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# **SBA and Your Commercial Lending Program**

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## **A Partnership that Works for Small Business**

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# What will be Covered

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- SBA Information Sources and Contacts
- Why Lenders use SBA Guarantees
- 7(a) Basics
- 7(a) Loan Programs
- Types of 7(a) Lenders
- Centralized Process
- Eligibility Requirements

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# SBA Lender Resources

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- **SBA Banking Web Site**
  - [www.sba.gov/banking/](http://www.sba.gov/banking/)
  - Standard Operating Procedures Including:
    - 50-10-5(B)= Processing SOP
      - Revised October 1, 2009
  - Policy and Procedural Notices
  - Loan Program Guides
  - SBA Forms
- **Web sites for each center**

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# SBA Lender Resources

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- **Michigan District**
  - **Detroit (313) 226-6075**
    - Al Cook, Ext. 221
    - Ken Kolasa, Ext. 228
    - Romy Ancog, Ext. 259
    - Fax (313) 226-4769
  - **Grand Rapids (616) 456-5512**
    - Brian Picarazzi
    - Fax (616) 456-5514
  - **Email** – [brian.picarazzi@sba.gov](mailto:brian.picarazzi@sba.gov)
    - or [kenneth.kolasa@sba.gov](mailto:kenneth.kolasa@sba.gov)
    - or [allen.cook@sba.gov](mailto:allen.cook@sba.gov)
    - or [romualdo.ancog@sba.gov](mailto:romualdo.ancog@sba.gov)

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# SBA Lender Resources

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- **Bank Notes – sign up at**  
<http://web.sba.gov/list/>
- **Lender's Page -**  
[www.sba.gov/mi/lenders](http://www.sba.gov/mi/lenders)
  - Past Issues of Bank Notes
  - Latest notices

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# Why use an SBA Guaranty?

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- **Reduces Lender Risk**
- **Enhance Lender Liquidity & Profitability**
- **Increase Lender Regulatory Loan Limits**
- **Expand Lender Services to Small Business**

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# 7(a) Basics

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- **Terms of the Loan**
- **Uses of Loan Proceeds**
- **Basic Credit Requirements**
- **General Maturities and Maximums**
- **SBA Interest Rate Policy**
- **Fees**
- **Prepayment Penalties**

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# 7(a) Basics

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## Terms of the Loan

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Total Loan may not exceed  
\$2,000,000

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Total Guaranteed Amounts not to  
exceed \$1,500,000 to any one  
borrower + its affiliates:

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# Terms of the Loan

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## Maximum Guaranty Percentage

- \$150,000 or less = 85%
- Greater than \$150,000 = 75%

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- **Recovery Act Provision:**
  - **90% guaranty (excluding SBAExpress)**
  - **Available until support funds exhausted**
    - Through March 28, 2010
  - **Maximum guaranty remains \$1,500,000.**
    - Loans between \$1,666,666 and \$2,000,000 will have a guaranty from 75% to 90%

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# Uses of Loan Proceeds

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- **New starts**
- **Buyouts**
- **Expansions**
- **Working Capital**
- **Land / Buildings / Equipment**
- **Inventory / Materials**
- **Debt Refinancing**

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# Basic Credit Requirements

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- **Repayment ability from earnings**
- **Sufficient invested equity**
- **Character, reputation and credit history**
- **Experience and depth of management**
- **Nature and value of collateral**
  - Personal guarantees from all 20%+ owners
  - Must use all available if factored coverage is < 1:1

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# General Maturities and Maximums

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**Maturity-** Shortest appropriate term consistent with repayment ability and useful life of assets being financed.

- **Working Capital:** Up to 10 years
- **M&E/F&F:** 10 years, Max 25
  - Not to exceed life of asset
- **Land/Building:** 25 years Maximum
  - Plus time needed to complete construction or renovation
- **Refinancing:** Based on use of proceeds of the underlying loan being refinanced – remaining useful life of assets.

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# Maturity of SBA Loans

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- Mixed Loan Uses – Two Approaches
  - Blended Term – Maturity based on weighted average
  - Term based on principal use of proceeds
    - May use the maximum term of asset class that is the largest percentage of use of proceeds
    - Must also consider ability to repay

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# Weighted Average

<u>Purpose</u>	<u>Amt</u>	<u>%</u>	<u>Mat</u>	<u>WGT</u>
Real Estate	\$300.0	60	25	15
M&E	\$100.0	20	10	2
<u>W/C</u>	<u>\$100.0</u>	<u>20</u>	<u>7</u>	<u>1.4</u>
	\$500.0	100		18.4

18 year term!

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# Principal Use of Proceeds

From Same Example:

<u>Purpose</u>	<u>Amt</u>	<u>%</u>	<u>Mat</u>
Real Estate	\$300.0	60	25
M&E	\$100.0	20	10
W/C	\$100.0	20	7
	\$500.0	100	25

**Term = 25 years**

**Also consider repayment ability**

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# SBA Interest Rate Policy

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- Fixed and variable rates allowed
- Maximum Rates tied to Base Rates
  - Low prime rate published in Wall Street Journal or (Base rate for March - 3.25)
  - “optional peg” rate or (Base 3.75 through March)
  - One Month LIBOR rate + 3 Percent to establish the Base Rate (Base - 3.23)
  - A separate maximum allowable fixed rate will be published periodically in the federal register (Base rate for March is 6.36)
- All Rates Posted on Colson Web Site:  
[www.colsonservices.com/main/news.shtml](http://www.colsonservices.com/main/news.shtml)

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# SBA Interest Rate Policy

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## Based on loan term

- < 7 years: Base Rate+2.25%
- 7 years or more: Base Rate+2.75%
- Loans \$50,000 or less can have higher rates
  - Loans up to \$25,000: 2 pts over max
  - Loans from \$25,001 to \$50,000: 1 pt over max

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# Fees

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- Guaranty Fees – Fee charged on guaranty portion of loan
- Lender Fee – On-going servicing fee charged to lender

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# Calculation of Guaranty Fee

Calculated as a % of Guaranteed Portion  
– May be passed on to borrower

<u>Loan Amount</u>	<u>Fee</u>
Up to \$150,000 – Lender may retain 25% of fee	2%
\$150,001 to \$700,000	3%
\$700,000 to \$2,000,000 plus additional .25% fee on guaranty portion over \$1,000,000	3.5%
Loans 12 months or less maturity	.25%

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# Guaranty Fee

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## Recovery Act Change:

- **Fees eliminated (except for loans of 12 months maturity or less)**
  - **Through March 28, 2010**

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## Lender Fee

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- On-going servicing fee for all SBA 7(a) loans
  - Cannot be passed on to borrower!
- .55 percent annual fee on guaranteed portion of 7(a) loans (for FY 2010)
  - Paid monthly
  - Fee Percent may be changed annually

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# Prepayment Penalties

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Only applies to loans with 15 years or greater maturity

- 5% of prepaid amount in 1st year
- 3% of prepaid amount in 2nd year
- 1% of prepaid amount in 3rd year

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## 7(a) Loan Programs

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- Regular – Term Loans Only
- Caplines - Lines of Credit
- Dealer Floor Plan
- SBA*Express*
- Patriot Express
- Small and Rural Lenders Advantage Initiative
- SBA Trade Finance Programs
  - Export Working Capital Program
  - Export*Express*

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## **SBA *Express***

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- **Guaranty % - 50%**
- **Guaranty Fee - Same as Regular 7(a)**
- **Loan Limit - \$350,000 (per loan & cumulative Express)**
- **Lender must request SBA approval to participate**

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# SBA *Express*

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- **Interest Rate Maximums**
  - Loans \$50,000 or less: Base + 6.5%
  - Loans > \$50,000 to \$350,000: Base + 4.5%
- **Lenders use own forms & procedures**
  - Applications
  - Internal credit memoranda
  - Loan notes (legally enforceable)
  - Collateral documents
- **Lender has unilateral approval authority**

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# Patriot Express

- **85% - 75% Guaranty**
- **Increased to 90% by Recovery Act**
  - Business must be majority owned by:
    - Veteran, Member of Guard or Reserve, Active-duty service members eligible for T.A.P., Spouses, Surviving Spouse (Service connected death)
- **\$500,000 maximum loan**
  - Interest rate same as regular 7(a)
  - Same Streamlined loan process as *SBAExpress*
  - Unilateral approval authority
- **Lender must be approved for *SBAExpress* to participate**

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# Small/Rural Lender Initiative

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Eligibility: Lenders that have averaged fewer than 20 SBA loans per year over the last three years. Slides at end of presentation

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## **\$350,000 Maximum Loan**

Features:

1. Streamlined loan application and process for SBA loans of \$150,000 or less (85% guaranty)
2. Limited additional information and analysis required for loans above \$150,000 (75% guaranty)
3. Expedited SBA processing within 3-5 days
4. Submission Process same as regular 7(a)

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**Guaranty Increased to 90% by Recovery Act**



# SBA Trade Finance Programs

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- Export Working Capital Loans
- Export Express
- SBA Trade Credit Officer aids in transaction assessment and tailored deal-structuring

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# Types of 7(a) Lenders

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## Regular & S/RLA Participants

- Submitted to **Loan Guaranty Processing Center**
- 10 day turn around on approvals
- 3-5 days for S/RLA

## Lenders with Delegated Authority:

- Lenders have unilateral approval authority
- Documentation submitted to **Sacramento Loan Processing Center**
- SBA*Express* & Patriot Express Lenders
- Preferred Lenders

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# Regular 7(a) Loan Processing

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# SBA Centralized Process

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## How does Centralized Processing work?

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- Determine that the loan cannot be made without SBA's guaranty.
- Determine SBA eligibility using the Eligibility Questionnaire.
- Complete 7(a) Application and supporting documents
  - Ensure all documents are complete including all signatures.
- Submit Application

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# Submitting Application

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**Fax:**

**SBA's Standard 7(a) Loan Guaranty Processing  
Center**

**606-435-2400**

**916-735-1975 or (916) 735-1680**

**Mail or FedEx:**

**SBA Standard 7(a) Loan Guaranty Processing  
Center**

**262 Black Gold Blvd.**

**Hazard, KY 41701**

**or**

**SBA Standard 7(a) Loan Guaranty Processing  
Center**

**6501 Sylvan Rd.**

**Citrus Heights, CA 95610**

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# Submitting Application

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**Email: [7aloanprogram@sba.gov](mailto:7aloanprogram@sba.gov)**  
if attachments are under 5 megs.

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**FTP:**

**[www.sba.gov/banking](http://www.sba.gov/banking)**

**“Submit 7a Loan Documents Here”**

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LGPC

SBA Program Office

Contact

Standard 7a Loan Guaranty Processing Center (LGPC)

FAQ



6501 Sylvan Road  
Citrus Heights, CA 95610  
Phone: (916) 735-1515 ext. 4368  
Fax: (916) 930-2180

262 Black Gold Blvd  
Hazard, KY 41701  
Phone: (606)436-0801  
Fax: (606)435-2400

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E-PAYMENTS

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MOST REQUESTED ITEMS

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- Resources**
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- > Notices
- > Regulations & SOPs
- > Forms
- > Authorizations
- > Loan Program Guides
- > Lender/Loan Data
- > 1502 Reporting
- > Secondary Market
- > NGPC
- > LGPC
  - > FAQs
  - > Loan Application
  - > Forms Library
  - > Current Issues / Alerts
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# Submitting a Loan to SBA

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- If you have any questions please call your local field office  
or
- Email at [7aquestions@sba.gov](mailto:7aquestions@sba.gov)

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# Documentation

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- Eligibility Questionnaire - not required, however will expedite processing.
- Completed 7(a) Application and all supporting documents.
- A completed authorization may be submitted by the Lender. If not provided by the Lender, the Center will complete one.

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# Eligibility Questionnaire

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- **Should be reviewed first!**
- **Not mandatory, but highly recommended – may become mandatory in future**
- **Make sure all information is entered and all appropriate boxes are checked**

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# Eligibility Questionnaire Continued

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Sections (see handout):

- I – General information
- II – Citizenship
- III – Personal History – Form 912
- IV – SBA Loan History
- V – Size & Affiliations
- VI – Preferences

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# Eligibility Questionnaire Continued

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- VII – Type of Business
- VIII – Use of Proceeds
- IX – Terms of the Loan
- X – Personal Resources Test
- XI – Conflicts of Interest
- XII – Ethical Requirements
- XIII – Special Programs

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# Eligibility Questionnaire Continued

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## I – General information

- If no is checked on any statement, loan not eligible

## II – Citizenship

- If one or more principals not a citizen, proceed to Addendum A.
- Send USCIS G-845 Form to:

**U.S. Citizenship and Immigration Service**

**10 Fountain Plaza, 3rd Floor**

**Buffalo, NY 14202-2200**

**Attn: Immigration Status Verification Unit**

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# Eligibility Questionnaire Continued

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## III – SBA Form 912

- Yes on Question 7 (Principal(s) on Probation or Parole) = not eligible
- Principals that have ever been arrested, charged, or convicted must be cleared through the District Office before proceeding with an SBA loan
  - See Sop 50-10-5, Subpart B, Chapter 2, for detailed requirements

## IV – SBA Loan History

- Detail needed if applicant or affiliate(s) have current or previous SBA loan

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# Eligibility Questionnaire Continued

## V – Size & Affiliations

- **Varies by NAICS code, but generally:**

Retail	\$7 to \$35.5 Million
Service	\$7 to \$35.5 Million
Manufacturing	500 to 1,500 Employee
Wholesale	100 Employees
Construction	\$7 to \$33.5 Million

For additional information: [www.sba.gov/size](http://www.sba.gov/size)

- The applicable size standards are increased by 25 percent when the applicant agrees to use all of the financial assistance within a labor surplus area.

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# What About Affiliates?

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- The applicant + affiliates must be combined to determine eligibility
- It is an Affiliate when:
  - One party controls
  - OR
  - A 3rd party controls both
  - OR
  - An identity of interest exists
- Two pronged test:
  - Entire group, as a unit, must meet standard for the group's primary industry
  - The applicant, itself, must meet its size standard

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# Alternate Size Standard

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- A new alternative size standard for 7(a) loans is available on a temporary basis.
- The rule expires on September 30, 2010.
- Can Apply to any applicant (Including its affiliates)
  - Tangible net worth not in excess of \$8.5 million, and
  - Average net income after Federal income taxes not in excess of \$3.0 million for the preceding two completed fiscal years (excluding any carry-over losses).

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# Eligibility Questionnaire Continued

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VI – Preferences – a lender may not take any action in connection with an SBA-guaranteed loan that establishes a preference in favor of the lender.

- When other (non SBA) financing involved – it cannot have superior lien position on same assets used as collateral for the SBA loan.

VII – Type of Business

- A – Ineligible Businesses
- B – Special Circumstances
- C – Eligible Passive Companies

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# Ineligible Businesses

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- **Non Profits** (for profit subsidiaries may be eligible)
- **Financial businesses**
- **Life Insurance companies**
- **Pyramid Sale distribution plans**
- **Government-owned entities**
- **Cooperatives**
- **Loan Packagers** (those that earn more than one-third of their income from SBA packages)
- **Speculative businesses**

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# More Ineligible Businesses...

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- Gambling Activities
- Promoting Religion
- Providing Sexual Material
- Prior Loss to the Government
- Passive Owners of Property
- Principal(s) on Probation or Parole
  - Principals that have ever been arrested, charged, or convicted must be cleared through the District Office before proceeding with an SBA loan

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# Special Circumstances

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Must justify eligibility when:

- Legal gambling activities
  - Less than 1/3 of gross annual revenue
  - Not primary purpose of business
- Pawn shops/Check Cashing (>50% of income from loan interest)
- Motels, Trailer/RV Park, Campground
  - 50% of Income from transients staying less than 30 days

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# Eligible Passive Company

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- An Eligible Passive Company (EPC) is generally formed to hold the fixed assets of an Operating Company (OC)
- What makes this different from an “ineligible” passive company?
  - All parties financially obligated
  - Not considered investment because of lease arrangement
  - Benefit to a small business concern
- Specific requirements
  - Review requirements in SOP 50-10-5

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# Eligibility Questionnaire Continued

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## VIII – Use of Proceeds

- Refinancing Debt
- Change of Ownership
- Real Estate involving rentals
- Non-eligible use of proceeds

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# Refinancing Existing Debt

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- Two-tiered Test:
  - Credit must not be available elsewhere on reasonable terms
  - Refinancing must provide small business a substantial benefit

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# Refinancing

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- Is the existing cash flow adequate to meet the existing obligations?
- Reasonable at inception may or may not still be reasonable for current needs of the business
- Be careful of credit risk

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# Refinancing

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- Debt considered unreasonable:
  - Restructuring of revolving lines of credit – other lender not willing to renew line or better interest rate and/or term
  - Business credit cards (business use must be certified)
  - Long term debt structured with a demand note or balloon payment



# Refinancing

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- Debt that must show 10% payment improvements:
  - Funds used to finance a change in ownership, business valuation needed
  - Interest exceeds SBA Maximum
  - Over collateralized debt
  - Debt that no longer meets borrower's need
  - For multiple notes, Each DOES NOT have to be improved by 10%, but none may have a higher debt service after the refinancing

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# Refinancing **SAME LENDER** debt

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- Must be current for the last 36 months:
  - Not more than 29 days pass due at any time during that period
  - written certification of currency
  - transcript of account
  - Regular processing only

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# Change of Ownership

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- **Promote development of or preserve the business**
  - Must be in the best interest of the business (Not buyer or seller)
- **Arms-length transaction**
  - Buy-Sell Agreement
  - Third Party Business Valuation required if intangible assets exceed \$250,000
    - Must be performed by a “qualified source”
    - Can be obtained prior to loan closing
      - Must be within 90% of estimated value
  - Current financial statements for existing business

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## Change of Ownership

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- **Lender cannot use delegated authority (PLP) for intangible financing (Goodwill, patents, etc,) when it is in excess of \$500,000 unless:**
  - The buyer and/or seller finance at least 25% and
  - Seller financing is on full stand-by for principal and interest for at least two years

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# Real Estate Occupancy Rule

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## Existing Property

- 51% occupancy (Rentable Space)
- No additional occupancy requirement
- Loan proceeds cannot be used to remodel rental space

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# Real Estate Occupancy Rule

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## For New Construction Loans

- 60% of rentable space must be occupied by the applicant “permanently”
- 20% of space may be leased out “permanently”
- 20% of space may be leased out “temporarily”
  - applicant must occupy some of the space within 3 years
  - applicant must occupy all of the space within 10 years

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# Non Eligible Use of Proceeds

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## These are generally not eligible for SBA financing:

- To pay delinquent taxes or other funds held in trust (payment of delinquent income taxes may be permitted if the applicant has an approved payment arrangement with the IRS)
- To pay or refinance debt used for distributions to associates of the applicant
- Community improvements (curbs and sidewalks, etc.) in excess of 5% of construction proceeds of the loan

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# Eligibility Questionnaire Continued

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## IX – Terms of the Loan

- a. Guaranty Percentage
- b. Loan and Guaranty Amount
- c. Maturity
- d. Interest Rate

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# Eligibility Questionnaire Continued

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## X. Personal Resources Test

- Must determine if liquid assets of the applicant's principals are available
- Use the personal resource formula to determine what amount of liquid assets are considered reasonable for the principals to retain
- Applies to 20% or more owners
- Personal Financial Statement (SBA Form 413 or lender's form)
  - Spouse must sign!

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# Calculation of Exemption

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- Document Liquid Assets on Eligibility Questionnaire
  - Defined on Page 97 of SOP 5-10-5(B)
- SBA bases rule on “total financing package”, not loan amount
  - TFP = SBA loan + other loans + equity injection
- One exemption provided to each owner household
- Tiered calculation

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# Personal Resource Exemption:

TFP

Exemption

whichever is greater:

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\$250,000 or less

2x or  
\$100,000

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\$250,001 - \$500,000

1.5x or  
\$500,000

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Over \$500,000

1x or  
\$750,000



# Eligibility Questionnaire Continued

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## **XI – Conflicts of Interest**

- Review each item
- Not necessarily ineligible, but each “Yes” must have complete detail in “Comments” section

## **XII – Ethical Requirements**

- If checked, loan not eligible

## **XIII – Special Programs**

- CAPLines, Export Working Capital Program, and/or International Trade Program

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# Franchise Information

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- Franchise Registry ([www.franchiseregistry.com](http://www.franchiseregistry.com))
- Lender should check with SBA concerning the franchise eligibility
  - If the franchise is on the franchise registry, the franchisor must certify there are no changes
  - If not on franchise registry, SBA must review franchise agreement & FTC Disclosure Document
- Examples of eligibility problems:
  - Franchisor restricts use of property
  - Franchisor directly controls the applicant's employees

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# Application

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Use the Application Submission Checklist

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Not all of the checklist items apply to every loan, but review to ensure all required items are included.

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Again, not required, but highly recommended.

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## Checklist Items

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Listed as they appear on the checklist:

- SBA Form 4, Application for Loan Borrower's Application
  - Form 4 Exhibits:
    - Form 912, Statement of Personal History, for each 20% owner
    - SBA Form 4, Schedule A (or bank's collateral schedule)
    - Personal Financial Statements – bank form or SBA Form 413

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## Checklist Items Continued

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- Business Financial Statements:
  - Balance Sheet & P&L for last three years
  - Reconciliation of Net Worth
  - Interim Balance Sheet and P&L (within 90 days)
  - Subsidiary and affiliate info
  - Cash flow projection
- History of business
- Resume of principals

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# Checklist Items Continued

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- Miscellaneous:
  - Copy of lease
  - Detailed list of machinery and equipment
  - Real Estate purchase info (appraisal, environmental, purchase agreement)
  - Franchise Information
- Other Forms:
  - IRS Form 4506-T (Date of Submission)
    - New IRS Electronic Income Verification Express Service (IVES) program, Notice 5000-1087, Register at:  
<http://www.irs.gov/individuals/article/0,,id=161649,00.html>
  - USCIS Form G-845 – Include USCIS Response
  - SBA form 1624 – signed and dated by applicant **and retained in lender's file**

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# Checklist Items Continued

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- SBA Form 4-I, Lender's Application
  - Lender Completes Form
- 4-I Exhibits:
  - Sources and Uses of Funds
  - Bank's Credit Memo
  - Justification of New Businesses and Change of Ownership Narrative
- SBA form 1846 – signed & dated by lender
- Loan Authorization
  - Latest on **SBA Banking Web Site**
  - [www.sba.gov/banking/](http://www.sba.gov/banking/)

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# Regular SBA 7(a) Application

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Steps to ensure good package:

- Review application checklist to ensure all required items are included
  - Complete Form 912 (Statement of Personal History)
- All required signatures
- No internal inconsistencies between write-up, financial statements and spreadsheets.

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# Application - Frequent Problems

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- SBA Form 4
  - Form not appropriately signed on page 3
  - Applicant's Certification on page 4 not signed (all owners and guarantors)
  - Items 9, 10, 11, 17, 18, and/or 19 not completed
  - Information on Form 4 conflicts with form 4-I and/or the credit memo with no explanation

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# Application - Frequent Problems

---

- SBA Form 4-I (Lender's Application) and Credit Memo
  - Required information is not on the 4-I or the credit memorandum
  - Form not signed and/or dated

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# Application - Frequent Problems

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Not all required forms included with application

Forms include:

- SBA Form 912 – Statement of Personal History
  - Make sure it's complete!
  - Prior clearance for those with arrest/conviction/indictment
- SBA Form 413 - Personal Financial Statement
  - Spouse must sign!
  - May use own form if it provides all data required.

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# Application - Frequent Problems

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## Financial Information

- Equity Injection for a new business is not clearly delineated as to amount and/or source
- Interim Financial Statements and Personal Financial Statements older than 90 days
- Financial Statements not signed by principal of applicant
- Less than 3 years financial information for existing business
- Applicant's net worth does not reconcile – no separate reconciliation provided

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# Application - Frequent Problems

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- No written certification and/or transcript of participant lender's loans when refinancing with SBA loan proceeds.
- Personal resource test not documented
- No information provided on affiliates, including signed financial statements

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# Application - Frequent Problems

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## Business acquisitions

- No Buy-Sell Agreement
- No/Poor Evaluation of the price of the business being acquired
  - No current financial statements for existing business
  - No reason provided for sale of business

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# Application - Frequent Problems

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## Real Estate Problems

- No Buy-Sell Agreement
- No indication that the business will immediately occupy more than 50% of an existing building
- No indication that the business will immediately occupy 60% of a building to be constructed with plans to occupy more in three years and 80% within ten years

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# Questions??



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# Small and Rural Lender Advantage Program

Eligibility: Lenders that have averaged fewer than 20 SBA loans per year over the last three years. May be expanded to all lenders

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# Lender Advantage Details

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Maximum \$350,000 loan

## Features:

1. Streamlined loan application and process for SBA loans of \$150,000 or less; with limited additional information and analysis required for loans above \$150,000 up to \$350,000
2. 75/85 percent guaranty
3. Expedited SBA processing with routine loans processed within 3-5 days
4. Submission Process same as regular 7(a)

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# Key Features

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- Simplified SBA loan eligibility questionnaire and application forms
- Eligibility assistance through the Help Desk at the Standard 7(a) Loan Guaranty Processing Center

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# The Forms

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- SBA Form 2301, Part A
  - “Small Business Application for Guaranty”
- SBA Form 2301, Part B
  - “Lender’s Application For Guaranty”
- SBA Form 2301, Part C
  - “Eligibility Questionnaire”

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## SBA Form 2301, Part A

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Borrower's Application -  
Documentation to be  
submitted by Applicant to  
the Lender:

Complete, signed and dated.  
Separate, completed forms  
identified in SBA Form  
2301, Part A

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# SBA Form 2301, Part A – Page 1

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- Section A: general information
- Section B: the loan request from the Applicant, including Form 159 if Applicant hired an agent to assist in completing the application
- Section C: listing of any existing business indebtedness



# SBA Form 2301, Part A – Page 1

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- Section D: listing of those that have completed individual Section Ds (page 2 of the form)
- Section E: signature block

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# Additional Items

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## Business Financial Statements and Projections :

- Same requirements as regular 7(a) loan (3 years for existing and buyouts).

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## Additional Items

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An itemized list of collateral

- serial/ID numbers for any valued >\$5,000.
- Real estate requires legal description

Other information lender may require

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## SBA Form 2301 A – Page 2, Section D

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- Page 2 of SBA Form 2301, Part A is the *individual* Section D
- This must be completed by EACH principal and guarantor. For example, if there are 3 principals and 2 additional guarantors, then each must complete and sign a Section D

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- D5: Disclosures including:
  - Lawsuits
  - Affiliates
  - Arrest information – SBA Form 912 needed if yes answered
  - Acknowledgement that applicant has received/read “statements required by law and executive orders”
  - Acknowledgement of liability for providing false information

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## SBA Form 2301 A – Page 2, Section D

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- Statements Required by Law and Executive Orders. SBA is required to provide this information to all applicants.
- Signature and date

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# SBA Form 2301, Part B

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## Lender's Application

- Section A: Lender information as well as Applicant's name and NAICS code
- Section B: Loan Terms. Any required life insurance, standby agreement, or equity injection
- Section C: Use of Proceeds and breakdown of collateral

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## SBA Form 2301, Part B

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- Section D: Attach the Eligibility Questionnaire (SBA Form 2301, Part C)
- Section E: IRS Form 4506-T must be completed and submitted by lender to the IRS

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## SBA Form 2301, Part B

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- Section F: Attach copy of Lender's Credit Memorandum. The requirements for what the Credit Memorandum must contain are described in the instructions that follow
- Section G: The Lender's certification to certain statements. (For example, lender has an executed SBA Form 750, *Loan Guaranty Agreement*)

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# SBA Form 2301, Part C

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## Eligibility Questionnaire

- Questionnaire (Part C of Form 2301) designed to simplify and expedite eligibility determinations by distinguishing between:
  - Applicants that are clearly eligible without any additional documentation;
  - Applicants that are not eligible; and
  - Applicants where additional information/documentation must be obtained to determine eligibility.

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## SBA Form 2301, Part C

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- Responses are “true” or “false”
  - If “true” is the only option available it means applicant must meet that requirement or they are not eligible.
- Where “false” is a choice, this means that additional documentation will be required for SBA to determine eligibility.

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# SBA Form 2301, Part C

## Example

Under the section entitled “The Small Business Applicant,” there is the following statement:

*Applicant is not a franchisee or, if the Applicant is a franchisee,  
the franchise is on SBA’s franchise registry. The  
franchise  
registry is available at [www.franchiseregistry.com](http://www.franchiseregistry.com)*

If the answer is “false,” then the Lender needs to obtain a copy of the franchise agreement for SBA’s determination if franchise is eligible.

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## SBA Form 2301, Part C

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- A Lender may get help to eligibility questions from:
  - SBA's SOPs, regulations, and notices, at [www.sba.gov/banking](http://www.sba.gov/banking)
  - Local SBA District Office 313.226.6075
  - Standard 7(a) Loan Guaranty Processing Center at 916.735.1515 ext 4368 or
  - Email: [7aquestions@sba.gov](mailto:7aquestions@sba.gov)

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# Lender's Credit Memorandum

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- SBA will accept lender's credit memorandum in lieu of traditional SBA documentation assuming the following:
- Credit Memorandum must meet reasonable and prudent standards for the commercial lending industry – “model” available.
- To simplify loan documentation and analysis, SBA defines the following two loan tiers, which depend on size, complexity, and/or risk of loan:

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# Lender's Credit Memorandum

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- Tier 1 – defined as loans up to \$150,000 EXCEPT for the following:
  1. New businesses (in business for two years or less) and changes of ownership.
  2. Businesses that have had judgments or bankruptcy filings.
  3. Businesses with a debt service coverage ratio of less than 1.2:1 to include all existing and new debt. (Debt service coverage is defined as projected net profit after taxes (for 12 months after loan approved) plus depreciation, interest, and amortization divided by all existing and new debt service.).

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# Lender's Credit Memorandum

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- For Tier 1 loans, the Credit Memorandum must include, at a minimum:
  1. Description of history and nature of the business
  2. Description of and comments on the business plan including:
    - A. Management experience of principal(s), particularly in the industry;
    - B. Financial condition of the business; and
    - C. Nature of any competition.

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# Lender's Credit Memorandum

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3. Analysis/calculation of cashflow relative to debt service: Show how historical cashflow would cover total debt service after the SBA loan.
4. Spread of Business Balance Sheet to include requested loan funds and any required equity injection (as of date of loan disbursement). "Template" available
5. Ratio calculations (based on the Balance Sheet/Income Statement) for the following financial ratio benchmarks: Current Ratio, Debt/Tangible Net Worth, Debt Service Coverage, and other ratios the lender considers significant for the business/industry (inventory, receivables, payables, etc.).

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# Lender's Credit Memorandum

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6. Collateral adequacy assessment (using liquidation values) to offset risk of default.
7. Explanation of and justification for the refinancing of any debt as part of the loan request, particularly Same Institution Debt.
8. Discussion of credit analysis, including lender's rationale for recommending approval.
9. Any additional information the lender considers relevant to the credit decision.

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# Lender's Credit Memorandum

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- Tier 2 – defined as loans between \$150,001 and \$350,000 PLUS loans to the following:
  1. New businesses (in business for two years or less) and changes of ownership.
  2. Businesses that have had judgments or bankruptcy filings.
  3. Businesses with a debt service coverage ratio of less than 1.2:1 to include all existing and new debt.

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# Lender's Credit Memorandum

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- For Tier 2 loans, Credit Memorandum must include items described for Tier 1 PLUS:
  1. Analysis of working capital adequacy to support projected sales growth in next 12 months.
  2. Analysis/calculation of cash flow relative to debt service:
    - (1) Show how historical cash flow (if appropriate) covers debt service after SBA loan (Same as Tier 1); and,
    - (2) Show how projected cash flow covers debt service after SBA loan – analysis of reasonableness of assumptions.

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# Lender's Credit Memorandum

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3. Discussion of any:
  1. Seller financing;
  2. Stand-by agreements;
  3. 90+day delinquencies;
  4. Trade disputes.
4. For a change of ownership, discussion/analysis of business valuation
5. Discussion of any bankruptcy filings or judgments.

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# Questions??