demographic information.

All Microloan Portfolio ID Reports for loans made during a single Fiscal Year must be reported by midnight on October 7th of the next Fiscal Year. Data in the system on October 8th of each year will represent the Intermediary’s official production for the previous Fiscal Year and form the basis for determination of Microloan Program eligibility and grant allocation in the coming year. Because SBA will only count complete entries into MPERS when determining an Intermediary’s annual Microloan production for eligibility purposes, all new entries, corrections, and updates to MPERS must be completed on time, by midnight of October 7th each year.

In the event of a system failure, SBA may extend the year end reporting period for up to 30 days prior to pulling the final Fiscal Year production report. Because Portfolio ID Reports are to be in the system within seven days of each Microloan Closing, SBA will not consider overcrowding due to last minute reporting to be a system failure. In no case will an annual production report be pulled for any period ending later than midnight of November 7th of any given year.

An Intermediary that fails to fully and accurately report the minimum volume of SBA funded Microloans risks losing its eligibility for training and technical assistance grant funds and may be considered to be inactive.

B. Within 30 days of the end of each Quarter, the Intermediary will submit:

1. MPERS Microloan Portfolio Status Report (PSR) - The PSR provides the Intermediary and SBA with a picture of the performance of its Microloan Portfolio. It is used by the Agency to assist with loan servicing and oversight. It provides Microloan aging and other information useful in determining delinquency and default rates, and other performance information.

The PSR provides SBA with up-to-date Microloan portfolio repayment, aging, and servicing data. Initial data is entered automatically into the PSR each time a Portfolio ID Report is

submitted. This data includes basic identifying information for the Microborrower and terms of the Microloan. By midnight of the seventh (7th) day after the end of each quarter, the PSR must be updated with aging data as of the last day of the quarter for each Microborrower.

SBA will periodically review PSRs to assess the Intermediary's ability to manage its Microloan portfolio. Intermediaries are required to submit quarterly PSRs until the Intermediary exits the Microloan Program.

2. MRF and LLRF Status Reports supported by Bank Statements – The MRF and LLRF Status Reports must be submitted quarterly via MPERS. The MRF and LLRF Status reports provide a uniform method for the Agency to review numerous statements of varying design. In addition, Intermediaries must send bank statements showing the detail of transactions on the accounts for the quarter. Bank Statements may be sent via e-mail or delivered in hard copy and will be compared to the activity reported in the PSR, and will be used to ensure appropriate use of funds.

C. Annually, within 180 days of the end of the Intermediary's Fiscal Year, the intermediary will submit an annual audited financial statement via MPERS, or a substitute system. Intermediaries subject to OMB Circular A-133 must submit audits prepared in accordance with that circular. The financial statements will be used to examine the use of Microloan program funds, financial position of the Intermediary, operational issues as noted by the auditing accountant and any exceptions or concerns noted by the auditing accountant.

Preparation of Annual Audited Financial Statements. The audited financial statement must be prepared by an independent public accountant who:

- is registered or licensed to practice as a public accountant and is in good standing under the laws of the state or other political subdivision of the United States in which the Intermediary's principal office is located;
- is in compliance with the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct;
- meets the independence requirements and interpretations of the Securities and Exchange Commission and its staff; and
- has received, or is enrolled in, a peer review program that meets AICPA industry guidelines and standards.

Content of Annual Audited Financial Statements. The Audited Financial Statement must be prepared pursuant to the procedures and standards prescribed by the AICPA, Generally Accepted Auditing Standards (GAAS), Generally Accepted Government Auditing Practices (GAGAP) and OMB Circulars A-129 and A-133, if applicable. In addition to specifically addressing the financial condition and well-being of the grant recipient, the auditor's statement must also:

- include an opinion (or disclaimer of opinion) about whether the financial statements and

- schedules of expenditures are fairly presented in accordance with GAAS and GAGAP;
- report on the status of internal controls relative to the financial statements and major programs;
- describe the degree to which the recipient has complied with the applicable laws, regulations, policies, procedures, and terms and conditions of the federal assistance award;
- determine whether the Intermediary is “high risk” or “low risk”; and
- in the case of an Intermediary, assess the internal controls over the Intermediary's Loan Loss Reserve Fund and Microloan Revolving Fund.

4.A.4. Grant Reporting – It is SBA’s responsibility to ensure that TA grants are administered so as to maximize the effectiveness of the program and safeguard taxpayer funds from waste, fraud or mismanagement. To accomplish these objectives and facilitate monitoring and oversight, SBA requires TA grant recipients to abide by several recordkeeping and reporting standards. Additionally, in the event SBA receives information indicating that an TA grant recipient or one of its employees may be responsible for committing fraud or misuse of grant resources, the matter must be referred to the Office of Inspector General in accordance with SOP 90 22 5, Investigations Program. In addition to the required loan fund reports, Intermediaries must submit quarterly reports regarding training and technical assistance activity. These reports should accompany quarterly requests for reimbursement to allow the Agency to review the report and request documents simultaneously to expeditiously facilitate payment. Intermediaries will submit grant reports in accordance with the following schedule:

Report	Quarterly	Annually	Upon Request	Submission Method
SF425	X with 270 Request			Paper or PDF
SF-PPR	X with 270 Request			Paper or PDF
TA Narrative Report	X			Paper or PDF
Detailed Expenditure Worksheet	X			Paper or PDF
Audited Financial Statements		X Same as for Loan		MPERS
Requested documentation as needed			X	Per Request

Quarterly financial and performance reports. Within 30 days of the end of each quarter, grant recipients must submit to the Program Office both a Standard Form 425 “Federal Financial Report” and a Standard Form PPR “Performance Progress Report” with a Technical Assistance Narrative Report. The Financial Analyst must review all such reports in order to verify that the grant recipient is conducting its TA project as required and that it is meeting its projected milestones.

4.A.5. Calculation of Technical Assistance Expenditures- Grant funds must be expended so that not more than 25% of the funds awarded are used for the provision of Technical Assistance to potential SBA Microborrowers (pre-loan TA) and at least 75% of the funds awarded are used for the provision of TA to actual SBA Microborrowers (post-loan TA). SBA will allow certain costs to be included in the Intermediary's annual grant budget, including the cost of the annual audit, travel expenses for required SBA training, supplies, and such other expenses that do not fall into the category of provision of TA but are necessary for its delivery. To properly calculate the expenditure ratio of grant funds, the Intermediary must determine the hourly cost of providing TA. This hourly cost may include time to develop or improve training, the actual time spent with a client, classroom time, or any other time used in the provision of TA. The hourly rate may not exceed \$250 per hour.

Sub-Chapter 4-B. Intermediary Oversight

Oversight incorporates the ongoing activities associated with the making and servicing of loans to Intermediaries and Microloans. This includes approving, disbursing, collecting, reporting, analyzing, guiding, assisting, and otherwise handling loans, grants, and performance data in order to mitigate risk to the Agency.

On a daily basis, the Program Office provides oversight via the collection, review, and analysis of reported data, narrative reports, account information, portfolio performance review, and other available information.

Reports, account information, loan activity, technical assistance activity, and grant performance are reviewed on a quarterly basis. A quarterly risk assessment is conducted on each Intermediary to review the amount in the MRF and LLRF accounts, its Microloan portfolio collateral position, the historical Microloan default rate, and the current Microloan delinquency rate. The results of the review will trigger follow-up communications between the Program Office and the Intermediary as needed. For instance, an Intermediary showing a weak collateral position on a quarterly review will be contacted by the Program Office with requirements for strengthening that position.

A review of audited financial statements is conducted annually to determine positive and negative trends, the presentation of any compliance issues by the auditor, the financial health of the Intermediary entity outside its Microloan Program activities, and any issues that may or should be of concern to the Agency such as compliance with other government programs, other debts owed, and failure to meet non-Microloan Program performance requirements.

An Intermediary found to be performing at a less than acceptable level may be put onto a monthly reporting schedule, if recommended by the Analyst and approved by the Program Office Chief, to help them improve their operations. Evidence of less than acceptable performance may include-

- delinquency rates that are consistently above 15%;
- MRF and LLRF funds that are insufficient to meet the 115% collateral requirement when coupled with outstanding Microloan balances;
- MRF and/or LLRF funds that do not balance with Microloans made;
- Aging information that does not change or update
- Sudden decreases in MRF or LLRF accounts not due to loan making
- Failure to repay the SBA loan as agreed
- Any other anomaly discovered by the Analyst during regular risk assessments
- Any concerns raised during a site visit

4.B.1. Site Visits- As part of its oversight activities, SBA may conduct site visits to Intermediary offices and Microborrower locations.

The reviewers will submit the site review report to the Program Office. The results of the Site Review will be shared with the Intermediary by the Program Office. Based on the results of the site visit, SBA may require the Intermediary to take corrective actions.

4.B.2. Review of Loans- During the normal daily servicing and oversight of Microloan Program Intermediaries, SBA will review Microloans to ensure they are made to eligible borrowers. In the event the Intermediary has made a Microloan to an ineligible business, for an ineligible purpose, or in a manner that is out of compliance with program requirements, SBA will require the Intermediary to liquidate the ineligible loan within 30 days of notification of the Intermediary. The Intermediary may liquidate the loan through any means, including a refinance of the loan with non-Program funds. The Intermediary will be required to deposit into its MRF an amount equal to the outstanding principal balance of the ineligible Microloan.

4.B.3. Job Creation and Retention Data- Intermediaries will report job creation and retention data as a part of the Portfolio ID reporting process. Each time a Microloan is made it will either create, or retain, at least one job. Beyond that job, the Intermediary must also account for any other jobs created or retained. Jobs created will be counted in terms of full time equivalents (FTEs) so that two part time jobs will create one FTE and should be reported as one job. One full time job should also be reported as one job. SBA reserves the right to verify the correctness of jobs created and/or retained during any visits to an Intermediary or Microborrower site.

4.B.5. Enforcement Actions

SBA endeavors to resolve most issues informally by working with the Intermediary to resolve any performance or compliance issues. However, an integral part of overseeing the Microloan Program is SBA's authority to supervise and take enforcement actions as necessary. The regulations at 13 CFR 120.1425, 120.1540, and 120.1600 apply. If the Intermediary does not comply with Microloan Program requirements, it may form the basis of a supervisory or enforcement action as described in the regulations. Examples of enforcement actions include accelerated reporting requirements and imposition of a temporary lending moratorium.

If the Intermediary is unable or unwilling to come into compliance, SBA, in its discretion, may revoke the Intermediary's authority to participate in the Microloan Program. Revocation includes liquidation of the Intermediary's MRF account(s), LLRF account(s), seizure of any outstanding Microloan notes, and forfeiture of any unused grant funds by the Intermediary. An Intermediary's liability under this Program is limited to the amounts in the MRF and LLRF account(s) and any outstanding Microloans (except that the Intermediary is liable to SBA for any loss caused by the Intermediary's fraud, negligence, violation of any of the ethical requirements, or violation of any Microloan Program Requirements). Failure of the Intermediary to fully repay its debt to the Federal Government may result in debarment of the entity from receiving further Federal funding.

APPENDIX

Discussion of Prior Loss and Delinquent Federal Debt

The Prior Loss and Delinquent Federal Debt rules apply to any potential Microborrower that has:

- Any Associates who have owned, operated, or controlled a business with delinquent Federal Debt or that incurred Prior Loss;
- Any Associates who have (or guaranteed) a Delinquent Federal Debt or caused a Prior Loss (either directly or as a guarantor); and
- Any potential guarantor that has or guaranteed a Delinquent Federal Debt or caused Prior Loss either directly or as a guarantor;

“Federal loan” or “Federally assisted financing” includes any loan made directly or guaranteed/insured by any Federal agency, any unreimbursed advance payments under 8(a) or similar programs operated by any Federal agency, federally-backed student loans and disaster loans (excluding any amount forgiven as a condition of the loan at the time of origination). It does not include unpaid/delinquent taxes or any loss incurred by the Federal Deposit Insurance Corporation (FDIC) when it sells a loan at a discount.

Prior Loss

Prior Loss means the dollar amount of any deficiency on a Federal loan or Federally assisted financing that is recognized by a Federal agency after it has concluded its write-off and/or close-out procedures for the particular account including the following:

- Loss on the sale or other disposition of collateral acquired after default,
- Any compromise, i.e. resolution or settlement of a loan balance for less than the full amount,
- Bankruptcy by a borrower and/or any guarantors, and
- Any unreimbursed advance payments by a Federal agency.

Delinquent Federal Debt

A debt is considered “delinquent” when any Federal loan or Federally assisted financing has not been paid within 90 days of the payment due date. A debt is considered “delinquent” even if the creditor agency has suspended or terminated collection activity with respect to such debt.

A Federal debt is not considered delinquent if:

- The creditor agency has released the obligor from paying the debt;
- The obligor is subject to, or has been discharged in a bankruptcy proceeding;
- The obligor has entered into a satisfactory written repayment agreement and is current; or
- The debt is in an administrative or judicial appeal process.

(Note: If there was a loss associated with any of these debts, however, the loan remains subject to the rules governing Prior Loss to the Government.

CAIVRS

Intermediaries are encouraged to check the Credit Alert Verification Reporting System (CAIVRS) to determine if any potential Microborrower has either a Delinquent Federal Debt or a Prior Loss which would result in ineligibility for a Microloan.

CAIVRS allows the Intermediary to enter multiple tax id numbers (either SSN or EIN) to search for an outstanding Delinquent Federal Debt or Prior Loss in connection with a loan application.

Instructions for accessing CAIVRS are located at

http://www.hud.gov/offices/hsg/sfh/sys/caivrs/caivrs_faq.cfm.