



SBA Procedural Notice

TO: All SBA Employees

CONTROL NO.: 5000-1124

SUBJECT: Gulf Opportunity Pilot Loan Program **EFFECTIVE:** 9/23/2009

This procedural notice is a re-issuance of SBA Policy Notice No. 5000-980, "Gulf Opportunity Pilot Loan Program," originally issued on November 14, 2005. SBA is re-issuing this notice because SBA is extending the Gulf Opportunity Pilot Loan Program through September 30, 2010. This Notice reflects changes in the cash flow improvement percentage and the SBA website links. All references to the expiration date of the pilot shall be deemed to read September 30, 2010. The text of the original Notice follows with the above noted exceptions.

"Introduction

The U.S. Small Business Administration is initiating, on an emergency basis, a one year Gulf Opportunity Pilot Loan Program (the "GO Loan Pilot") which will provide expedited small business financing to those communities severely impacted by Hurricanes Katrina and Rita. Under this unique initiative, the Agency will provide its full (85%) guaranty and streamlined and centralized loan processing to all eligible lenders that agree to make expedited SBA 7(a) loans available to small businesses located in those areas covered by the Presidential disaster declarations related to Hurricanes Katrina and Rita and any contiguous parishes or counties. The loans must be made on the terms and conditions set forth in this Notice.

Background

The scope and magnitude of these disasters has been unprecedented. Disaster relief is on-going and is being provided by FEMA, SBA and other Federal and state agencies. However, small businesses located in those communities are in extraordinary need of moderate sized loans (\$150,000 or less) on an expedited basis. To encourage lenders to lend in these severely distressed communities, SBA has developed a more creative and more proactive program of small business financial assistance beyond the Agency's traditional disaster relief efforts.

Features of Program

The Gulf Opportunity Pilot Loan Program generally will apply the policies and procedures in place for the Agency's *SBAExpress* program, although there will be several substantial differences between the two programs. This pilot will be a temporary pilot program for use in FY2006, and will expire on September 30, 2006. The pilot is designed to channel streamlined SBA financing on an emergency basis to those small businesses located in, locating to or relocating in the parishes/counties that have been Presidentially-declared as disaster areas resulting from Hurricanes Katrina or Rita, plus any parishes/counties contiguous to those parishes/counties. (A list of all eligible parishes/counties is located at http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_goloan_3.pdf.)

EXPIRES:

PAGE 1 of 5

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Borrowers under this pilot must meet these geographic requirements as well as the standard eligibility requirements for *SBAExpress* loans.

All current *SBAExpress* lenders are eligible to participate in the pilot program without further approval by SBA. Any other SBA lender who is interested in participating in the pilot must be approved by SBA as an *SBAExpress* lender and must sign the Supplemental Loan Guarantee Agreement, as used in the *SBAExpress* program. Due to the urgency of the needs of the affected parishes/counties, and in light of the lending potential of some of the Agency's PLP lenders that do not currently participate in *SBAExpress*, the Agency will provide under a separate notice an expedited *SBAExpress* application process for those PLP lenders that do not currently have *SBAExpress* authority. Those PLP lenders requesting expedited processing for *SBAExpress* authority will be expected to make a substantial commitment to lending in the eligible parishes/counties. SBA's notice on the expedited application process will be issued in the near future.

As noted above, while the GO Loan Pilot will apply most of the policies and procedures currently in place for *SBAExpress*, there are significant differences beyond the geographic restrictions. Under this emergency pilot, the maximum loan size will be limited to \$150,000, and loans will receive SBA's full guaranty of 85 percent, rather than the 50 percent guaranty provided under the regular *SBAExpress* program. Under this temporary pilot, lenders are delegated authority to refinance existing debt, so long as the new loan does not exceed \$150,000 and meets the requirements of 13 CFR §120.201 (i.e., the Borrower does not use the proceeds "to pay any creditor in a position to sustain a loss causing a shift to SBA of all or part of a potential loss from an existing debt.") Also, if a loan under this pilot will refinance existing debt, the requirement that the new loan must increase the applicant's cash flow by 10 percent will not apply.

Regarding eligibility for the GO Loan, if any of questions 1 through 6 on SBA Form 2281, Gulf Opportunity Pilot Loan Program Borrower Information Form (personal history questions), is answered "yes" then the loan is not eligible for processing through the pilot program. Unlike in *SBAExpress*, lenders in this pilot program will not be allowed to clear applications with affirmative responses to questions 1-3 for processing.

Additionally, a GO Loan may be approved even if it results in an aggregate balance of the Express loans (*SBAExpress*, *CommunityExpress*, and *Export Express*) exceeding \$350,000. However, under no circumstances may multiple GO Loans be made to the same borrower or its affiliates that result in an aggregate outstanding balance that exceeds \$150,000. Also, the balance of the SBA guaranteed portions of GO Loans and all other outstanding SBA-guaranteed portions must not exceed \$1.5 million.

Maturities for loans approved under the GO Loan Pilot are the same as in the *SBAExpress* program. In addition, as is true for all *SBAExpress* loans, if a loan approved under this pilot has a term of less than 15 years, no prepayment penalties will apply, including the SBA subsidy recoupment fee. However, if the term of the loan is 15 years or more, the SBA subsidy recoupment fee will apply.

GO Loan Processing Procedures

In adopting most of the policies and procedures in place for *SBAExpress*, this pilot will be a highly streamlined SBA loan product -- one that will minimize and consolidate SBA mandated forms and procedures and allow participating lenders to use, to the maximum extent possible, their own loan analyses, procedures and documentation. Lenders will thus generally use their own forms, internal credit memoranda, notes, collateral documents, and servicing and liquidation documentation.

Lenders will submit streamlined application documents to the Agency's centralized Sacramento Loan Processing Center, which will facilitate SBA's processing of these loans in an efficient and expedited manner. Additionally, lenders are encouraged to submit all required documentation to SBA via the Internet and SBA's e-Tran process or fax. Because this program is structured as a highly streamlined loan program designed to expedite an SBA decision, more complex loans and/or complex eligibility issues cannot be processed under this pilot. For further guidance as to what loans or eligibility issues are considered complex, please review the *SBAExpress* Program Guide or you may contact the Sacramento Loan Processing Center via email at SBAExpressEligibilityQuestions@sba.gov.

The Center will complete a quick review of the documentation (including a loan eligibility check for those lenders that have not been delegated eligibility authority) and, if the application meets SBA's requirements and funds are available, will issue a loan number. The Agency will not perform any additional credit analysis, as the credit analysis is delegated to the participating lenders. However, lenders under the program must use appropriate and generally accepted, proven and prudent credit evaluation processes and procedures, which may include credit scoring, and they must ensure there is reasonable assurance of repayment ability. SBA reserves the right to deny liability on the guaranty in appropriate cases.

Participants in this pilot must service and liquidate their loans in conformance with the policies and procedures set forth for *SBAExpress*, which allows lenders to use those practices and procedures that the lender uses for their non-SBA guaranteed commercial loans but, under all circumstances, such practices and procedures must be reasonable and prudent commercial lending practices and procedures. All guarantee purchases will be handled centrally in the Fresno and Little Rock commercial loan servicing centers. Additionally, when seeking purchase of a loan guaranty, lenders will be required to identify loans as having been made under the Pilot Program, and to include the county or parish where the borrower is located.

While the forms, documents and agreements applicable to the GO Loan Pilot, including the electronic forms, will essentially duplicate the documents used for *SBAExpress*, there are several important differences between the programs, and the forms must account for those differences. As noted above, these differences include the maximum loan amount, the duration of the program, the amount of the SBA guaranty and the geographic eligibility requirements.

Additionally, SBA must clearly distinguish the GO Loans from standard 7(a) loans as well as other 7(a) subprograms. As a result, SBA has issued a completely different set of OMB approved SBA forms for the GO Loan Pilot. These forms will be posted to SBA's website at: <http://www.sba.gov/tools/Forms/smallbusinessforms/fsforms/index.html>

Pilot Features Summarized

- Eligible small businesses must be located in, locating to or re-locating in parishes/counties that have been Presidentially-declared as disaster areas as a result of Hurricanes Katrina and Rita, plus any contiguous parishes/counties. Complete list posted to SBA's website at: http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_goloan_3.pdf
- Borrowers must meet *SBAExpress* eligibility requirements.
- Loan must be approved no later than September 30, 2006.
- Complex loans or complex eligibility issues are not eligible.
- Maximum loan amount is limited to \$150,000.
- SBA's full 85 percent guaranty applies.
- If the loan term is less than 15 years, no prepayment penalties are permitted; if the loan term is 15 years or longer, the SBA subsidy recoupment fee will apply.
- If a loan under this pilot will refinance existing debt, the requirement that the new loan increase an applicant's cash flow by 10 percent will not apply.
- All current *SBAExpress* lenders are eligible to participate in the pilot without further approval from SBA.
- PLP lenders not currently participating in *SBAExpress* may request expedited processing for approval as a *SBAExpress* lender, but are expected to make a substantial commitment to lend in the eligible parishes/counties. If approved, *SBAExpress* authority will only be available for FY2006 but the PLP lender may request renewal as an *SBAExpress* lender at the end of that period.
- Lenders use mostly their own procedures and paperwork.
- Lenders perform credit analysis and may use credit scoring.
- Lenders will not be allowed to clear for processing any application with a "yes" answer to questions 1 through 6 on SBA Form 2281, Gulf Opportunity Pilot Loan Program Borrower Information Form.
- All loans will be processed centrally by the Sacramento Loan Processing Center.
- Participants are encouraged to use Internet and e-Tran or Fax to transmit applications to SBA.
- Lenders must originate, service and liquidate GO Loans using *SBAExpress* procedures other than the exceptions identified in this Policy Notice.
- All purchases will be centralized in the Fresno and Little Rock commercial loan servicing centers.
- New SBA forms will be provided for the pilot, but will be similar to the *SBAExpress* forms.

Lenders Encouraged to Refer Borrowers for Technical Assistance

As noted above, SBA is providing its full guaranty as an inducement to lenders to offset what may be perceived as additional credit risk under the GO Loan Pilot. In light of that potential risk and SBA's higher guaranty and greater exposure, and with the highly qualified management and technical assistance through SBA's Office of Entrepreneurial Development (ED), the Agency strongly encourages lenders under this pilot to refer SBA borrowers to the Agency's management and technical assistance providers located in the Gulf Coast areas. Most of the distressed businesses will benefit greatly from a basic business plan and a management development plan, which can be arranged expediently through ED's management and technical

assistance resources. Information on the location of the Agency's resource partners in the affected communities may be obtained from SBA's local field offices. Contact information for these offices is available on the SBA website -- www.sba.gov. Information about the individual program resources may also be found on the following program-specific websites: SCORE -- www.score.org; the Small Business Development Centers -- www.sba.gov/sbdc; and the Women's Business Centers (WBCs) -- www.onlinewbc.gov.

SBA District Offices Are Asked to Notify 7(a) Lenders of this Notice.

SBA District Offices or Centers with questions on this notice may forward their questions to Gail Hepler via email at gail.hepler@sba.gov."

Eric R. Zarnikow
Associate Administrator
Office of Capital Access

Expires: 9/1/2010

EXPIRES:

PAGE 5 of 5

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