



U.S. Small Business Administration

Office of Capital Access

7(a) Connect Quarterly Update

April 22, 2025



Small Business Administration

Kelly Loeffler
Administrator



Office of Capital Access

Thomas Kimsey
Associate Administrator



Office of Capital Access

Dianna Seaborn

Deputy Associate Administrator



SBA Loan Guaranty Processing Center

Joe McClure
Acting Center Director

Our primary responsibilities include:

7(a) LOAN GUARANTY PROCESSING CENTER (LGPC)

Origination - Processing Non-Delegated Guaranty Requests

Loan Modifications -Processing Pre-full disbursement

7aloanmod@sba.gov

Lender Support – Providing answers to lenders questions & validation error codes

7aQuestions@sba.gov

AND

Providing support to help clear compliance codes

7aComplianceCheck@sba.gov

Joe McClure, Center Director (Acting)
Office of Financial Programs and Operations (OFPO)
U.S. Small Business Administration

7(a) LGPC - Metrics

	12 Month Volume	Volume/Day	Response Time (last 30 days)*
• Small Loans	2,465	10	5
• Regular (non-small) Loans	1,891	8	16
• Loan Mods	7,980	33	1.5
• E-Tran Compliance Checks	16,255	68	1.5
• 7aQuestions	22,893	95	5+
*Business Days to Screen-out or Approval			

7(a) LGPC - Hot Topics

1. Owner's Date of Birth (DOB) - SBA Procedural Notice # 5000-866498

SBA Lenders must enter the DOB for all owners and guarantors of an applicant business. (This is now a validation error)

✓ The loan will NOT fund if this is not completed.

2. Environmental Policies and Procedures Notice # 5000-866054

SBA Lenders must certify that they will comply with SBA's Environmental Policies

If the loan is being processed under non-delegated authority, Lender certifies that if the project includes real Property, and the Property is Contaminated, Lender will not disburse the loan unless the Environmental Investigation and the Environmental Investigation Report(s) have been approved by SBA.

✓ The loan will NOT fund if this box is not checked.

3. Citizenship SBA Policy Notice # 5000-865754

SBA Lenders must certify in E-Tran that no Direct or Indirect Owner is an ineligible person.

* To the SBA Lenders knowledge, no direct and/or indirect ownership is an ineligible person. Ineligible persons include, but are not limited to, foreign nationals, those granted asylum, refugees, visa holders, nonimmigrant aliens under 8 U.S.C. § 1101(a)(15), those under Deferred Action for Childhood Arrivals (DACA), and undocumented aliens who are in the U.S. illegally. ☒ Yes ☐ No

✓ The loan will NOT fund if this box is not checked.

7(a) LGPC - Hot Topics

3. Citizenship SBA Policy Notice # 5000-865754 (clearing the immigrant)

- ❖ This is an example of a 7a Lender who marked their immigrant as a **US Citizen** in ETRAN and then submitted a request for verification with a permanent resident card.

The screenshot displays the ETRAN application interface. On the left is a vertical navigation menu with options: Eligibility, Application Info, Use of Proceeds, Lender Comments, Project Info, Repayment, Borrowers, Principals, and New Principal. The 'Borrowers' section is expanded, showing a list of borrowers with red downward arrows next to them. One borrower is highlighted with a red arrow pointing to the 'Principals' section. The main form area contains several fields: 'Citizenship' is set to 'U.S. Citizen' (indicated by a red arrow); 'If not US, Alien Registration Number' is empty; 'Ethnic' is 'Not Hispanic or Latino'; 'Sex' is 'Female'; and 'Veteran' is 'Non-Veteran'. Below these is a 'Select 1 or more race categories' section with checkboxes for 'American Indian or Alaska Native', 'Asian' (checked), 'Black or African American', and 'Native Hawaiian or Other Pacific Islander'. A red text overlay on the right side of the form reads: 'INCORRECT STATUS - THIS PERSON IS NOT A US CITIZEN - PROVIDED A PERMANENT RESIDENT CARD'. Another red text overlay at the bottom left of the form reads: 'Person is not a US Citizen - Permanent Resident Card Provided'.

This keeps happening regarding 7a loan applications where we must screen-out the file and ask the SBA Lender to correct the Citizenship Requirement choice to clear the immigrant. We've had multiple errors regarding the Citizenship Requirement choice being marked as US Citizen when the immigrant is not.

7(a) LGPC - Hot Topics

4. Citizenship SBA Policy Notice # 5000-865754 (clearing the immigrant)

- ❖ This is an example of a 7a Lender who failed to enter the individual in ETRAN and then submitted a request for verification with a permanent resident card.

The screenshot displays the ETRAN system interface. On the left is a navigation menu with options: Application Info, Use of Proceeds, Lender Comments, Project Info, Repayment, Borrowers, Principals, New Principal, New Borrower, and Guarantors. The 'Borrowers' section is expanded, showing a list of individuals. One individual is listed as a 'Principal'. To the right, a table shows two 'USCIS_Verification_Request' documents, both of type 'INS/USCIS Verification'. Red arrows point from the text 'Both submitted for verification' to the two rows in the table. Another red arrow points from the text 'We have two requests for verification and only one immigrant who is listed as a US Citizen (who is not) is listed on the loan application.' to the 'Principals' section of the navigation menu.

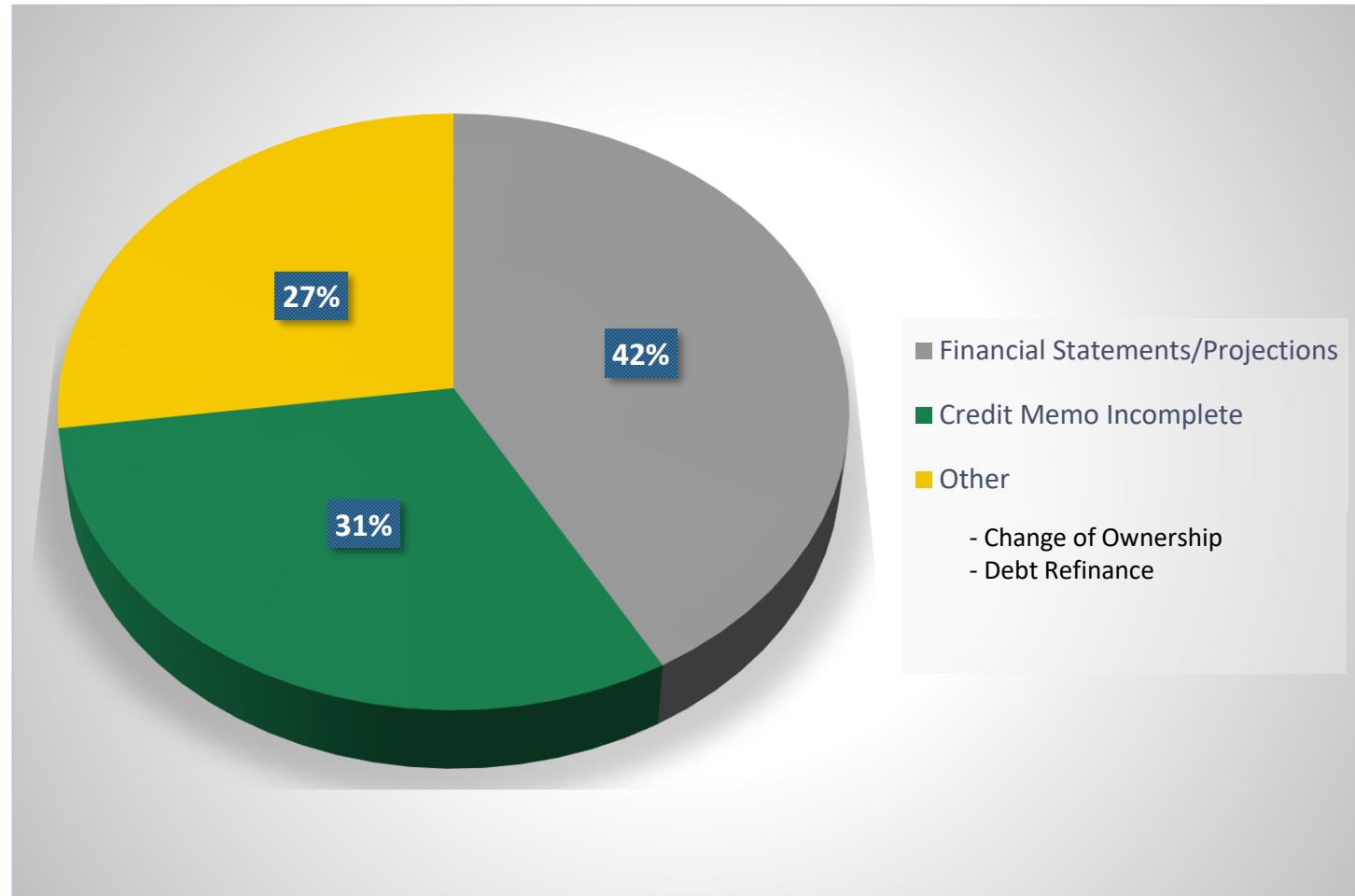
File Name	Document type
USCIS_Verification_Request_ [redacted].pdf	INS/USCIS Verification
USCIS_Verification_Request_ [redacted].pdf	INS/USCIS Verification

Showing 1 to 2 of 2 entries

We have two requests for verification and only one immigrant who is listed as a US Citizen (who is not) is listed on the loan application.

If the immigrant is not a borrower or principal on the loan but appears to have an interest in the potential business, then the lender needs to add them as a non-owner borrower/ principal on the loan application so that SLPC can clear the immigrant.

TOP SCREEN-OUT CATEGORIES



NUMBER ONE...

Financial Statements/Projections

- **Personal Financial Statement Incomplete**
- **Projected Income Statements needed**
- **Seller Financials Incomplete**
- **Historical Financials Missing**
- **Pro-forma Balance Sheet Missing**
- **Affiliate financials Missing**
- **Month-to-Month Projections Needed**
- **Seller Financials Needed**

Make sure that current YTD Business Financials are no older than 120 days from submission to SBA

Make sure the Personal Financial Statement is no older than 120 days from submission to SBA

2ND ON THE LIST...

Credit Memo Incomplete

- **Collateral Shortfall - Real Estate Available**
- **Unclear Use of Proceeds**
- **Working Capital Request –Justification Needed**
- **Justification For Projections**
- **Possible Affiliates - Clarification Required**
- **Schedule of Collateral Incomplete**

Make sure that current YTD Business Financials are no older than 120 days from submission to SBA

Make sure the Personal Financial Statement is no older than 120 days from submission to SBA

3rd ON THE LIST...

Other (two major items)

Change of Ownership

- Purchase Agreement For Business Needed
- Lender's Internal Business Valuation Missing
- Independent Business Valuation Missing
- Stock Purchase Agreement Needed

Debt Refinance

- 10% Improvement to Cash Flow Not Met
- The debt to be refinanced must be, and must have been, current for at least 12 months or for the life of the loan, whichever is less. "Current means a required payment has not remained unpaid for more than 29 day.

Questions?



7(a) Loan Origination Division



Ginger Allen – Chief
7(a) Loan Origination Division



Randy Puckett
Senior Financial & Loan Specialist



Bob Carpenter
Senior Regulatory Specialist/Financial Analyst



Ross Maxwell
Financial & Loan Specialist

Recent Notices

SBA Notices published recently:

- Policy Notice [5000-865754](#), published 3/7/2025, Policy updates regarding citizenship requirements
- Procedural Notice [5000-865355](#), published 3/14/2025, Rescission of SBA Procedural Notices Previously Published (CA SBLCs)
- SBA Form [1919](#), updated 3/19/2025, to change “gender” to “sex” – **Another update is coming!**
- Information Notice [5000-865585](#), published 3/19/2025, SBA Form 1919 Updated for EO 14168
- Procedural Notice [5000-866054](#), published 3/20/2025, Update to Environmental Policies and Procedures (Training is now [available](#) on the SBA Training on Demand page)
- Information Notice [5000-865775](#), published 3/24/2025, Revising 7(a) Fees for FY 2025
- Procedural Notice [5000-866498](#), published 3/26/2025, Requirement to provide owner date of birth
- Procedural Notice [5000-866946](#), published 4/15/2025, Revisions to SOP 50 57 3.1 for SBA’s Processing of Lender Guaranty Purchase Requests and Certain Servicing Actions

Procedural Notice 5000-866946 Update to SOP 50 57 3

- Procedural Notice [5000-866946](#), published April 15, revised 7(a) Loan Servicing and Liquidation SOP standards that SBA applies when examining 7(a) loan purchase requests
- For actions made ***on or prior*** to full disbursement, SBA will apply the requirements of SOP 50 10 ***in effect when the Loan was approved***
- For all servicing actions ***after*** full disbursement, SBA will apply the requirements of SOP 50 57 ***in effect when the action is taken***
- Applies to all guaranty purchase and servicing decisions made by SBA on or after April 15, 2025

SOP 50 10 8

- SBA SOP [50 10 8](#) returns to time-tested, prudent lending policies SBA Lenders should be familiar with; however, it also includes some of the more recent policy and procedural changes implemented since 8/1/2023
- The changes align the procedural requirements with the Administration's Policy Initiatives and with recent Presidential Actions and Executive Orders

SOP 50 10 8 will be effective 6/1/2025

SOP 50 10 8 - 7(a) Lenders with Delegated Authority

7(a) Lenders with delegated authority MUST approve all loans using their delegated authority

Two exceptions that must be submitted to SBA via E-Tran for non-delegated processing:

- Refinance of same institution debt
- For 7(a) International Trade Loans ONLY: When collateral is not in a first lien position

7(a) Lenders with delegated authority may submit questions about a specific loan application to 7aDelegatedLoanApps@sba.gov

SOP 50 10 8 - Exceptions to Policy

Revised Exceptions to Policy for Delegated Lenders (Pp. 9-10)

- Submit requests for exceptions to 7aDelegatedLoanApps@sba.gov
- *Lender must provide a **summary** of the facts – SBA will not review the entire case file or multiple attachments*

For non-delegated Lenders - no changes: Submit requests for exceptions to 7aLoanProgram@sba.gov

Ch. 1, Primary Applicant Eligibility Requirements (p. 13)

- SBA Lender's Responsibility to determine the Applicant's eligibility

SOP 50 10 8 - 7(a) Small Loans

Maximum 7(a) Small loan amount lowered to \$350,000

Minimum acceptable SBSS score raised to 165 from 155

Applications with acceptable score: Must complete a nominal credit memo

Applications with an unacceptable score: Must be treated as a Standard 7(a) loan (underwriting, collateral, etc.)

SOP 50 10 8 - SBA Franchise Directory

The SBA Franchise Directory is being reinstated as of June 1, 2025

- Temporary procedures are detailed in the Information Notice on the issuance of the SOP (Information Notice 5000-866746)
- Temporary procedures in effect through July 31: SBA Lenders must use addendum indicated in the Directory (if applicable)
- Franchisors and Distributors will have until July 31, 2025 to sign a [Franchisor](#) or [Distributor](#) Certification
- On Aug. 1, any franchisor or distributor who has not signed a new certification will be removed from the Directory

SOP 50 10 8 - Other

Restoring requirement for 10% equity injection for any loan of any size to a start-up business and for complete changes of ownership

Revising what counts as equity injection

Requires collateral for all loans

Working capital greater than 50% of proceeds – Lender explanation

Merchant cash advances and factoring agreements are not eligible for refinancing

Multi-step partial changes of ownership are not eligible (owners should first do the partial change of ownership with a loan and then, with SBA and Lender's permission, do the reorg)



SOP 50 10 8

**Lender and Development Company Loan Programs
7(a) and 504 Loan Origination Policy**



Section A

Core Requirements for all 7(a) and 504 Loans

Significant Updates

Affiliation / Passive Business – Management Agreement

Important! Para E.3.e. Passive Businesses (pp 19 - 20)

A management agreement makes a business an ineligible passive business when the agreement gives the management company sole discretion over business operations

Eligible management agreement: Management company does not have sole discretion to manage the operations of the business and the Applicant exercises meaningful oversight of the business

“Meaningful oversight” by the Applicant means involvement in the decisions made concerning the operation of the business, which include a management agreement that provides for the Applicant to do all of the following:

- Approve the annual operating budget;
- Approve any capital expenditures or operating expenses over a significant dollar threshold;
- Have control over the bank accounts; and
- Have oversight over the employees operating the business (who must be employees of the Applicant).

Regardless whether processing the loan under delegated or non-delegated procedures, unless the management agreement is part of the franchise disclosure documents (FDD) for a brand listed on the Franchise Directory, SBA Lenders must review these agreements to determine whether the agreement makes the Applicant an ineligible passive business.

Passive Business

Important! Para E.3.c. Passive Businesses (pp 19 - 20)

- Shopping centers, office suites, salon suites, ghost kitchens, and similar business models that lease space are not eligible unless:
 - The revenue is earned through membership dues (not rent); ***and***
 - The business's customers do not have an assigned space; ***and***
 - The business is responsible for the necessary equipment
- A business is either fully eligible or fully ineligible - Combined models are not eligible

Ineligible Business

Ch. 1, Para E.8. Illegal Businesses (pp. 21 -22)

- Added previous guidance on marijuana, hemp, and CBD businesses
- For Applicants that sell products made from hemp or CBD or devices associated with consuming marijuana, **the SBA Lender is responsible** for obtaining documentation to demonstrate that the products sold by the business are not illegal under federal, state, or local laws

Ch. 1, Para E.12. Incarcerated Associates (pp. 23)

- Business owned by an individual(s) currently on parole or probation may be eligible - if the success of the business operations is primarily dependent on the individual, Applicant must provide:
 - A plan for the continued operations of the business in the event of reincarceration, **and**
 - The SBA Lender should consider requiring additional guarantors

Ineligible Business – Prior Loss & Delinquent SBA Debt

Ch. 1, Para E.21. Delinquent SBA Loans (p. 27) *New and Important!*

- The business is ineligible if the Applicant business has an existing 7(a) or 504 loan that is not current at the time the loan number is issued
- “Current”: A payment has not remained unpaid for more than 29 days
- A loan that has matured and not been paid within 29 days of the maturity date is not current and is not eligible for refinancing

Businesses Owned by Non-U.S. Citizens

Ch. 1, Para. F.1. – 4. (pp. 27 – 31) *New and Important!*

100% of the direct and indirect ownership in the business must be:

- **A U.S. Citizen** (No verification needed)
- **A Naturalized Citizen** (No verification needed)
- **A U.S. National** (Born in American Samoa and Swains Island)*
- **A (Unconditional) Lawful Permanent Resident** (*Individuals holding Conditional LPR Status are not eligible*)*

** Verification is required for all direct/indirect owners with U.S. National and/or LPR status*

A new verification is required if 6-months elapsed since last verification

Businesses Owned by Non-U.S. Citizens

Ch. 1, Para. F. Businesses Owned by Non-U.S. Citizens (pp. 27 – 31)

SBA Lenders must:

- Certify in E-Tran that **no direct or indirect owner** is an ineligible person
- Enter at least 81% of direct and indirect owners in E-Tran

7(a) and 504 Borrowers must:

- Certify on the application that none of the direct or indirect owners are “Ineligible Persons” and;
- Include alien registration number and Country of Citizenship for all Lawful Permanent Resident owners
- Provide dates of birth for all direct and indirect owners and all guarantors

Until the Forms 1919 and 1244 are updated, SBA Lenders must follow guidance in SBA Policy Notice 5000-865754

Eligible vs Ineligible Persons

Eligible Persons

- **U.S. Citizens:** Citizens born in an American territory
 - Generally, those born in an American territory are U.S. citizens
 - Includes but is not limited to the 50 U.S. states, the District of Columbia, Guam, Puerto Rico, the Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands, but does not include outlying possessions of the United States
- **US Nationals:** People born in American Samoa and Swains Island are considered U.S. Nationals at birth but are not automatically U.S. citizens. 8 U.S.C. § 1408 and 8 U.S.C. § 1101(a)(29)
 - When making a loan to a business owned by a non-citizen U.S. National, the SBA Lender must collect and retain evidence of the person's status as a U.S. National (e.g., birth certificate or passport) and must enter the U.S. National's Social Security Number on the application and into E-Tran
- **Naturalized Citizens:** Foreign-born persons who become U.S. Citizens
- **Lawful Permanent Residents (LPRs):** Commonly referred to as "green card holders"

Ineligible Persons

- Ineligible persons include, but are not limited to:
 - Foreign nationals
 - Those granted asylum
 - Refugees
 - Visa holders
 - Nonimmigrant aliens under 8 U.S.C. § 1101(a)(15)
 - Those under Deferred Action for Childhood Arrivals (DACA)
 - Undocumented aliens who are in the U.S. illegally (Illegal aliens)

6-Month Lookback & Citizenship Requirements

Six-month lookback applies to Associates as defined in 13 CFR § [120.10](#)

Business is ineligible if any Associate, commencing 6 months before date of issuance of SBA loan number, is an Ineligible Person

Exceptions:

An Ineligible Person who is an **Associate** may completely divest their ownership interest prior to issuance of the SBA loan number and must sever all relationships with the Applicant (may not be an employee for the life of the 7(a) loan)

An Ineligible Person who is a direct or indirect owner but who is **not** an Associate may completely divest their ownership prior to issuance of the SBA loan number. May not be a Key Employee as defined by 13 CFR § 120.10 for the life of the loan but may be a regular employee

Guarantors and Citizenship Requirements

Direct and indirect owners of guarantors (including Supplemental Guarantors and including the OC for an EPC/OC) must be U.S Citizen, U.S. National or LPR

If LPR, must go through the verification process

Exception: Limited Guarantors that are providing a limited guaranty to support the pledge of jointly held required collateral

- Illegal aliens may not be a limited guarantor
- SBA Lender does not have to verify citizenship/LPR status of a limited guarantor

Date of Birth Requirement

New and Important!

Requirement to Provide Owner Date of Birth in E-Tran

SBA Procedural Notice [5000-866498](#)

- Effective 3/27/2025, date of birth must be included for **all** owners
- SBA Borrower Application Forms for the 7(a) and 504 loan programs are being updated with date of birth fields for all direct & indirect owners
- Until the 7(a) and 504 application forms can be updated, as part of the loan application, SBA Lenders must collect and retain this information
- For entity owners, use date of formation of the entity

Ineligible Persons and Illegal Aliens

New and Important!

Ch. 1, Para. F. Businesses Owned by Non-U.S. Citizens (pp. 27 – 31)

- **Conditional LPR Status:** **Individuals with a 2-year Green Card are not eligible because a 2-year Green Card is a temporary “Conditional” Green Card and the individual must apply to have the conditional status removed** (p. 29)
- **Guarantors:** Ineligible Persons are not eligible to be Guarantors, including Supplemental Guarantors (with a carveout for limited guarantors) (p.27)
- **Employees:** Illegal aliens may not be employees of the Borrower (Applies to illegal aliens, not to all types of Ineligible Persons) (pp. 27 - 28)
- **Servicing:** For servicing requests (e.g., substitution of an owner or guarantor) the new individual may not be an Ineligible Person (pp. 29 – 30)
- **Reminder:** For EPC/OC these rules apply to OCs regardless whether the OC is a co-borrower or guarantor

Documentation Requirements

New and Important!

Ch. 1, Para. F.5.a.iii. Document Verification Request (pp. 30 – 31)

SBA Lenders must request Document Verification from SLPC and upload into E-Tran:

- Copy of the USCIS Form G-845. (<https://www.uscis.gov/g-845> - All 3 pages)
- Copy of both sides of the USCIS Form I-551 “Green Card”
- Document verification request signed and dated by the applicant - The two acceptable authorization statements:

“I authorize the U.S. Citizenship and Immigration Service to release information regarding my immigration status to (Bank Name) because I am applying for a U.S. Small Business Administration loan.” or

“I authorize the U.S. Citizenship and Immigration Service to release alien verification information about me to (Bank Name), because I am applying for a U.S. Small Business Administration loan.”

Documentation Requirements #2

New and Important!

Ch. 1, Para. F.5. Documentation Requirements (pp. 29 – 31)

- SBA Lenders send email with Applicant's name, Lender name, and E-Tran Application number to SacramentoAlienVerification@sba.gov, informing them the information has been uploaded
- **Non-Delegated processing:** SBA Lenders must receive verification of the status through E-Tran ***prior to submission of the application to SBA***
- **Delegated processing:** SBA Lenders must receive verification of the status through E-Tran ***Prior to submission of the request for loan number***
– This applies to owners ***and*** SBA-required guarantors
- The SBA Lender must document and retain the findings in the loan file

Q&A

Question: Would a business that has an existing 7(a) loan be able to get a new 7(a) loan even though they're no longer eligible due to having ineligible persons as owners?

Answer: No. Although a business was eligible under past rules, the business and project must be eligible for a new loan under the rules that are in place when the new loan is issued an SBA loan number.

Question: Is a visa holder considered an illegal alien? Are they ineligible to be a guarantor?

Answer: Visa holders are considered “ineligible persons”. The notice specifically lists visa holders as a type of ineligible person.

Ineligible persons include foreign nationals, those granted asylum, refugees, visa holders, nonimmigrant aliens, those under Deferred Action for Childhood Arrivals (DACA), and illegal aliens.

Franchises

New and Important!

Ch. 1, Para. G Franchises (pp. 31 - 38)

- SBA reinstated the use of the [Franchise Directory](#)
- Franchisors must be listed in the Franchise Directory to be eligible
- ***If the franchise brand isn't listed in the Franchise Directory the SBA Lenders cannot submit the application to SBA and delegated Lenders cannot approve the loan under delegated authority***
- The SBA Lender should advise the Applicant and/or the franchisor of how the brand can be added to the Directory

Adding a Franchise to the Franchise Directory

New and Important!

Ch. 1, Para. G.1.c. Franchises (pp. 33 - 34)

- Franchisor must submit the agreement, the Franchise Disclosure Document (FDD), and all other documents the franchisor requires the franchisee to sign to franchise@sba.gov
- After SBA's review SBA will send the Franchisor Certification or Distributor Certification to the franchisor/distributor for signature
- Once SBA receives the properly executed Certification SBA will list the brand on the Directory and assign a Franchise Identifier Code
- SBA may remove the brand subject to a 30-day notice for non-compliance with SBA requirements

Franchisor Certifications

New and Important!

Ch. 1, Para. G.1.c. (pp. 33 - 34)

- For brands listed on the Directory as of 5/11/2023, the Franchisor/Distributor will have until 7/31/2025, to execute the new SBA Franchisor/Distributor Certification
- Until 7/31/2025, the SBA Lender must use the Addendum indicated on the Directory and comply with any Notes in the brand listing
- If a new Certification is not executed by 7/31/2025 the brand will be removed from the Directory
- No addendum will be needed for new brands added to Directory

Businesses Operating Under Multiple Brands

Ch. 1, Para. G.1.d.iii. (pp. 35 - 36)

- When an Applicant operates under multiple brands, the SBA Lender must enter the name of the franchise and the SBA Franchise Identifier Code **for the brand that generates the largest amount of the Applicant's revenue in E-Tran**
- The SBA Lender must identify all other brands and their SBA Franchise Identifier Codes (if applicable) in the SBA Lender's credit memo
- For non-delegated loans: SBA will confirm that all of the Applicant's brands are eligible
- For delegated loans, the delegated SBA Lender must document in its file that all of the Applicant's brands are eligible

Other Franchise Guidance

New and Important!

Ch. 1, Para. G.1.g. Management Agreements (p. 37)

- **SBA Lender, *not* SBA**, unless the management agreement is included in the franchise disclosure documents, must review any management agreement or other similar agreements to determine whether the agreement makes the Applicant an ineligible passive business

Section A, Ch. 1, Para. G.1.h. Questions & Appeals (pp. 37 - 38)

- Questions on SBA's Franchise Policy and Franchisor's appeals should be directed to franchise@sba.gov
- No right of appeal for final Agency decisions made by SBA Associate General Counsel for Litigation

Credit Elsewhere

Important!

Ch. 1, Para. H.2. Credit Not Available Elsewhere (pp. 38 - 39)

- Added back responsibility for SBA Lender to determine if some or all of the loan is not available from the Applicant and owners of 20% or more

Added exceptions:

- Owners may have reasonable funds set aside for possible future medical expenses, educational expenses (including for the children of the business owner) and retirement needs
- For the Applicant, SBA permits the Applicant to have reasonable funds for working capital needs

Customer Identification Programs

New and Important!

Ch. 1, Para. I. Customer Identification Programs (pp. 39 - 40)

- SBA Lenders must comply with Department of the Treasury regulations for Customer Identification Programs (CIP) in [31 CFR § 1020.220](#)
- CDCs may perform its own verification or,
- If the Third Party Lender (TPL) is regulated by a Federal functional regulator and submits annual certifications to the CDC that it will comply with the CIP requirements, the CDC may rely on the TPL to verify the SBA Applicant's identity
- If the TPL has not submitted the requisite annual certification to the CDC, the CDC must perform its own verification of identity

Loans to ESOPs, Cooperatives, ROBS and 401(k)s

Important!

Ch. 2, Para. B. Loans to ESOPs (pp. 45 - 46); Ch. 2, Para. C. Loans to Cooperatives (pp. 47 - 47); and Ch. 2, Para. D.4. Loans to Businesses owned by a 401(k) Plan (p. 47 - 48)

- **The SBA Lender must confirm** that the ESOP, Cooperative, the ROBS, and/or 401(k) plans meet the requirements and conditions prescribed by other regulatory bodies
- ***SBA will not review any applications for compliance with the requirements imposed by other regulatory bodies for these types of transactions***
- ***SBA Lenders may process loans to a loan to a Cooperative under delegated authority***

Improvements to Leased Space

New and Important!

Ch. 3, Para. C.2.a. When the Borrower is Leasing Space (p. 54)

- When **\$500,000 or 30%** of loan proceeds (whichever is less) will be used for leasehold improvements, **or**
- When **\$500,000 or 30%** of the collateral (whichever is less) consists of leasehold improvements, fixtures, machinery, or equipment that is attached to leased real estate:
 - The SBA Lender **must** obtain a copy of the written lease
 - Lease term **should** be at least as long as the loan maturity
 - An assignment of lease and Landlord's waiver **should** be obtained
 - SBA Lender must document the loan file if waiver was not obtained

Leased Space – Tenant Improvements

Updated! Ch. 3, Para. C.2.c. Tenant Improvements (p. 55)

- If loan proceeds finance improvements on a space that the Borrower is leasing, and if the landlord will reimburse the Borrower for such tenant improvements, **the landlord reimbursement must be used to pay down the loan:**
 - To a point that will not trigger a subsidy recoupment fee, and
 - Remaining funds may be used for business working capital or to decrease the rent payments ***if*** the landlord reimbursement has been factored into the Lender's working capital adequacy analysis

Fees, Out of Pocket Expenses & Agent Fee Disclosure

Important! Ch. 4, Para. C.2.a. Packaging Fees (pp. 64 - 65)

Ch. 4, Para. C.2.c. Out of Pocket Expenses (p. 67)

- Fees charged for legal services must be for services performed by an attorney licensed in the project state, regardless whether the attorney is in-house or outside counsel

Ch. 4, Para. D.2.c. Agents Fee Disclosure (p. 70)

- SBA Form 159 must be completed and signed by the Applicant, ***the Agent***, and the Lender
- If the Lender is acting as both Lender and Agent, the Lender must sign the Form 159 twice

Guaranties

New and Important!

Ch. 5, Para. A. Guaranties (p. 89)

- Added concept of ***direct and/or indirect owner*** to guaranty requirements (Replaces SBA-defined “Beneficial Owner”)

Ch. 5, Para. A.1.e. Financial statements for guarantors (p. 89)

Ch. 5, Para. A.3.b. Corporate/Other Guaranties (p. 90)

- The SBA Lender must obtain a financial statement from ***all*** individuals and entities guaranteeing the loan except for Supplemental Guarantors
- ***Removed Substitution of Personal/Corporate Guaranty Liability***

Ch. 5, Para. A.4. Guarantor Citizenship Requirement (p. 90)

- Guarantors must comply with the requirements in Ch. 1, Para. F, Businesses Owned by Non-U.S. Citizens

Tax Transcript/Verification of Financial Information

Ch. 5, Para. B.4. IRS Tax Transcript/Verification of Financial Information (pp. 91 - 92)

- For a change of ownership when there is an acquisition of a division or a segment of an existing business, the SBA Lender may use alternative forms of third-party verification such as third-party CPA-prepared or reviewed financial statements, sales tax payment records, transient occupancy tax, credit reporting services, etc., to verify the seller's financial data
- ***SBA Lenders must verify financial information for all SBA Loans***
- ***Removed the “Do what you do” for loans of \$500,000 and less***

Hazard Insurance Requirements

Important!

Ch. 5, Para. C.1. Hazard Insurance (pp. 92 - 93)

- For 7(a) loans and 504 project greater than \$50,000 SBA requires hazard insurance on **all assets pledged as collateral** (***reduced from \$500,000 in 50 10 7.1***)
- ***If hazard insurance is not available, the loan cannot be approved***
- ***Exception for hazard insurance on SBA Express and Export Express Loans*** - If the Lender does not require hazard insurance, the Lender must document the reason in its loan file

Flood Insurance Requirements

Important!

Ch. 5, Para. C.3.c. and C.3.d. Flood Insurance (pp. 94 - 95)

- ***If any portion of a building that is collateral for the loan is located in a special flood hazard area***, the SBA Lender must require the Applicant to obtain flood insurance for the building
- ***If any equipment, fixtures or inventory that is collateral for the loan*** (“Personal Property Collateral”) is in a building of which any portion is located in a special flood hazard area ***and that building is collateral for the loan***, SBA Lender must require flood insurance for the Personal Property Collateral

Life Insurance Requirements

Important!

Ch. 5, Para. C.4.d Life Insurance Requirements (pp. 95 - 96)

- **7(a) Small, SBA Express, and Export Express Lenders** follow their policy for similarly-sized non-SBA guaranteed commercial loans
- **Other 7(a) Lenders** may follow their internal policy for similarly-sized non-SBA guaranteed commercial loans, ***except if the loan is not fully secured – then life insurance is required in the amount of the collateral shortfall for:***
 - Principals of sole proprietorships
 - Single-member LLCs, or
 - If for businesses dependent on one owner's active participation

Environmental Policies

New and Important!

Ch. 5, Para. E. Environmental Policies (pp. 100 - 108)

- SBA modified the Environmental Policies and Procedures
- Changes only apply to 7(a) and 504 Loans submitted for **non-delegated** processing (except for 7(a) Small Loans) to the LGPC and SLPC
- The Environmental policies and procedures for 7(a) Small loans, or delegated loans submitted under an SBA Lenders delegated authority remain unchanged
- Environmental reports must be dated within one year of issuance of the SBA loan number for both delegated and non-delegated processing

Submission of Environmental Report – No Contamination

Ch. 5, Para. E.3. Environmental Policies (pp. 100 - 101)

For Properties where the Environmental Investigation Report concludes that the ***property has no contamination***:

- The SBA Lender certifies in E-Tran that the Property complies with all SBA environmental requirements in the SOP
- Lender keeps the Environmental Investigation Report(s) in the loan file

Properties With Contamination

Ch. 5, Para. E.3. Environmental Policies (pp. 100 - 101)

If Environmental Investigation concludes the ***property is contaminated***:

- **All SBA Lenders** must comply with the Environmental Policy and Procedure requirements in SOP 50 10 8 and prepare a recommendation that includes, at a minimum, a discussion of the following:
 - Nature and Extent of the Contamination
 - Remediation
 - Collateral Value
 - Mitigating Factors
- **Delegated Lenders** must follow and prepare a recommendation of the requirements outlined in SOP 50 10 8 and retain it in the loan file

Properties With Contamination (Continued)

Non-Delegated authority procedures for processing loans with contaminated properties:

- Submit the recommendation to SBA
- Upload documents in E-Tran
- After uploading docs in E-Tran, send email to EnvironmentalReviews@sba.gov, - subject line must include: **DISTRICT OFFICE - LOAN NUMBER - LOAN NAME (E.G.: “SAN FRANCISCO DISTRICT OFFICE - 1234567810 – ABC CLEANERS”** ***DO NOT email the ENVIRONMENTAL REPORT, which must be uploaded in E-Tran***
- SBA District Counsel will review the request, and will respond with the decision, or request additional information, etc.
- If approved by SBA Counsel, SBA Lenders must notify the appropriate LGPC or SLPC, and keep a copy of the e-mail approval in their loan file

Environmental Decision Appeals

How to submit an appeal of SBA's environmental decision:

- SBA Lenders must forward a copy of the decision, along with an explanation of how the decision is inconsistent with SOP 50 10 8 to EnvironmentalAppeals@sba.gov

Question: What will an SBA Lender receive from SBA for contaminated properties?

Answer: For contaminated properties, SBA will provide a clearance email for all reviews that SBA can clear. If the property is clean, the SBA Lender will self-certify through E-Tran and will not receive a clearance letter.



Section B

7(a) Loan Program Specific Requirements

Significant Procedural Updates



Chapter 1: Standard 7(a) Loans (Loans Greater than \$350,000)

Chapter 1: Standard 7(a) Loans (Loans greater than \$350,000)

- SBA has removed the “do what you do” philosophy from the opening of Section B and throughout the SOP
- Standard 7(a) loans are loans greater than **\$350,000**

Debt Refinancing

Ch. 1, Para. A.1.b (p. 112)

- Merchant cash advances and factoring agreements are **not** eligible for refinancing

Refinancing Same Institution Debt (SID)

Ch. 1, Para. A.1.c.i. (p. 112) and Ch. 2, Para. A.1.c.i. (p. 149)

- An SBA-guaranteed loan may not be used to refinance SID where there is an appearance that the Lender will shift to SBA all or part of a potential loss from that same debt

Ch. 1, Para. A.1.c.ii.-iii. (p. 113) and Ch. 2, Para. A.1.c.ii.-iii. (p. 149)

- Refinancing of SID must be submitted in E-Tran via non-delegated processing and include:
 - Transcripts for the prior 36 months, or the life of the loan, showing the due dates and payments
 - Explanation, in writing, of any late payments or late charges over the previous 36 months

Note: Late payments are defined as any payment made beyond 29 days of the due date

- SBA does **not** consider the following to be refinancing of SID:
 - Interim loans that have been made for other than real estate construction and were approved within 90 days before the issuance of the PLP loan number
 - Construction loans that have not been disbursed at the time the PLP loan number was issued

Refinancing Same Institution Debt (SID) 7(a) Loans

Ch. 1, Para. A.1.c.iv (p. 113)

- Refinancing of SID 7(a) loans must be submitted in E-Tran via non-delegated processing
- SID 7(a) loans may be submitted only if:
 - The Lender is unable to modify the terms of the existing loan because a secondary market investor will not agree to modified terms, or
 - An increase in the amount of an existing SBA-guaranteed loan is not possible

Debt Refinancing - E-Tran Terms and Conditions

Ch. 1, Para. A.1.h. (p. 114)

- E-Tran Terms and Conditions must include:
 - In the Use of Proceeds section, the refinancing must be specifically identified;
 - An itemization of all debts being repaid by loan proceeds when the individual creditor is to be paid \$10,000 or more; and/or
 - The loan number and dollar amount of any existing SBA being debt refinanced

Partial Change of Ownership

Ch. 1, Para. A.2.h (pp. 117-118) and Ch. 2, Para C.2.a.ii.b)ii)(d) (p. 169)

- ***Both the Operating Company (OC) and the Person(s) (including any existing owner)*** who is acquiring ***or gaining any direct and/or indirect*** ownership interest ***in the OC*** must be Co-Borrowers on the new loan, ***regardless of the percentage of ownership being gained***
- ***Multi-step partial changes of ownership are not eligible***
- Eligible Passive Company (EPC)/ OC:
 - In a business structured as an EPC/OC 7(a) loans may not fund a partial change of ownership in an EPC, but they may be used to fund a partial change of ownership in the OC

Partial Change of Ownership - Guaranties

Ch. 1, Para. A.2.h.iv (p. 118)

- All remaining owners in a partial change of ownership are subject to the requirements for guaranties, except that:
 - Any selling owner (one who receives loan proceeds in exchange for selling part of their ownership) who remains as a direct or indirect owner and owns less than 20% of the business post-sale must provide a guaranty for the full loan amount for a period of 2 years after loan disbursement
 - Except for the above bullet, the percentages of ownership for determining who must provide a guaranty will be based on the post-sale percentage of ownership in the business
 - For ESOP transactions, there is a statutory requirement that if the seller of the employer small business remains as a partial owner, the seller must provide a full, unlimited guarantee regardless of ownership – this statutory requirement cannot be waived

Loan Maturities

Ch. 1, Para. B.3.e. (p. 121) and Ch. 2, Para. B.3.a.ii. (pp. 157-158)

- For mixed purpose loans and loans **for all types of changes of ownership**, the maturity may be a blended maturity or, if 51% or more of the use of the 7(a) loan's proceeds are for real estate, the maximum maturity may be up to 25 years
- For stock purchases, the loan maturity may be based on the underlying assets/interest financed by the 7(a) loan as supported by a business valuation/appraisal

Lender's Credit Analysis

Ch. 1, Para. C.2.a.i.e) (p. 128)

- Lenders must include in their credit memo and analysis if the daily operations will be handled under a management agreement
 - Review the agreement to determine if it results in an ineligible passive business, and retain it in the loan file

Note: This is not required if the management agreement is part of the franchise disclosure documents for a brand listed on the Franchise Directory

Ch. 1, Para. C.2.a.ii.b) (p. 128)

- Detailed projections, including the supporting assumptions that reflect a debt service coverage equal to or greater than 1.15 within 2 years from the loan funding or for construction projects, within 2 years from the end of construction, are required for:
 - Start-ups
 - New businesses
 - Changes of ownership
 - Other applications based on projections

Lender's Credit Analysis #2

Ch. 1, Para. C.2.a.iv. (p. 129)

- Cash flow projections may **not** include anticipated cash flow from rental income from the Project Property (okay to include it in the global cash flow analysis)

Ch. 1, Para. C.2.a.x. (p. 130)

- Explanation of and justification for the refinancing of any debts as part of the loan request, along with supporting documentation, **including a written explanation for any late payments over the past 12 months**

Equity Requirements

Ch. 1, Para. C.2.b.i. (p. 131)

- Whether the loan is processed on a non-delegated or PLP basis, the Lender or SBA must determine that there is sufficient invested equity
- The Lender (for PLP loans) or SBA (for non-delegated loans) must determine if the equity position, any required equity contribution, and the pro forma debt-to-worth are acceptable based on the factors related to the type of business, experience of management, and the level of competition in the market area
- The Lender must include in its credit memo a detailed discussion of the equity position (net worth) and any required equity injection

Ch. 1, Para. C.2.b.ii. (p. 131) and Ch. 2, Para C.2.a.ii.b)i) (p. 168)

- **Start-up Businesses:** For equity injection requirements, SBA considers a business to be a “start-up” if it has been in operation (generating revenue) for 1 year or less
 - All 7(a) loans made to a Start-Up Business require a 10% equity injection based on the total project costs
 - However, loans approved more than 90 days apart from each other are considered to be separate projects

Equity Requirements – Complete Changes of Ownership

Ch. 1, Para. C.2.b.iii.b) (pp. 131-132) & Ch. 2, Para C.2.a.ii.b)ii) (p. 169)

- At a minimum, SBA requires an equity injection of at least 10 percent of the total project costs, (all costs required to complete the change of ownership, regardless of the source of funds, ***except for lines of credit and 504 loans***)
- ***Seller debt may not be considered as part of the equity injection unless it is on full standby for the life of the SBA loan and it does not exceed half of the SBA-required equity injection***

Equity Requirements – Business Expansion

Ch. 1, Para. C.2.b.iii.b) (pp. 131-132) & Ch. 2, Para C.2.a.ii.b)ii) (p. 169)

- **Complete Change of Ownership:**

- **Business Expansion:**

- When an existing business starts or acquires a business that is in the same **6 digit** NAICS code with identical ownership and in the same geographic area as the acquiring entity and they are Co-Borrowers, SBA considers this to be a business expansion, and SBA will not require a minimum equity injection
 - “Same geographic area” means the acquiring entity is located within a reasonable distance of the subject business, allowing management to exercise similar daily control over both locations

Equity Requirements – Complete Partner Buyout

Ch. 1, Para. C.2.b.iii.c) (p. 132) and Ch. 2, Para C.2.a.ii.b)ii)(c) (p. 169)

- **Complete Partner Buyout:**

- If the 7(a) loan will finance more than 90% of the purchase price of a partner buyout, the following must be met:
 - The remaining owner(s) must certify that they have been actively participating in the business operation and held the same or an increasing ownership interest in the business for at least the past 24 months
 - Lender must include in the credit memo confirmation that the Borrower has made the required certification and retain the certification in the file
 - The business balance sheets for the most recent completed fiscal year and current quarter must reflect a debt-to-worth ratio of no greater than 9:1 prior to the change in ownership
 - In the event the Lender is unable to document the above are satisfied, the remaining owner(s) must contribute cash **either** sufficient to reflect a debt-to-worth ratio of no greater than 9:1 on the **business's** balance sheet **for the current quarter prior to the change in ownership** **or** in the amount of at least 10% of the purchase price of the business, as reflected in the purchase and sale agreement, whichever is less

Equity Requirements – Partial Change of Ownership

Ch. 1, Para. C.2.b.iii.d) (p. 132)

- **Partial Change of Ownership:**

- The business balance sheets for the most recent completed fiscal year and current quarter must reflect a debt-to-worth ratio of no greater than 9:1 prior to the change in ownership
- In the event the Lender is unable to document the above is satisfied, ***the new and/or existing owners must contribute cash either sufficient to reflect a debt-to-worth ratio of no greater than 9:1 on the business's balance sheet for the current quarter prior to the change in ownership or in the amount of at least 10% of the purchase price of the business, as reflected in the purchase and sale agreement, whichever is less***

Equity Requirements – Source of Equity Injection

Ch. 1, Para. C.2.b.iv. (pp. 132-133) and Ch. 2, Para C.2.a.ii.ii)c) (p. 170)

- The following may be considered equity injection:
 - Standby Agreements:
 - **Only debt that is on full standby (no payments of principal or interest for the term of the 7(a) loan) may be considered as equity for SBA's purposes**
 - Lender must use SBA Form 155 or its own equivalent Standby Agreement form, and a copy of the note must be attached to the standby agreement
 - **The standby debt may accrue interest and may be added to the standby debt and amortized after the 7(a) loan is paid in full**
 - Standby Creditor must subordinate any lien rights in collateral securing the loan to Lender's rights in the collateral and take no action against Borrower or any collateral securing the Standby Debt without Lender's consent

Equity Requirements – Source of Equity Injection #2

Ch. 1, Para. C.2.b.iv. (pp. 132-133) and Ch. 2, Para C.2.a.ii.ii)c) (p. 170)

- Cash that is not borrowed, whether on the business's balance sheet or from other sources
- Cash that comes from a personal loan where repayment can be demonstrated to come from a source other than the cash flow of the business (the salary paid to the owner by the business does not qualify)
- **Grants that do not have repayment or claw back provisions during the life of the 7(a) loan**
- Assets other than cash:
 - An appraisal or other valuation by an independent third party is required if the valuation of the fixed assets is greater than the Net Book Value
 - A valuation of the fixed assets provided as part of a business valuation will not meet these requirements
- **Prepaid expenses that the Lender has verified by obtaining paid invoices, canceled checks, or bank statements, and the Lender must retain copies of the documentation in the loan file**

Collateral

Ch. 1, Para. C.3.a.-b. (p. 133)

- Lenders must use commercially reasonable and prudent practices to identify collateral that conforms to procedures at least as thorough as those used for their similarly-sized non-SBA guaranteed commercial loans
- Decisions regarding what collateral must be taken to secure a loan are based on the circumstances of the individual loan, including size, and must meet the minimum requirements
- When loan proceeds will be used to refinance existing debt, except for trading assets, the loan must be secured with at least the same collateral and lien priority as the debt that is being refinanced
- When the debt being refinanced is considered to be over collateralized based upon SBA collateral requirements and the SBA loan will remain fully secured, the Lender may approve the release of excess collateral
- Substitute collateral may be offered providing it is of comparable value and useful life and is determined to be acceptable by SBA or a PLP Lender processing the loan under its PLP authority

Adequacy of Collateral

Ch. 1, Para. C.3.c.iii (p. 134)

- When assessing the adequacy of collateral, the Lender must consider the impact that covenants and other restrictions recorded against the collateral may have on its value and marketability, and document the analysis in the file
- Examples of items to review include:
 - Deed restrictions, covenants, easement provisions, reversionary interests, subordinations, leases and options, and other provisions that restrict the use of the property for the benefit of a third party

Note: Certain deed restrictions pertaining to the use of the property, which are intended to protect the health and safety of occupants, may be acceptable, e.g., deed restrictions based upon environmental concerns including restrictions on residential use, use as a day care center for children or seniors, use as a school, or use as a hospital
- **Environmental Indemnification Provisions that run with the land are not eligible and must be removed or waived**

Liens on Vehicles for Standard 7(a) Loans

Ch. 1, Para. C.3.d.i. (pp. 134-135)

- SBA does not require the Lender to place a lien on vehicles unless the value of the vehicle is greater than \$10,000 at the time the SBA loan number is assigned by SBA
 - The value of the vehicle as determined by any of the following:
 - An independent third party (e.g., orderly liquidation value from an appraisal, independent vehicle valuation company or website), or
 - The purchase price allocable to such a vehicle if the 7(a) loan is being used to purchase the vehicle
- For the purpose of determining whether the Lender must place a lien on a vehicle, the Lender must document the source and dollar amount of the vehicle valuation in the credit memo

Collateral Requirements for Standard 7(a) Loans

Ch. 1, Para. C.3.d.i.e) (p. 135)

- **Security interest in trading assets:**
 - SBA leaves it up to the discretion of the Lender to decide whether to take a security interest in trading assets (e.g., accounts receivable or inventory) or to leave those assets available to pledge as collateral for a line of credit
 - If the Lender decides to take a security interest in trading assets, no more than 10% of current book value may be used for the calculation of fully secured

Ch. 1, Para. C.3.d.ii (p. 135)

- **Collateral shortfall:**
 - If there is a collateral shortfall (not “fully secured”) on the SBA-guaranteed loan the Lender must take available equity in the personal real estate (residential and investment property including other commercial real estate ***regardless of whether the owner is actively running a business at the investment property that is solely owned by any direct and/or indirect owners*** of 20% or more of the Applicant and guarantors except Supplemental Guarantors

First Security Interest Requirement Exceptions

Ch. 1, Para. C.3.d.iv. (p. 136)

- When loan proceeds will be used to improve assets, a subordinate position is acceptable for the 7(a) loan if the existing debt is ineligible to be refinanced with a 7(a) loan, or if there is existing debt on reasonable terms (e.g., if the Borrower has an existing loan for the purchase of a building and is getting a new 7(a) loan for improvements), in which case the Lender must document this fact in its credit memo
- SBA does not require the Lender to place a lien on vehicles unless the value of the vehicle is greater than \$10,000 at the time SBA assigns the SBA loan number

Assets Owned by an Owner of the Applicant and Spouse

Ch. 1, Para. C.3.d.v. (p. 136)

- When an individual alone or together with his or her spouse or minor children owns 20% or more of the Applicant, the Lender must consider taking as collateral a lien on personal real estate (including commercial and investment properties not occupied by the Applicant) that is owned individually by the Applicant owner, or jointly owned by the individual and his or her spouse or minor children
- Real estate transferred by the owner of the Applicant to the non-owning spouse or minor children within 6 months of the date of the application will not be exempt from consideration as available collateral

Submission of Application for Guaranty

Ch. 1, Para. D. (pp. 141-142) and Ch. 2, Para. D.1. (pp. 18-181)

- **Lenders with non-delegated authority:**

- Must submit applications to SBA via E-Tran for SBA approval under non-delegated procedures

- **Lenders with delegated authority:**

- May only submit applications to SBA via E-Tran for approval under non-delegated procedures when the loan will refinance the Lender's same institution debt
- Except for the above, Lenders must process all loan applications using their delegated authority

Delegated Loan Application Questions

Ch. 1, Para. D. (pp. 141-142)

- Delegated Loan Application Questions:
 - Lenders may submit questions on a specific loan application, including the names of the principals and the address of the project, to 7aDelegatedLoanApps@sba.gov
 - Lenders must provide sufficient information on the specific application to avoid delays in responses
 - The 7aDelegatedLoanApps@sba.gov email account is **only for Lenders with delegated authority** with questions about a specific loan application
 - General policy questions should be sent to 7aQuestions@sba.gov

Delegated Loan Application Exceptions

Ch. 1, Para. D. (pp. 141-142)

- Delegated Loan Application Exceptions:
 - Lenders must make a request for an exception for any type of 7(a) loan to 7aDelegatedLoanApps@sba.gov
 - Provide detailed information about the application, including:
 - Names of the principals
 - Address of the project
 - A discussion of the policy for which the exception is being requested along with an explanation why the exception to policy should be granted
 - If SBA approves the exception, the Lender will receive an email confirming the approval, and the Lender must proceed to process the application under delegated authority
 - Exceptions to policy will be considered on a case-by-case basis, and the decision will only apply to the specific request
 - The decision must be documented, and the approval email must be retained in the appropriate loan file

Direct and Indirect Ownership of the Applicant

Ch. 1, Para. D. (pp. 141-142)

- Lender must list in E-Tran at least 81% of the total direct and indirect ownership of the Applicant
- The ownership percentage of married spouses and minor children must be combined



Chapter 2: 7(a) Small & SBA Express

7(a) Small & SBA Express

Ch. 2 (p. 147)

- 7(a) Small loans are term (non-revolving) 7(a) loans that are **\$350,000** or less
- SBA Express loans are loans that are \$500,000 or less and may only be made by a Lender with SBA Express Authority

Ch. 2, Para. C.2. (p. 166)

- If any requested increase to a 7(a) Small Loan or SBA Express loan results in the loan exceeding \$350,000 for 7(a) Small or \$500,000 for SBA Express, the Lender must follow the underwriting procedures for Standard 7(a) loans

Underwriting 7(a) Small Loans – SBSS Score

Ch. 2, Para. C.2.a.i.a) (p. 166)

- Small Business Scoring ServiceSM Score (SBSS Score):
 - The minimum acceptable SBSS score is **165**
 - Regardless of the SBSS score, the Applicant business is ineligible if the Applicant business has an existing 7(a) or 504 loan that is not current at the time of issuance of the new 7(a) SBA loan number
 - “Current” means that a required payment has not remained unpaid for more than 29 days

Underwriting 7(a) Small Loans – SBSS Score #2

Ch. 2, Para. C.2.a.i.c) (p. 167)

- An acceptable SBSS credit score satisfies the requirement to consider the following:
 - The credit history of the Applicant (and the Operating Company if applicable), its Associates, and guarantors, including historical performance as well as the potential for long term success;
 - The strength of the business;
 - Past earnings, projected cash flow, and future prospects; and
 - Subject to the additional analysis required below, the Applicant's ability to repay the loan with earnings from the business

Ch. 2, Para. C.2.a.i.d) (p. 167)

- If the Applicant does not receive an acceptable SBSS credit score, the loan must be processed following the procedures for Standard 7(a) Loans

Underwriting 7(a) Small Loans – Lender's Credit Memo

Ch. 2, Para. C.2.a.i.e) (p. 167)

- The Lender's credit memo must demonstrate reasonable assurance of repayment and must include the following:
 - A brief description and history of the business;
 - For loans greater than \$50,000, when 50 percent or more of the loan proceeds will be used for working capital, Lender must explain in its credit memo why this level of working capital is necessary and appropriate for the subject business;
 - A brief description of the management team of the company;
 - Owner/Guarantor analysis, including obtaining personal financial statements, consistent with Lender's policies for their similarly-sized non SBA-guaranteed commercial loans
 - The reason(s) why credit is not available
 - Insurance
 - Other specifics relating to the loan as applicable

Equity Requirements – 7(a) Small Loans

Ch. 2, Para C.2.a.ii (p. 168)

- The Lender must include in its credit analysis a detailed discussion of the required equity and its adequacy
- Minimum equity injection requirements for certain Applicants and loans:
 - **Start-up Businesses:** For equity injection requirements, SBA considers a business to be a “start-up” if it has been in operation (generating revenue) for 1 year or less
 - All 7(a) loans made to a Start-Up Business require a 10% equity injection based on the total project costs

Equity Requirements – Changes of Ownership for 7(a) Small Loans

Ch. 2, Para C.2.a.ii.ii) (p. 169) - Same as Standard 7(a)

- **ESOPs:** Loans to ESOPs for the purpose of purchasing a controlling interest (at least 51 percent) in the employer small business are not subject to the SBA requirement for equity injection
- **Complete changes of ownership:** Same as Standard 7(a)
 - At a minimum, SBA requires an equity injection of at least 10 percent of the total project costs, (all costs required to complete the change of ownership, regardless of the source of funds, except for lines of credit and 504 loans)
 - Seller debt may not be considered as part of the equity injection unless it is on full standby for the life of the SBA loan and it does not exceed half of the SBA-required equity injection

Equity Requirements – Complete Change of Ownership

Ch. 2, Para C.2.a.ii.ii) (p. 169)

- **Complete Change of Ownership:** Same as Standard 7(a)
 - **Business Expansion:**
 - When an existing business starts or acquires a business that is in the same **6 digit** NAICS code with identical ownership and in the same geographic area as the acquiring entity and they are Co-Borrowers, SBA considers this to be a business expansion, and SBA will not require a minimum equity injection
 - “Same geographic area” means the acquiring entity is located within a reasonable distance of the subject business, allowing management to exercise similar daily control over both locations

Equity Requirements – Partner Buyout

Ch. 2, Para C.2.a.ii.ii)b)(c) (p. 169) – Same as Standard 7(a)

- **Complete Partner Buyout:**

- If the 7(a) loan will finance more than 90% of the purchase price of a partner buyout, the following must be met:
 - The remaining owner(s) must certify that they have been actively participating in the business operation and held the same or an increasing ownership interest in the business for at least the past 24 months
 - Lender must include in the credit memo confirmation that the Borrower has made the required certification and retain the certification in the file
 - The business balance sheets for the most recent completed fiscal year and current quarter must reflect a debt-to-worth ratio of no greater than 9:1 prior to the change in ownership
 - In the event the Lender is unable to document the above are satisfied, the remaining owner(s) must contribute cash **either** sufficient to reflect a debt-to-worth ratio of no greater than 9:1 on the ***business's*** balance sheet ***for the current quarter prior to the change in ownership*** **or** in the amount of at least 10% of the purchase price of the business, as reflected in the purchase and sale agreement, whichever is less

Equity Requirements – Partial Change of Ownership

Ch. 2, Para C.2.a.ii.ii)b)(d) (p. 169) – Same as Standard 7(a)

- **Partial Change of Ownership:**

- The business balance sheets for the most recent completed fiscal year and current quarter must reflect a debt-to-worth ratio of no greater than 9:1 prior to the change in ownership
- In the event the Lender is unable to document the above is satisfied, ***the new and/or existing owners must contribute cash either sufficient to reflect a debt-to-worth ratio of no greater than 9:1 on the business's balance sheet for the current quarter prior to the change in ownership or in the amount of at least 10% of the purchase price of the business, as reflected in the purchase and sale agreement, whichever is less***

Equity Requirements – Source of Equity Injection

Ch. 2, Para C.2.a.ii.ii)c) (p. 170) – Same as Standard 7(a)

- The following may be considered equity injection:
 - Standby Agreements:
 - **Only debt that is on full standby (no payments of principal or interest for the term of the 7(a) loan) may be considered as equity for SBA's purposes**
 - Lender must use SBA Form 155 or its own equivalent Standby Agreement form, and a copy of the note must be attached to the standby agreement
 - **The standby debt may accrue interest and may be added to the standby debt and amortized after the 7(a) loan is paid in full**
 - Standby Creditor must subordinate any lien rights in collateral securing the loan to Lender's rights in the collateral and take no action against Borrower or any collateral securing the Standby Debt without Lender's consent

Equity Requirements – Source of Equity Injection #2

Ch. 2, Para C.2.a.ii.ii)c) (p. 170) – Same as Standard 7(a)

- Cash that is not borrowed, whether on the business's balance sheet or from other sources
- Cash that comes from a personal loan where repayment can be demonstrated to come from a source other than the cash flow of the business (the salary paid to the owner by the business does not qualify)
- **Grants that do not have repayment or clawback provisions during the life of the 7(a) loan**
- Assets other than cash:
 - An appraisal or other valuation by an independent third party is required if the valuation of the fixed assets is greater than the Net Book Value
 - A valuation of the fixed assets provided as part of a business valuation will not meet these requirements
- **Prepaid expenses that the Lender has verified by obtaining paid invoices, canceled checks, or bank statements, and the Lender must retain copies of the documentation in the loan file**

Underwriting for SBA Express Loans

Ch. 2, Para. C.2.b. (pp. 170-171)

- SBA has authorized SBA Express Lenders to make the credit decision without prior SBA review
- Lenders must not make an SBA Express loan that would be available on reasonable commercial terms
- The credit analysis must demonstrate that there is a reasonable assurance of repayment

Collateral - 7(a) Small and SBA Express Loans

Ch. 2, Para. C.3.a.ii-iv (pp. 171-172) and Ch. 2, Para. C.3.b.ii-vi (p. 175)

- For loans of **\$50,000 or less**, Lenders are not required to take collateral
- When loan proceeds from a 7(a) Small Loan will be used to refinance existing debt, the loan must be secured with at least the same collateral and lien priority as the debt that is being refinanced
- When the debt being refinanced is considered to be over collateralized based upon SBA collateral requirements and the 7(a) loan will remain fully secured, the Lender may approve the release of excess collateral
- Substitute collateral may be offered providing it is of comparable value and useful life and is determined to be acceptable by SBA or a PLP Lender processing the loan under its PLP authority

Collateral - 7(a) Small and SBA Express Loans #2

- For loans over \$50,000, Lenders must use commercially reasonable and prudent practices to identify collateral that conforms to procedures at least as thorough as those used for their similarly-sized, non-SBA guaranteed commercial loans
- Decisions regarding what collateral must be taken to secure a loan are based on the circumstances of the individual loan, including size, and must meet the minimum requirements set forth in this section



Chapter 5: E-Tran Terms and Conditions Through Disbursement For All 7(a) Loans

E-Tran Terms and Conditions

Ch. 5, Para. A.4. Construction Loan Provisions (pp. 312 - 314)

- Blanket waiver for performance bond requirements now for loans of \$350,000 and less **Reduced from \$500,000**

Ch. 5, Para. A.4.d. “Do-it-yourself” Construction (pp. 313 - 314)

- The cost is the same as, or less than, either:
 - What an unaffiliated contractor would charge as evidenced by 2 bids on the work; or
 - A single estimate provided by a third-party construction management firm, or by the Lender’s existing internal construction management department **NEW!**

Post-Approval Modifications

Ch. 5, Para. B.2. Post-Approval Modifications (p. 314)

Post-approval and prior to final disbursement:

- See the SBA [Servicing and Liquidation Actions 7\(a\) Lender Matrix](#) for complete instructions on post-approval modifications
- All Lenders must inform SBA of certain (unilateral) actions by making the appropriate change using E-Tran Servicing
- A separate notification to the appropriate SBA center is not necessary when the Lender makes the change in E-Tran
- SBA approval of unilateral actions is not necessary and SBA will not respond in writing

Post-Approval Modifications and Loan Increases

Ch. 5, Para. B.3 Post-Approval Modifications (pp. 314)

For 7(a) loans that have been fully disbursed:

- Lenders must refer to [SOP 50 57](#), 7(a) Loan Servicing and Liquidation, and [Servicing and Liquidation Actions 7\(a\) Lender Matrix](#) to determine if SBA notification or SBA approval is required

Ch. 5, Para. B.4. Loan Increases (pp. 314 - 315)

- Loan increases must be made in accordance with the [SOP 50 10](#) and the Information Notice on 7(a) fees for the fiscal year that were in effect *at the time the loan was approved*

Loan Closing and Disbursement Updates

Ch. 5, Para. D. Post-Approval Modifications (pp. 316 - 325)

- Lender must ensure any necessary **state-specific provisions** are contained in the appropriate loan documents (p 317)
- Except for Express loans, Lenders must verify SBA-required equity injection prior to disbursement and document their loan file (319)
- Except under SBA Express, Export Express, and 7(a) Small, Lender and Borrower must use and complete and sign SBA Form 1050 or Lender's equivalent form at the time of first disbursement (p.319)
- All Lenders must document each disbursement (p. 319)
- ***SBA Form 601 is no longer a required*** (pp. 320 - 321) **New!**

New Borrower Certifications at Loan Closing

Ch. 5, Para. D.8. Borrower Certifications (pp. 322 - 323)

Borrower and OC Must certify:

- They received a copy of the E-Tran Terms and Conditions
- No principal with 50 percent or more of the ownership/voting interest in the Borrower or OC is delinquent on child support
- Borrower and OC are current on all taxes
- The Borrower(s) and 401(k) plan comply with all applicable requirements and will comply with all relevant operating and reporting requirements (If applicable)
- Borrower and/or OC comply with all local, state, and Federal environmental laws and regulations for real estate collateral

Closing SBA Express, Export Express, and 7(a) Small Loans:

Ch. 5, Para. D.11. (pp. 323 - 325) Lender must:

- ***Obtain all required collateral*** and must ***meet all other required conditions before loan disbursement***, including obtaining:
 - Valid and enforceable security interests in any loan collateral – including standby agreements
 - Appraisals/evaluations
 - Business licenses
 - Cash/equity injections
- Obtain ***evidence of no un-remedied adverse change since the date of the application in the financial or any other condition of the Borrower*** that would warrant withholding any disbursement (p. 324)

Save the Date – Upcoming Updates



7(a) Connect Quarterly Update – 3:00 p.m. Eastern

- Quarterly call for 7(a) Lenders and SBA staff
- Login links: [July 15, 2025](#); [Oct.21, 2025](#)

504 Connect Quarterly Update – 3:00 p.m. Eastern

- Quarterly call for CDCs, Third Party Lenders and SBA staff
- Login links: [June 10, 2025](#); [Sept. 9, 2025](#); [Dec. 9, 2025](#)

7(a) Loan Program Resources

- [Small Business Act](#) – Permanent link to current version of the Act
- Federal Regulations: 13 CFR Parts [120](#) (Business loans), [121](#) (Size), and [103](#) (Ethics and Agents)
- [SBA SOP 50 10](#) – SBA 7(a) loan origination
- [SBA SOP 50 56](#) - Lender participation requirements, delegated authority, SBA Lender oversight
- [SBA SOP 50 57](#) - 7(a) Loan servicing and liquidation
- 7(a) Servicing and Liquidation Actions [Matrix](#)
- SBA Office of Capital Access [Training on Demand](#)
- 7(a) Loan Program origination 7aQuestions@sba.gov
- 7(a) Loan Program servicing/liquidation/litigation- either FSC.servicing@sba.gov or LRSC.servicing@sba.gov
- Current & future Notices published by SBA: Posted [here](#)
- [SBA's Fiscal Transfer Agent \(FTA\) Wiki](#): Secondary Market and Pool info, monthly 1502 reporting and forms, downloads & resources
- SBA [District Offices](#)

7(a) Loan Program Points of Contact

7(a) Loan Origination Policy, Ginger Allen, Chief ginger.allen@sba.gov
Origination Policy Questions: 7aQuestions@sba.gov
Submit a request for an exception to policy: 7aLoanProgram@sba.gov

SBA Risk Mitigation Framework, Marty Andrews, Deputy Director, OFPO, martin.andrews@sba.gov
General Compliance Codes Resolution: 7aComplianceCheck@sba.gov
Validation 4363: 4363resolution@sba.gov Validation 2087: 7aQuestions@sba.gov

7(a) Loan Processing, Gregory Prichard, Center Director, LGPC, gregory.prichard@sba.gov
Origination Questions: 7aQuestions@sba.gov
Servicing: 7aloanmod@sba.gov

Oversite and Delegated Authority for Non-supervised Lenders
Eddie Ledford, OCRM, edward.ledford@sba.gov

Oversite and Delegated Authority for Supervised Lenders
SBA Supervised Lenders (SBLCs, NFRLs, CDCs, CA, Microlenders, etc.): Paul.Kirwin@sba.gov
7(a) Federal Lenders (Banks, Etc.): Twila.Johnson@sba.gov
General OCRM: OCRM@sba.gov or OfficeofCreditRiskManagement@sba.gov

7(a) Servicing, NGPC – Herndon, Vanessa Piccioni, Director, vanessa.piccioni@sba.gov
General inquiries: fsc.servicing@sba.gov
Loans sold on the secondary market: secondarymarketliq@sba.gov
Loans not sold on the secondary market: sbapurchase@sba.gov
Expense Reimbursement: SBACPC@sba.gov
Wrap-up Reports: SBACHargeoff@sba.gov

7(a) Servicing, SLSC – East, Nique Carrington, Center Director, charla.carrington@sba.gov
Servicing: lrsc.servicing@sba.gov
Liquidation: lrsc.504liquidation@sba.gov
Customer Service: lrsc.customerservice@sba.gov
Express Purchase: LRSC.ExpressPurchase@sba.gov

7(a) Servicing, CLSC - West, Joel Stiner, Center Director, joel.stiner@sba.gov
7(a), and 504 loan in regular servicing and purchased 504 loans returned to regular servicing:
Dept: fsc.servicing@sba.gov MGR: John.Gossett@sba.gov
Charged off 7(a) and 504 loans and purchased 7(a) loans not charged off:
Dept: fsc.postservicing@sba.gov MGR: Christine.Phuangkeo@sba.gov
PPP loan issue (e.g. borrower is seeking forgiveness or a repayment plan):
Dept: fsc.ppp@sba.gov MGR: John.McDermott@sba.gov
Express or 7(a) Small loan in liquidation and OIC / Purchase Demand Kits (PDK):
Dept: fsc.purchasing@sba.gov MGR: Salvador.DelCampo@sba.gov
504 loan in liquidation status and OIC:
Dept: fsc.504liquidations@sba.gov MGR: Gary.Wamhof@sba.gov
Paid in full 504 loan and CDC is missing a Limited Power of Attorney or Collateral File:
Dept: CDC.PIF@sba.gov MGR: Katherine.Ayala@sba.gov
ARC Servicing: ARCloanmod@sba.gov
ARC Form 1502 Issues: ARC1502Inquiries@sba.gov

7(a) Loan Program Points of Contact Continued

7(a) Guaranty Denials or Repairs: 7aDenials@sba.gov

7(a) Upfront Guaranty Fee Issues and Refunds: Refer questions on guaranty fees to the appropriate commercial loan servicing center

EIDL, Zach Bradford, Senior Supervisory Loan Specialist, zachary.bradford@sba.gov
General Questions: COVIDEIDLService@sba.gov

PPP, Vanessa Piccioni, Director, NGPC – Herndon, vanessa.piccioni@sba.gov
General Questions: PPPForgivenessRequests@sba.gov

PPP Identity Theft claim: PPPIDTheftInquiries@sba.gov

RRF, Vanessa Piccioni, Director, NGPC – Herndon, vanessa.piccioni@sba.gov

Size Standards: SizeStandards@sba.gov

Loans that have been referred to Treasury: Once the loan has been referred to Treasury's Cross Service for collection, borrower must contact the Department of Treasury directly at (888) 826-3127

For questions on loans that have not yet been referred to Treasury:

Regular 7(a) loans: birminghamtops@sba.gov

Regular Disaster loans: birminghamtops@sba.gov

COVID-19 EIDL loans: COVIDEIDLService@sba.gov

PPP loans: Depends on the geographic location of the Applicant

Fresno LSC: fscupdates@sba.gov

Little Rock LSC: LRSC.CustomerService@sba.gov

SBA's Treasury Offset Division (SBA employees with questions): 1-800-736-6048

Regular Disaster loans: birminghamtops@sba.gov

E-Tran entry and questions: CAFSQuestions@sba.gov

Questions on Lender Match: LenderMatch@sba.gov

Questions on LLMS Lender Portal: SBALLMSpmo@deloitte.com

7(a) WCP Program:

General Inquiries: 7aWCP@sba.gov

Requests for exceptions to WCP policy: 7aLoanMod@sba.gov

Delegated Authority: DelegatedAuthority@sba.gov

Export Finance Managers: [Locations and staff](#)

504 Loan Processing (SLPC):

LPR clearances: Sacramento504Register@sba.gov

Environmental:

General environmental questions, assistance with the Environmental Review process, and to reach SBA District Counsel: EnvironmentalQuestions@sba.gov

SBA notification of uploaded environmental documents: EnvironmentalReviews@sba.gov

Environmental Appeals: EnvironmentalAppeals@sba.gov

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Hi Everyone,

Here's the draft agenda:

The remaining 2024 7(a) Connect Quarterly Update dates and login links are:

- [July 9, 2024](#)
- [Oct. 8, 2024](#)

Thank you,

Ginger Allen
Chief, 7(a) Loan Policy Division
Office of Financial Assistance
U.S. Small Business Administration
(202) 205-7110
ginger.allen@sba.gov



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