

# **SBA LENDER'S NEWSFLASH #10-01**

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## **Updated SOP and New Fixed Base Rate**

### **SBA'S UPDATED STANDARD OPERATING PROCEDURE**

SBA's Standard Operating Procedure (SOP) has been updated as SOP 50 10 (B) and is effective October 1, 2009. This version of the SOP will apply to all applications received by SBA on or after October 1, 2009.

Two of the key changes to the SOP that we would like to highlight are the following:

1. SBA changed the guidance for financing transactions involving intangible assets:

a. If a transaction includes \$500,000 or less of intangible assets (including, but not limited to, goodwill, client/customer lists, patents, copyrights, trademarks and agreements not to compete), a lender may process the loan using its delegated authority (PLP and Express Lenders).

b. If the application includes more than \$500,000 of intangible assets and the borrower and/or seller have contributed a total of at least 25% equity, the loan also may be processed using a Lender's delegated authority. (Seller equity is defined as seller take-back financing that is on full standby (principal and interest) for a minimum of 2 years.)

c. If the loan amount includes more than \$500,000 in intangible assets and the borrower and/or seller are not providing at least 25% equity, then the application must be sent to the Standard 7(a) Loan Guaranty Processing Center in Citrus Heights for review and approval by SBA.

d. The amount of intangible assets financed with loan proceeds must be specifically identified in the Use of Proceeds section of the application and the loan authorization.

2. SBA has reduced the 20% improvement in cash flow requirement on refinanced debt in the 7(a) program to 10% and clarified that the improvement in cash flow requirement does not apply to certain types of debt allowed to be refinanced (such as long term debt structured with a balloon payment).

A complete summary of all of the new changes to the SOP can be found at:

[http://www.sba.gov/aboutsba/sbaprograms/elending/notices/BANK\\_FY\\_09\\_NOTICES.html](http://www.sba.gov/aboutsba/sbaprograms/elending/notices/BANK_FY_09_NOTICES.html), and click on #5000-1121, "Issuance of SOP 50 10 5(B) – Lender and Development Company Loan Programs".

The revised SOP 50 10 (B) can be found at <http://www.sba.gov/aboutsba/sbaprograms/elending/reg/index.html>.

### **NEW MAXIMUM FIXED BASE RATE**

Interest rates on SBA loans can be set as either variable rates – which change as the prime, LIBOR or SBA peg base rate changes – OR at fixed rates – which remain the same throughout the entire life of the loan.

Effective October 1, 2009, the SBA will utilize a new methodology for calculating and setting long-term maximum fixed interest rates for 7(a) loans.

The new Fixed Base Rate for a 7(a) guaranteed loan (other than SBA Express and Export Express) is calculated as follows:

- 1) The SBA LIBOR Base Rate (defined in 13 CFR 120.214 as the 1-month LIBOR in effect on the first business day of the month as printed in a national financial newspaper each business day PLUS 300 basis points), **plus**
- 2) The average of the 5-year and 10-year LIBOR swap rates in effect on the first business day of the month as printed in a national financial newspaper published each business day.

The following is an example of the calculation for 7(a) loans (other than SBA Express and Export Express) submitted to SBA in September 2009 if the new process had been in place:

- 1) The SBA LIBOR Base Rate for September was 3.26.
- 2) The 5-year LIBOR swap rate on the first business day of September as published in a national financial newspaper was 2.72 (rounded to the second decimal). The 10-year LIBOR swap rate on the first business day of September as published in a national financial newspaper was 3.60 (rounded to the second decimal). The average of these two rates is 3.16.

Thus, the maximum allowable fixed rates for September would have been:

For 7(a) loans with a maturity less than 7 years: 6.42 (SBA Fixed Base Rate for September) + 2.25 (maximum spread for loans with a maturity less than 7 years) equals **8.67 (maximum allowable fixed rate)**. If the loan amount is over \$25,000 but not exceeding \$50,000, the maximum fixed rate may be increased by one percentage point. If the loan amount is \$25,000 or less, the maximum fixed rate may be increased by two percentage points.

For 7(a) loans with a maturity of 7 years or more: 6.42 (SBA Fixed Base Rate for September) + 2.75 (maximum spread for loans with a maturity of 7 years or more) equals **9.17 (maximum allowable fixed rate)**. If the loan amount is over \$25,000 but not exceeding \$50,000, the maximum fixed rate may be increased by one percentage point. If the loan amount is \$25,000 or less, the maximum fixed rate may be increased by two percentage points.

The new maximum fixed rate will be calculated monthly by SBA and will be posted on SBA's website ([www.sba.gov/aboutsba/sbaprograms/elending](http://www.sba.gov/aboutsba/sbaprograms/elending)) as well as at Colson's website ([www.colsonservices.com](http://www.colsonservices.com)) on the second business day of each month.

**\*\*The Nebraska District Office would also like to remind you to contact us if you are having problems working with the processing center(s) on a loan application.**

**PLEASE DO NOT WAIT!**

If you have any questions or need additional guidance, please contact our office at 402-221-4691.

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