U.S. Small Business Administration

Business Loan Program Improvements

7(a) and 504 Highlights

On August 1, 2023, SBA implemented policies to expand access to capital for small businesses by modernizing SBA's signature 7(a) working capital[1] and 504 fixed asset loan programs. The loan program updates build on industry insights and previous announcements that address long-standing persistent capital access gaps, especially for small-dollar loans and underserved borrowers.

Summary of Key Changes

Key Improvement	Prior to August 1, 2023	As of August 1, 2023
SBA Eligibility Determination 7(a) & 504	• Lenders were responsible for determining program eligibility under delegated authority; SBA could repair or deny a guaranty purchase request for eligibility • SBA was responsible for determining eligibility for non-delegated loans	• SBA is responsible for determining eligibility for all loans based on ETRAN data submissions, and SBA will not repair or deny a guaranty purchase request for eligibility if SBA determined the borrower eligible
Affiliation 7(a) & 504	• When applying SBA size standards, affiliation included both ownership and the subjective concept of "control"	• When applying SBA sizes, which includes regulations related to affiliation, affiliation focuses only on ownership considerations. SBA will check and confirm compliance with SBA affiliation regulations as a component of the overall eligibility determination
Fraud Check 7(a) & 504	• Lender complied with FinCen BSA/KYC requirements	• Lender must continue to comply with FinCen BSA/KYC requirements • SBA conducts fraud reviews on every loan application
Loan Authorization 7(a) & 504	• Lenders/SBA used the *Authorization Wizard* to re-enter information to generate the Loan Authorization	• Lenders can automatically generate a "Terms and Conditions (Ts&Cs)" sheet with one click using information already entered in ETRAN. The Ts&Cs sheet can be downloaded, printed, emailed, etc.

[1] Generally used for working capital, the SBA 7(a) loan is a flexible product that can also be used for debt refinance, change of ownership, etc.

Key Improvement	Prior to August 1, 2023	As of August 1, 2023
Criminal Background Checks/Character Determinations 7(a) & 504	• Applicant had to answer three questions regarding prior criminal background of its owners • Owners could be required to complete a lengthy character determination process, which included fingerprints and an FBI background check	• Applicant has to answer one question regarding prior criminal background of its owners with no requirement for a criminal background check or fingerprints
Credit Not Available Elsewhere 7(a) & 504	• An applicant's personal resources could impact the credit not available elsewhere determination • Many lenders included a narrative/discussion in their credit memo describing why credit was not available elsewhere	• An applicant's personal resources do not impact the "credit not available elsewhere" determination • Lenders can document why credit is not available elsewhere by selecting one of the following common reasons: (1) Inadequate collateral (2) Inability to meet lender's conventional credit score policy (3) StartUp business (4) Business needs longer maturity (5) Loan exceeds lenders policy limit it can lend to one customer (cannot be sole selection) (6) Other
7(a) SBSS Score	• SBA will provide FICO Small Business Scoring Service scores (SBSS scores) for 7(a) loans under $350,000, except SBA Express, CAPLines, and export loans	• SBA will provide SBSS scores for all 7(a) loans under $500,000, except SBA Express, CAPLines, and export loans
7(a) Underwriting Requirements $500K or Less	• For loans that did not receive an acceptable SBSS score and were over $350,000, SBA required lenders to use a standard, 9-point underwriting criteria	• Beginning May 2023, simplified underwriting can be used for loans $500,000 or less, including: (1) Through an acceptable SBSS score, currently 155 and above (2) Through cashflow analysis (3) Through the lender's same policies and processes they use for similar-sized non-SBA guaranteed loans, including use of credit scoring models (4) Through the standard, 9-point underwriting criteria used for 7(a) Standard loans over $500,000
7(a) Partial Change of Ownership	• Not permitted	• Beginning May 2023, permitted

Key Improvement	Prior to August 1, 2023	As of August 1, 2023
7(a) Tax Return Transcripts	• For most loans, lenders had to obtain copies of the applicant's tax return transcripts and reconcile with the financial information provided in the application	• For loans $500,000 and less, lenders have additional options – they can follow their business financial information verification practices and at least collect tax returns to verify tax filing, a standard used in similarly situated private sector loans
7(a) Fees for Applicants	• SBA capped fees that lenders could charge applicants • Lenders were prohibited from charging flat fees and completed Form 159 for all loans • Lenders were not clear on incorporating technology service fees	• SBA continues to cap fees that lenders can charge applicants • Lenders may charge a flat servicing and packaging fee of $2,500 without completing Form 159 • Lenders may charge certain technology service fees
7(a) Collateral	• Not required for loans of $25,000 and less	• Not required for loans of $50,000 and less (personal guarantees remain)
7(a) Lender Request for SBA Purchase of Guaranty	• Depending on the 7(a) loan delivery method and loan size, lenders used different purchase packages	• Lenders use a Universal Purchase Package (UPP) for all 7(a) loans, regardless of delivery type or loan size
7(a) Equity Injection $500K or Less	• A 10% equity injection was required for start-up businesses and complete changes of ownership, except for Express • For changes of ownership between existing owners, the applicant's debt to worth ratio must not exceed 9:1	• Equity injection is not required, lenders can follow their policies for similarly situated private sector loans • No debt to worth ratio requirement
7(a) Equity Injection Above $500K	• A 10% equity injection was required for start-up businesses and complete changes of ownership • For changes of ownership between existing owners, the applicant's debt to worth ratio must not exceed 9:1	• A 10% equity injection is required for complete changes of ownership • For changes of ownership between existing owners and partial changes of ownership, the applicant's debt to worth ratio must not exceed 9:1 • Except for changes in ownership, an equity injection is not required, lenders can follow their policies for similarly situated private sector loans

Key Improvement	Prior to August 1, 2023	As of August 1, 2023
7(a) Equity Injection Verification	• SBA had specific requirements for verification of equity injection	• Requirement for verification of equity injection is flexible, lenders can follow their policies for similarly situated private sector loans
7(a) Debt Refinance	• SBA had different requirements for each 7(a) delivery method	• SBA synched the debt refinance requirements across most of the 7(a) delivery methods and streamlined the requirements
7(a) Same Institution Debt Refinance	• Required to be processed non-delegated through SBA's loan processing center	• Lenders permitted to process these loans using delegated authority, so long as debt is current for the past 12 months

Implementation Considerations

Fraud and Eligibility Checks

SBA will determine whether the applicant meets eligibility requirements and check for fraud upfront, so lenders will have timely assurance that the businesses they are lending to are eligible for SBA loans. SBA will validate information through use of APIs connecting to best-in-class private and governmental databases that run overnight and provide data in approximately 24 hours. If SBA detects any compliance issues, the system will produce a *compliance check code* that lenders will either be able to clear on their own, or by working in partnership with SBA by providing additional documentation. Active lenders with CAFS access can access additional information on compliance check codes on the CAFS homepage. If a compliance check code cannot be cleared, the applicant is ineligible for an SBA loan.

Lenders have two options on how to use the fraud and eligibility check:

(a) Pre-check: (Similar in concept to an SBSS pre-score) Lenders may request a pre-check ahead of formal submission by submitting data on the primary business and the associated principals and clicking the button labeled "Precheck Compliance" in ETRAN Origination. Lenders should only use this feature for potential SBA loans.

(b) Submission check: All loans will be checked upon formal submission. This check is the formal determination, as conditions may have changed since the pre-check was conducted.

SBA is continuing to explore how to make the pre-check as simple and streamlined as possible and hopes to announce additional improvements to this feature in the near future.

SBLC Loan Portfolio

With the exception of CA SBLCs, SBLCs may only make 7(a) loans. Please see SOP 50 56 1: *Lender Participation* Chapter 1, Paragraph A.3, "A Small Business Lending Company (SBLC) is a non-depository lending institution that is authorized by SBA to only make loans pursuant to section 7(a) of the Small Business Act and loans to Intermediaries in SBA's Microloan program."

Affiliation

SBA removed the subjective "control" requirement on affiliation for all business loan programs, focusing instead on affiliation through ownership. Lenders can now provide SBA loans to a broader base of eligible small businesses. This change is critical to provide clarity for small business owners if they qualify for SBA loans and to support small businesses who took on equity investors because they did not have the personal financial resources to bootstrap their businesses.

SBA Forms

SBA Form 1919 *Borrower's Information* is being updated to reflect changes in data collection for 7(a) loans, as is SBA Form 1244 for 504 loans. For the 7(a) program, SBA Form 1920 *Lender's Loan Application for Guaranty* is no longer required as of August 1, 2023, as lenders will submit the terms and conditions with their request electronically in ETRAN.

Underwriting Criteria Under for 7(a) Small Loans (under $500,000)

SBA provides different underwriting options for 7(a) loans of $500,000 or less to allow lenders to expand their total addressable markets. SBA allows lenders to use the same policies and processes they use to review non-SBA loans of the same type and size. Lenders are permitted to use SBA guidelines on collateral, maturities, equity injection requirements and verification even when the lenders' policies are more restrictive. These 7(a) Small loans can be underwritten one of four ways:

(1) Through an acceptable SBSS score, currently 155 and above
(2) Through cashflow analysis
(3) Through the lenders same policies and processes they use for similar-sized non-SBA guaranteed loans, including use of credit scoring models
(4) Through the standard, 9-point underwriting criteria used for 7(a) Standard loans over $500,000

Tax Transcripts for 7(a) Small Loans (under $500,000)

Like underwriting criteria, SBA provided additional flexibility in checking taxes for 7(a) loans under $500,000. Through this change, lenders may follow the same policies and processes they use for non-SBA loans of the same type and size, so long as the lender at minimum collects tax returns to confirm the small business applicant filed taxes.

Electronically Generated Terms and Conditions Sheet

To reduce the burden of duplicative data entry, SBA is removing the *Loan Authorization Wizard*, and instead will provide an electronically generated Terms and Conditions sheet using the data already entered into ETRAN by clicking the "Terms and Conditions" button. A signature is not required on the Terms and Conditions sheet. This Terms and Conditions sheet will include the pivotal information that was previously on the Loan Authorization, including borrower name, loan fees, loan amount, interest rate, maturity and collateral. The Terms and Conditions sheet may be downloaded and saved, emailed, and/or printed—however the lender previously used the Loan Authorization document.

For Additional Questions, Contact

- cls@sba.gov, for login and other technical questions for 7(a) and 504 loan programs
- 7aQuestions@sba.gov, for 7(a) loan program operational questions
- 504Questions@sba.gov, for 504 loan program operational questions
- SOP5010@sba.gov, for policy questions for 7(a) and 504 loan programs