



ARC LOAN PROGRAM

Program Training



SBA website for lenders

www.sba.gov/banking will take you to SBA's page that is set aside for lenders.

Small Business Administration - temp_programoffice_Style31 - Microsoft Internet Explorer provided by SBA

Address: http://www.sba.gov/aboutsba/sbaprograms/elending/index.html

Electronic Lending SBA Program Office SBA Programs

Notice
We are pleased to announce the new SBA Loan Centers' websites listed below and on the link bar on the right hand side of your screen.

SBA Loan Center Websites

- > [National Guaranty Purchase Center \(NGPC\)](#)
- > [Standard 7a Loan Guaranty Processing Center \(LGPC\)](#)
- > [Sacramento Loan Processing Center](#)
- > [Commercial Loan Servicing Centers](#)

Highlights

- > [TALF Eligible Securities](#)
- > [Authorization](#)
- > [Patriot Express Decal](#)
- > [Preferred Lender Decal](#)
- > [SBA Express Decal](#)
- > [SBA Lender Decal Usage Guidelines](#)
- > [Frequently Asked Questions About 504 Closing](#)
- > [Approved Patriot Express Lenders](#)
- > [SOP 50 10 Modernization Initiative](#)
- > [504 Streamlining Procedural Notice and related documents](#)
- > [Signup for Breaking News on SBA Loan Programs](#)
- > [Notice of Changes to SBA Secondary](#)

Resources

- > [Peg Rate](#)
- > [Centralized 7\(a\) Loan Submission Instructions](#)
- > [NAICS](#)

SBA Recovery
Information for lenders on Recovery and ARC Loan Program. [Read More](#)

E-Payments
Make Payments to SBA via Electronic Funds Transfer... [Read More](#)

Navigation: Home, Notices, Regulations & SOPs, Forms, Authorizations, Loan Program Guides, Lender/Loan Data, 1502 Reporting, Secondary Market, NGPC, LGPC, E-Tran, IRS Contact Information, Lender/ E- Payments, Commercial Loan Centers, SLPC

Left sidebar: About SBA, Newsroom, Contact, FAQ, E-NEWSLETTERS, FREE ONLINE TRAINING, E-PAYMENTS, MARKETING AND OUTREACH, MOST REQUESTED ITEMS, BUDGET AND PERFORMANCE

Bottom: Error on page. Start, 7 Microsoft Office..., C:\5000 7a Notices, Small Business..., Microsoft PowerPoi..., Local intranet, 10:58 AM

Special section for ARC loans

On that page you will find a special section devoted to ARC loans. The ARC loan section has hyperlinks to the required forms, note, authorization, guide and so on.



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Address http://www.sba.gov/aboutsba/sbaprograms/elending/RECOVERY_INFO_LENDERS.html Go Links

Google Search Bookmarks Check AutoFill Sign In

| | | |
|---|---|--|
| <ul style="list-style-type: none"> Newsroom Contact FAQ E-NEWSLETTERS FREE ONLINE TRAINING E-PAYMENTS MARKETING AND OUTREACH MOST REQUESTED ITEMS BUDGET AND PERFORMANCE | <p>Electronic Lending SBA Program Office SBA Programs</p> <p>ARC Loan Information for Lenders</p> <ul style="list-style-type: none"> > Lenders ARC Loan Fact Sheet > FAQs for Lenders & Borrowers > ARC Loan Procedural Guidance <p>ARC Loan form for Borrowers:</p> <ul style="list-style-type: none"> > SBA Form No. 2315: America's Recovery Capital (ARC) Borrower Information Form (required to be completed by each proprietor, partner, officer, director, holder of 20% or more of voting stock of a corporate applicant, any other person, including a hired manager, who has authority to speak for and commit the borrower in the management of the applicant business.) <p>ARC Loan forms for Lenders:</p> <ul style="list-style-type: none"> > SBA Form No. 2316 (Part A): America's Recovery Capital (ARC) Loan Guaranty Request (required to be completed by non-delegated lenders) > SBA Form No. 2316 (Part B): Lender's Supplemental Information for America's Recovery Capital (ARC) Loan Guaranty Request (required to be completed by all lenders either by completing the form (non-delegated lenders) or by E-TRAN (delegated lenders)) > SBA Form No. 2316 (Part C): Eligibility Information Required for America's Recovery Capital (ARC) Loan Submission (required to be completed by all lenders for all non-delegated lender application submissions to SBA. Delegated lenders are to complete the form and place it in the borrower's loan file to be made available upon SBA's request.) > ARC Loan Authorization > ARC Loan Note (SBA Form No. 2318) > Arc Loan Limited Guaranty (SBA Form No. 2319) > Arc Loan Unlimited Guaranty (SBA Form No. 2320) > ARC Loan Program Training | <ul style="list-style-type: none"> > Home > Notices > Regulations & SOPs > Forms > Authorizations > Loan Program Guides > Lender/Loan Data > 1502 Reporting > Secondary Market > NGPC > LGPC > E-Tran > IRS Contact Information > Lender/ E- Payments > Commercial Loan Centers > SLPC |
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Section 506 (Business Stabilization Program) of the American Recovery and Reinvestment Act of 2009

Purpose is stated as: Shall be used to make periodic payment of principal and interest, either in full or in part, on an existing qualifying small business loan for a period of time not to exceed 6 months.



Notice No. 5000-1107

Describes the implementation of the new ARC Loan program including hyperlinks to the forms, and the federal register where the interim final rule governing the program were published on 6-9-09.



ARC Loan Basics

- New, temporary, guaranteed loan program
- Deferred payment loan
- Up to \$35,000
- Proceeds used to make P&I payments on qualifying small business loans (QSBL)
- Interest-free to borrower
- SBA pays interest to lender
- No fees charged by SBA or lenders to borrowers, other than direct costs of securing and liquidating collateral
- ARC Loans available until funding runs out or September 30, 2010, whichever occurs first



ARC Loan Structure

- Disbursement Period: Up to 6 months payments of principal and interest on one or more QSBL
- Deferral Period: Loan deferred for 12 months beginning after last disbursement
- Repayment Period: Loan repaid over 5 years
- Maximum Term: 6.5 years
 - Max term will be less than 6.5 years if disbursement period is less than 6 months



Lenders

- ARC loans made by 7(a) lenders
 - Delegated lenders may make ARC loans on a delegated basis if already approved to make PLP, SBA Express, Community Express and/or Patriot Express
 - Non-delegated lenders may make ARC loans by submitting them to the 7(a) Loan Guarantee Processing Center (LGPC), located at Citrus Heights, CA
 - New SBA lenders may become 7(a) lenders by following existing procedures and may make ARC loans by submitting them to the 7(a) LGPC
 - New SBA Express lenders must submit ARC Loans on a non-delegated basis
- Lenders must apply 7(a) program requirements to ARC loans unless different provisions are provided for in regulation and procedural guidance.



Eligibility Requirements

- ARC loan borrowers must be eligible under the basic eligibility requirements for 7(a) loans including small business size standards
- Additional Requirements:
 - Viable Small Business
 - Immediate Financial Hardship



Viabile Small Business

- Established, for-profit business
- Going concern
- Difficulty making periodic payments of principal and interest on qualifying small business loans and/or meeting operating expenses
- Able to demonstrate projected continued operation beyond the six month period of payment assistance with an ARC loan
 - Quarterly cash flow projections for the two year period after the ARC Loan is made
 - 1.0 debt service coverage acceptable (Business income covers operating/debt service expenses)



Immediate Financial Hardship

- Lender must document and borrower must certify and provide evidence of immediate financial hardship
- An immediate financial hardship is difficulty making periodic payments of principal and interest on loans and/or difficulty meeting operating expenses based upon current business environment
- Examples include:
 - Declining sales and/or revenues;
 - Increasing expenses;
 - Reduced working capital;
 - Cash shortage due to frozen inventory or receivables, accelerated debt or reduced or frozen credit lines;
 - Difficulty in making loan payments on existing debt;
 - Difficulty in paying employees;
 - Difficulty in purchasing inventory, materials or supplies; and/or
 - Difficulty in paying rent and/or other operating expenses.



Ineligible Small Businesses

- Ineligible small businesses for ARC loans are the same as for 7(a) loans
- Prohibited NAICS Codes:
 - Casinos
 - Casino Hotels
 - Other Gambling Industries
 - Golf Courses and Country Clubs
 - Zoos and Botanical Gardens
 - Fitness and Recreational Sports Centers
(May be approved by 7(a) LGPC)
- New Start-Up Businesses (No history of operations)
- Business Expansions
- Previous Loss to Government



Use of Proceeds

ONLY one eligible use of proceeds:

Making periodic payments of principal and interest on QSBLs



Use of Proceeds

- Ineligible use of proceeds includes:
 - Any purpose other than P&I payments on QSBLs
 - Purpose that does not benefit the borrower
 - Provide or refinance funds used for payments, distributions, or loans to an associate of borrower



QSBLs

- Qualifying Small Business Loan: Existing Loan made to a small business concern meeting 7(a) eligibility standards
- Types of Loans:
 - Mortgages
 - Other secured and unsecured loans
 - 504 first mortgages
 - Capital leases
 - Notes payable to vendors/suppliers/utilities
 - Home equity loans used to finance business operations
 - Credit card obligations used to finance business operations
 - Balloon payments with maturities within 6 month disbursement period
 - SBA loans made or guaranteed on or after 2/17/09 (includes 7(a), 504 and disaster loans)



QSBLs

- QSBLs: Note with scheduled payments of principal and/or interest
- May be same institution debt and/or other institution debt
- Provisions with regard to preference and refinancing do not apply
- Lenders must consider borrowers' overall financial situation and debt burden and allocate ARC Loan proceeds in a manner designed to promote borrower's long-term viability
- Lender must document the existence of QSBL(s) and determine that the QSBL(s) are eligible for ARC proceeds



QSBLs – Special Rules

- Business Lines of Credit
 - Two forms – 6 disbursements or 1 disbursement
 - If 1 disbursement, payments on underlying LOC must be deferred for 5 months and LOC limit may not be reduced for 18 months unless underlying loan goes into non-accrual
 - Lender certifies structure is in best interest of borrower
- Home Equity Loans and Credit Card Obligations
 - May only pay for business related portion of these obligations
 - Lender must obtain documentation for each business related purpose
 - Borrowers must certify that amounts were exclusively used for business expenses
 - Payments may not exceed the amounts documented for business purposes and interest is pro-rated



Terms and Conditions

- Maximum Size \$35,000
- 100% Guaranteed
- Interest-free to borrower
- Interest paid by SBA to lender throughout life of loan beginning with first disbursement
- Lenders may not charge default interest rates



Terms and Conditions

- May include restructuring and deferrals of non-SBA loans as part of ARC loan transaction
- Collateral – Required consistent with conventional lending practices for similar sized commercial loans (lender certification required)
 - Secured vs unsecured
 - Not having sufficient collateral to meet conventional requirements should does not make a borrower ineligible
- Fees – No fees other than cost of securing and liquidating collateral
- Secondary Market – No secondary market sales and/or sales of participations



Terms and Conditions

- Disbursements:
 - Directly to QSBL payee(s) (electronically or by check); and/or
 - Jointly issued checks made out to the borrower and the QSBL payee(s)
 - In no instance directly to the borrower
- Increases – only with prior written approval of SBA but total loan may not exceed \$35,000
- Personal Guarantees – required of holders of at least a 20% ownership interest
- Personal Resources Test not required



Terms & Conditions

- Bankruptcy –
 - Not eligible if if not discharged or without a confirmed bankruptcy plan
 - Otherwise, may be eligible for ARC Loan based on lender's credit analysis
- One ARC loan per small business
 - Proceeds may pay P&I on multiple QSBLs
 - Additional ARC Loan applications for affiliate businesses must be approved by 7(a) LGPC



ARC Loan Eligibility

- Lenders screen for eligibility
- Delegated lenders will complete eligibility checklist and make eligibility determinations
- Non-delegated lenders will complete eligibility checklist and submit to 7(a) LGPC



Credit Criteria

- If borrower meets following credit criteria, delegated lenders may make ARC Loans on a delegated basis, otherwise it must be submitted to the 7(a) LGPC for approval:
 - Borrower in operation for at least 2 years
 - Annual financial statements (balance sheet, income statement, cash flows) demonstrating business is a going concern and had positive cash flow in at least one of past two years (Interim financial statements required if 90 days past borrower's fiscal year end)



Credit Criteria

- Credit Criteria (continued)
 - Quarterly cash flow projections for two years demonstrating sufficient cash flow to meet debt burden
 - 1.0 debt service coverage is acceptable
 - Borrower certification that it is current or not more than 60 days past due on any QSBL being paid with the ARC Loan. Deferred loans are not considered past due until they have been deferred for more than 3 months.
 - Borrower certification with documentation as to immediate financial hardship
 - Acceptable business credit score (obtained by SBA)
- Loans made by non-delegated lenders must consider the same criteria but final credit decision is made at the 7(a) LGPC.



Application of ARC Loan Disbursements

- ARC Loan payments prioritized in following order:
 - Up to six months monthly payments of scheduled principal and/or interest payments on the Borrower's QSBLs (including scheduled balloon payments)
 - Any remaining amount available on the loan in the sixth disbursement month, after the scheduled monthly principal and/or interest payments have been made, may be used to prepay principal on a QSBL



Approval

- Delegated Lenders
 - Submit via E-Tran
 - Certify eligibility and credit criteria and submit for loan number
 - SBA obtains business credit score (Liquid Credit)
 - If loan scores within acceptable limits, loan number is provided to lender via E-Tran
 - If not within acceptable limits, loan is referred to the 7(a) LGPC for further review
- Non-Delegated Lenders
 - Lender prepares package, applies same credit criteria and submits to 7(a) LGPC for approval
 - Loan is underwritten, including a business credit score, and an approval/disapproval decision made
 - Decision communicated to lender
 - Turnaround time: 10 business days



Credit Score

- Liquid Credit
- Hybrid Business Score
 - Consumer Credit Information
 - Business Credit Information
- SBA will obtain (and pay for) credit score
- High and Low Score Cut-Offs



E-Tran

SBA Loan Origination System - Microsoft Internet Explorer provided by SBA

Address: https://eweb.sba.gov/elend/applications/dataentry/dsp_frames.cfm?GoToAuditId=0&GoToPageType=lend

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Electronic Lending
 Americas Recovery Capital (ARC) Stabilization Loan

Expand Collapse

INNOVATIVE EXCAVATION, INC.

- Lender Info
- Application Info
- Use of Proceeds
- Lender Comments
- Project Info
- Eligibility
- Borrowers

INNOVATIVE EXCAVATION, INC. SOUTH JORDAN UT Amount \$35,000 Status **Approved Pending Funds** App 10298936

Use of Proceeds , Application

| Code | Description | Amount | Comments |
|---------------|---|-------------|----------|
| R01 | Pay Notes Payable - Trade, etc.* | | |
| R02 | Pay Notes Payable - Mortgage - not Same Institution Debt (SID) | | |
| R03 | Pay Notes Payable - Mortgage - Same Institution Debt (SID) | | |
| R04 | Pay Notes Payable - Secured Lender Debt - not SID | | |
| R05 | Pay Notes Payable - Secured Lender Debt - SID | | |
| R06 | Pay Notes Payable - Unsecured Lender Debt (except credit card debt) - not SID | \$35,000.00 | |
| R07 | Pay Notes Payable - Unsecured Lender Debt (except credit card debt) - SID | | |
| R08 | Pay Credit Card Debt | | |
| R09 | Pay Capital Lease | | |
| R10 | Pay SBA Loan made on or after 2/17/09 | | |
| R11 | Pay Home Equity Loan | | |
| Total: | | \$35,000.00 | |

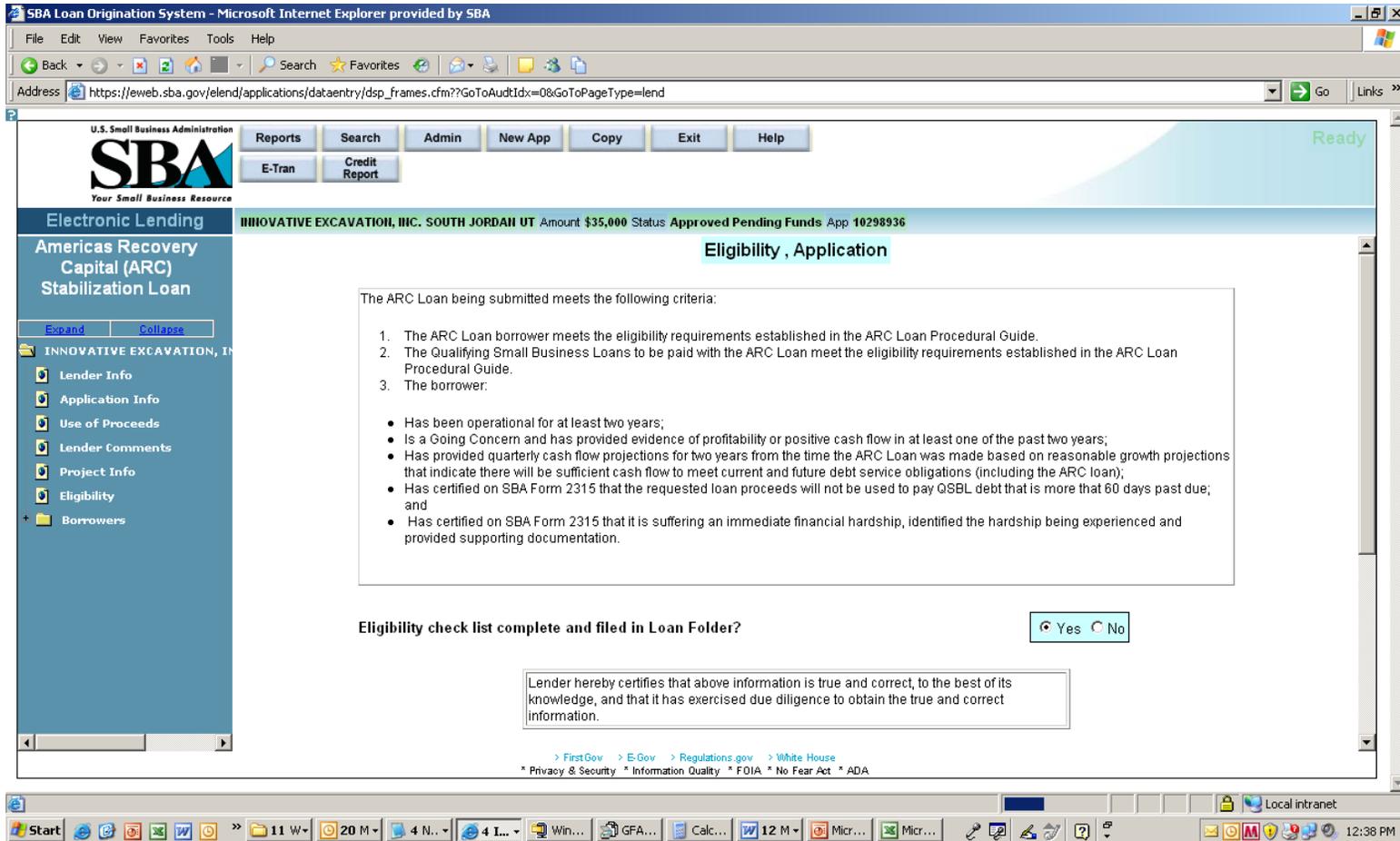
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E-Tran



SBA Loan Origination System - Microsoft Internet Explorer provided by SBA

Address: https://eweb.sba.gov/elend/applications/dataentry/dsp_frames.cfm??GoToAuditIdx=0&GoToPageType=lend

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INNOVATIVE EXCAVATION, IHC, SOUTH JORDAN UT Amount \$35,000 Status **Approved Pending Funds** App 10298936

Eligibility, Application

The ARC Loan being submitted meets the following criteria:

1. The ARC Loan borrower meets the eligibility requirements established in the ARC Loan Procedural Guide.
2. The Qualifying Small Business Loans to be paid with the ARC Loan meet the eligibility requirements established in the ARC Loan Procedural Guide.
3. The borrower:
 - Has been operational for at least two years;
 - Is a Going Concern and has provided evidence of profitability or positive cash flow in at least one of the past two years;
 - Has provided quarterly cash flow projections for two years from the time the ARC Loan was made based on reasonable growth projections that indicate there will be sufficient cash flow to meet current and future debt service obligations (including the ARC loan);
 - Has certified on SBA Form 2315 that the requested loan proceeds will not be used to pay QSBL debt that is more than 60 days past due; and
 - Has certified on SBA Form 2315 that it is suffering an immediate financial hardship, identified the hardship being experienced and provided supporting documentation.

Eligibility check list complete and filed in Loan Folder? Yes No

Lender hereby certifies that above information is true and correct, to the best of its knowledge, and that it has exercised due diligence to obtain the true and correct information.

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Interest Payments

- Lenders calculate interest based on existing methods
- Rate of interest initially established by SBA at Prime plus 2%, adjusted on the first day of the month based on the Prime rate in effect on that date
- Lenders bill SBA for interest payable through their 1502 report
- SBA conducts tests for reasonableness of interest payable
- If within established tolerance levels, interest payment made by SBA to lender
- Lender are NOT to deduct interest from fees due to SBA as part of 1502 submission
- SBA contractor will conduct reconciliations, audits, follow-up on lender reporting issues, and assist with overall portfolio management
- Lender agrees to make interest payment reconciling adjustments to address over and/or underpayments during life of loan



Closing

- Loan Authorization Required
- Closing conditions must be satisfied before loan disbursement
- Additional closing conditions that must be met before disbursement:
 - Schedule of ARC Loan payment disbursements required
 - IRS verification of financial information
 - Third Party Payments
 - Adverse Change
 - Hazard Insurance (if collateralized)
 - Flood Insurance (if collateralized)
 - Environmental Reviews (if collateralized)
 - Child Support Payments



Servicing Requirements

- Processes same as required for non-SBA guaranteed commercial loans
- ARC Loan deferrals allowed but loan term may not be extended so loan must be re-amortized
- Prior, written SBA consent required:
 - Increase in ARC Loan principal amount
 - Compromise principal balance or release guarantors
 - Take title to property in SBA's name
 - Take title to environmentally contaminated property
 - Transfer or pledge of a loan
 - Deferrals beyond 6 months



Servicing Requirements

- Notice to SBA Required:
 - Decrease principal amount
 - Cancel loan
 - Name changes
 - Address changes
 - Loan maturity changes
 - Assumption approvals
 - Liquidation classification
 - Deferrals of 6 months or less



Liquidation Requirements

- Process same as required for non-SBA guaranteed commercial loans
- Liquidation
 - Lenders liquidate loans with collateral in excess of \$1,000
 - Lenders may request Treasury off-set for loans with collateral of \$1,000 or less
- Liquidation actions must be documented
- Wrap up report required upon completion of liquidation
- Application of liquidation proceeds:
 - Liquidation expenses
 - Principal balance of loan



ARC Loan Purchases

- Not required to liquidate prior to requesting purchase
- Lenders may submit for purchase:
 - 60 days after default
 - Borrower files for bankruptcy
- SBA requires purchase no later than 120 days after earliest uncured payment default
 - No interest paid by SBA from 120 days after earliest uncured payment default
- Expedited purchase procedures to be applied
- ARC Loan purchases to be processed in Fresno and Little Rock



Lender Portfolio Performance

- Lenders making ARC loans will have their performance assessed consistent with 7(a) and 504 practices
- Given that a higher default rate for ARC loans is expected, some accommodation will be made in performance assessment
- Lenders may be suspended or their ability to make ARC loans revoked if a lender does not continue to meet SBA program requirements



Program Limitations

- Program level
 - Approximately \$335 MM
 - ARC Loans available until funding runs out or September 30, 2010, whichever occurs first
- Lender Limits
 - Lenders may make no more than 1,000 ARC Loans in total (no guarantee of 1,000 ARC Loans; program expires when funding is fully used or September 30, 2010, whichever occurs first)
 - Lenders may only submit 50 loans per week
 - Unused amounts may accumulate up to total of 1,000
 - Limits apply to both delegated and non-delegated loans
 - SBA will evaluate weekly limits periodically, first evaluation expected in August 2009

SBA Contact Information

U.S. Small Business Administration



7(a) Loan Guaranty Processing Center

- 916-735-1960 (Voice)
- 916-735-1554 (Fax)

Little Rock Servicing Center

- 800-644-8564

Fresno Servicing Center

- 800-347-0922

E-Tran

- Steve Kucharski – 202-205-7551 or stephen.kucharski@sba.gov
- Glenn Hannon – 202-205-7122 or glenn.hannon@sba.gov
- Jihoon Kim – 202-205-6024 or jihoon.kim@sba.gov



1502 Information

www.colsonservices.com



Comments on the Regulations

Comments on the interim final rule on the ARC Loan program (published on June 9) and the interest that will be paid by SBA to the lender (published on June 10) may be entered on www.regulations.gov, then follow the instructions.



Questions & Answers