

# Community Advantage Pilot Program

Overview for AEO  
April 21, 2011

**New 7(a) Pilot Program (3-year duration)**

**To meet the capital access needs of small businesses  
in underserved markets**

**To increase the points of access for underserved  
markets**

**To provide mission-oriented lenders access to 7(a)  
loan guarantees for loans of \$250,000 or less**

Target: Primarily non-profit financial intermediaries focused on economic development in underserved markets

## Underserved markets include:

Low-to-Moderate Income (LMI) communities

Empowerment Zones

Enterprise Communities

HUBZones

Start-up businesses (in business no more than two years)

Veteran-owned businesses (including Patriot Express eligible)

More than 50% of full time workforce is low-income or resides in LMI census tracts.

## Eligible Lenders

- SBA-authorized Certified Development Companies (CDC)
- SBA-authorized Microloan Intermediaries
- Non-Federally Regulated Community Development Financial Institutions

To participate in the program eligible applicants will be evaluated on their organization's expertise, capacity and infrastructure

## Micro-Loan Intermediaries

Entities participating in SBA's microloan which make and service microloans to small businesses and provide marketing, management and technical assistance to the very small businesses

Microloan Intermediaries may include:

- A private, non-profit community development corporation or other entity,
- A consortium of such entities;
- A quasi-governmental economic development entity (other than a local government agency)
- An agency of or a non-profit entity established by a Native American Tribal Government

## **Non-Federally Regulated Community Development Financial Institutions (CDFIs)**

CDFIs may provide:

- Economic development
- Affordable housing
- Basic banking services to underserved communities
- Financial literacy training
- Alternatives to predatory lending

Only CDFIs certified by the Department of Treasury that do NOT have a Federal financial regulator are eligible

## **SBA-authorized Certified Development Companies (CDC)**

- Non-profit corporations certified and regulated by SBA to package, process, close and service 504 loans.
- 504 Loans are issued through a partnership with the CDC and a private sector, 3<sup>rd</sup> party lender.

- Federally Regulated Lenders (e.g., FDIC, Federal Reserve, CoC, OTS, NACU, FCA)
- Any lender ***already*** participating in the 7(a) loan program

All such lenders may continue to, or request to, participate in the 7(a) loan program through normal channels.

Basic Loan Terms and Conditions are the same as standard 7(a) loan (see SOP 50 10 5, Subpart B, Chapter 2 as amended), with the following exceptions:

- \$250,000 maximum loan size
- Prime + 4% maximum interest rate
- Revolving lines are not allowed
- Management and Technical Assistant will be encouraged when appropriate
  - Information will be collected on each loan at application



Underwriting standards and procedures are the same as the Small-Rural Lender Advantage (S/RLA) Program (see SOP 50 10 5, Subpart B, Chapter 4, as amended)

This includes collateral and environmental requirements applicable to standard 7(a) loans

- Required Application Information (SBA field offices will assist in application process)
  - a. CA Lender Participation Application (SBA Form 2301, Part E)
  - b. Copy of IRS Tax Exempt certification
  - c. Copy of Certificate of Good Standing from Secretary of State where lender conducts business
  - d. Opinion of an independent counsel certifying the lender complies with applicable laws in formation and organization; with security laws; is chartered to conduct business in proposed operation area

- Required Application Information (con't.)
  - e. List of all officers and directors with a resume and character statement (SBA Form 1081) on each, signed and dated no older than 90 days. Fingerprint cards may be required. CDCs and Microlenders only need to update if records not on file at SBA.
  - f. List of key personnel (current and proposed) who will administer the CA Program and its requirements (resume and SBA Form 1081 required on these individuals as well)
  - g. Certified copy of a Board of Directors Resolution authorizing submission of the application (using SBA Form 160).
  - h. If CDFI: copy of most recent certification from the U.S. Treasury CDFI Fund.

- i. A detailed business plan containing:
- Organization chart with narrative description of organizational units; including all affiliated entities and relationships fully described,
  - Narrative of proposed operations covering sourcing, evaluating, underwriting, closing, disbursing, servicing and liquidation small business loans (***may not be outsourced or contracted out***)
  - Volume projects for three years of participation
  - Projected balance sheet, income statement and statements of cash flows for three years ***including*** related interest rate, default and prepayment assumptions.
    - Must contain three operating scenarios: normalized; with 30% reduction and with 50% reduction in projected lending.
    - If applicable, include level and type of secondary market activity

- i. A detailed business plan containing(continued) :
  - Description of available management and technical assistant (M&TA) including
    - Possible procedures for referrals to outside assistance
    - A plan to identify appropriate assistance for each borrower
    - How lender will track M&TA recommended when loan was approved
    - Identification of M&TA services actually provided
  - Description of experience with small business lending
    - Include information on existing small business loan portfolio (number, distribution of size and age, use of proceeds, type of loans, secured versus unsecured, revolving, term, etc.)
  - Data and information describing client demographics and lending activity

- i. A detailed business plan containing(continued) :
  - Description of current/planned service area (including map of area of operations and description of the CA underserved markets in that area)
  - Description of current-planned small business community with analysis of the financial needs
  - Description of the economic, unemployment and poverty characteristics of the current/planned service area.

- Required Application Information (con't.)
  - j. Copies of year-end audited financial statements for the last two years (unless already provided to SBA as a CDC or Microlender)
  - k. Interim financial statements dated with 30 days of the application covering time from last audited statement to month-end (must demonstrate ability to support own operation and financial viability)
  - l. Schedule of sources of funding received and available for financial statement period

- m. Schedule and reconciliation of loan loss reserve including
- Detailed description of loan loss reserve methodologies
  - Risk management-risk rating assessments
  - Schedules showing loan loss reserve calculations for previous eight quarters combined with a description of the loan loss reserve allocations.
- NOTE:** The loan loss reserve fund cannot be comingled with the loan loss reserve of the parent or any related entity
- n. Copy of lending policies and procedures covering business loan origination, servicing and liquidation
- o. Any other relevant information for SBA consideration

- Required Certifications
  - a. Articles of incorporation and by-laws are filed with appropriate SBA or CDFI Fund entity and have not materially changed since; or a copy of the current articles and by-laws
  - b. The organization is not subject to regulation by a state financial regulator; or that it is and is in good standing by providing
    - Copy of the State statute and/or regulation
    - Copy of latest report of examination
    - Description of required capital requirements and that applicant meets them
  - c. If a CDC or Microlender, officers and directors previously provided to SBA are still accurate, or if changes have occurred, and updates with resumes, SBA Forms 1081s, and fingerprint cards when applicable

**Lenders should submit the completed application to  
local SBA field office**

**[www.sba.gov/content/find-local/sba-office](http://www.sba.gov/content/find-local/sba-office)**

**Field offices will provide further instructions &  
answer questions as need be**

**Field offices will forward completed applications to  
SBA Office of Credit Risk Management (OCRM)**

SBA will determine whether lender has experience and viability to participate, and at what level

1. Form of organization, compliance with governing requirements and standing with Secretary of State
2. Knowledge of 7(a) Loan Program Requirements
3. Experience with small business lending
4. Capacity and capability to make, service and liquidate small business loans
5. Ability to provide or obtain M&TA services
6. Financial viability, including loan loss reserve adequacy

8. Demonstrate ability to meet the needs of CA underserved markets and clear evidence that participation will further that reach
9. Adequate infrastructure and internal controls to manage this SBA loan program
10. Adequate staffing to manage and service the SBA loan portfolio
11. Other risk characteristics that SBA may identify (e.g., rapid growth, inadequate capital or loan loss reserve, outstanding enforcement actions, other adverse actions, etc.)
12. Other factors that may be identified by SBA.

1. Satisfactory SBA performance as determined by SBA, including the Risk Rating, if applicable
2. Compliance with SBA regulations and procedures governing these programs
3. Any SBA enforcement actions
4. Continued Good Standing with SBA
5. Compliance with reporting requirements and responsive to SBA program officers' request for information.

- Levels of participation for Lenders
  - Full Delegation (Tier One)
  - Modified Delegation (Tier Two)
  - Non-Delegated (Tier Three)

After submission of ten satisfactorily approved SBA loans to the Standard 7(a) Loan Guaranty Processing Center (LGPC) lender may receive delegated status

With delegated status, Lender makes eligibility and credit determination

Lender submits loans thereafter through E-Tran (SBA's electronic application system)

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**AND**

Lender has made operational changes identified by SBA

- These are specific operational issues identified by OCRM in reviewing and approving the application
- Until operational issues have been adequately addressed, these lenders are considered “non-delegated”

Loan packages are submitted to the Loan Guaranty Processing Center (LGPC) for review and approval

- Certain CA lenders are required to follow S/RLA underwriting requirements (SOP 50 10 5, Subpart B, Chapter 4, as amended)
- Loan packages are submitted to the Loan Guaranty Processing Center (LGPC) for review and approval

If approved as a CA lender, a substantial training and orientation program will be conducted with the lender.

- Provided jointly by Office of Risk Management (SBA) and field offices
- Details will be provided for those lenders approved

- Submit complete applications
- Execute the Authorization
- Close the loan according to Authorization and all policies and regulations
- Maintain complete loan files
- Service and liquidate (as applicable) the loan in accordance with SOP and regulations
- Comply with SBA Loan Program Requirements
- Ensure at least 60% of CA loans are made in underserved markets
- Maintain a Loan Loss Reserve Allowance (LLRA) equal to 15% of the unguaranteed portion of the CA portfolio including loans sold in the secondary market
- Reconcile the LLRA monthly

- Monthly 1502 Reporting (SBA Form 1502) including loan status and other information (detailed training is available)
- Quarterly reporting
  - Capital Adequacy/Loan Loss Reserve Account
  - Delinquencies/Non-Accruals
  - Technical Assistance
  - Underserved Market Distributions
  - Classified Assets/Loss Allowance
- Submission of an Annual Report acceptable to SBA demonstrating compliance with business plan and M&TA provisions and showing 60% of the loans to underserved markets

CA Lenders are required to pay SBA fees to cover the costs of reviews or examinations, and if assessed by SBA, other lender oversight activities.

1. Cost of conducting on-site safety and soundness exams
2. Cost of conducting on-site reviews
3. Cost of conducting desk reviews
4. Cost of conducting off-site reviews/monitoring including the SBA assessed charge based on the size of the lender's SBA-guaranteed portfolio
5. Any additional expenses SBA incurs in carrying out lender oversight activities.