



CRAFTING THE SBA 7(A) LOAN AUTHORIZATION CHOOSING YOUR REQUIREMENTS WISELY

Coleman

Coleman Webinar
Wednesday, December 19, 2012
2:00 PM - 3:15 PM EST

Small Business Lending Industry Discussion



Bob and Charles Show 1:50 - 2:00 PM ET.



We are featuring a complimentary small business lending industry discussion with Bob Coleman, Editor of the Coleman Report and Charles Green, Author of The SBA Loan Book: Bestselling book on SBA-guaranteed financing. This discussion will start at 1:50 PM ET and end at 2:00 PM ET.

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How to Ask Questions

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- Use Go-to-Meeting's chat function, you can choose to ask question in writing or verbally. If comfortable, give us your first name, name of bank, and city.
- Send an email to bob@colemanreport.com

Expert Panelist



Lisa G. Lerner
Owner, Member
Enhanced Consultive Solutions, LLC ("ECS")

Ms. Lerner's professional experience spans over 28 years in the financial arena, with strong expertise in Small Business Administration lending, most recently operating ECS since 2004. ECS is an agency (SBA) approved lender service provider and provides guidance, and technical support to small and mid- size lenders. She and her husband, Nelson, are also certified pet therapy teams with their dogs volunteering with the nonprofit organization, Gabriel's Angels- "Pets helping kids."

THE SBA 7 (A) LOAN AUTHORIZATION

In association with
COLEMAN
PUBLISHING

A loan specific contract between the SBA & the Lender!

Definitions

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What it is:

**A map to your loan, a
“living” document**

**A tool, a guide, a
reference**

**A contract between you,
the lender, and SBA.**

Two loan authorization keys

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□ *The Boilerplate*

The Master Document



□ **The SBA Authorization Wizard**

The technical
authorization tool for
specific loans

And what the authorization is NOT.....

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It is NOT a contract with the borrower...however the Borrower must acknowledge receipt.

THE BORROWER'S CERTIFICATION

This closing document can be found at the back of the boilerplate



Borrower initials sections & signs last page and is considered the acknowledgement of the receipt of the authorization.

More on what the authorization is NOT:

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- **To be prepared without a defined process in place.**
- **To be submitted to SBA without thoughtful consideration to consequences of its contents.**

CONSISTENCY between.....

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- Loan system – booked parameters
- Legal documents, loan documents
- Credit approval
- Loan authorization

SOP pages for later reference...

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Loan Authorization
notes on pages 207 on &
230

Current SOP –
5010 E

Loan modification notes
on page 216

NOTICE SBA for...

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- Entire loan cancellation
- Change in maturity date
- Change in address, name of the business, trade name or legal name etc

Some servicing can be done on e tran...

By the way, reality check:

A name change not able to be done on e tran even though the SOP says it can be!

SBA Approval required for...

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□ Increase or decrease in
the loan dollar amount



Increase or decrease in
the guaranty percentage

For loans after SBA approval but not yet fully disbursed...

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- Lender may request modifications to the terms and conditions of the authorization at any time after approval.
- COMPLETE requests are to be submitted to the Loan Guaranty Processing Center...
via email
at: 7aLoanMod@sba.gov
or by fax: 916-735-1975

FOR PLP lenders...still a living document

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- Any revisions made after initial authorization prepared by PLP lender must be documented clearly in your file!

PLP lenders can utilize delegated authority for most modifications.

Take an “outsider’s” point of view: the memos should be EASY TO UNDERSTAND AND FOLLOW!

Lenders know the loan but auditors and or the purchase center do not.

For loans fully disbursed .

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- If changes not completed in e-tran, lenders submit SBA Form 2237 to the applicable servicing center.

-If e tran can process a servicing request, no additional separate notice is required to SBA.

- After final disbursement, loans “reside” at the applicable servicing centers.

Technical help with the wizard..

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- **Wizard or boilerplate help...**

AUTH-7a@sba.gov

The Authorization Library

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<http://www.sba.gov/category/lender-navigation/steps-sba-lending/7a-loans/approval-authorization/7a-loan-package-templates>

From the SBA website:

“7(a) Loan Package Templates

These resources provide detailed information for various 7(a) loan package templates.

Standard 7(a) Authorization Wizard

W7a2011W3.exe and W7a2011W7.exe -- the 7a Wizard Setup Program The 7a Wizard Setup Program will install the Wizard, Boilerplate and sample

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Authorization types...

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- Standard 7(a)
- CapLines
- Export Working Capital
- Express
- Etc...

Whenever changes are announced to the authorization, Lenders have a 30 day grace period to begin using the current authorization version.

Who prepares the authorization?

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Two answers...

1. Depending on the Lender's SBA designated authority
2. Every lender

- Standard 7(a) – a signed 750 agreement

SBA does not require a draft loan authorization but it is suggested.

SBA will prepare a signed authorization to which Lender is responsible to comply.

Who...continued...

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- CLP program participant:
 - Draft loan authorization to accompany lender loan packages/

More on who...

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- PLP lenders...

Prepare their own and modify
with designated authority
with proper justification

*DESIGNATED
AUTHORITY BY
SBA....certifying
that they are
following SBA
SOP guidelines
and requirements*

Utilize the BOILERPLATE

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- During the loan origination and servicing....
 - As “they” say:
 - “There is always time to redo something later when you rush through the first time.

The nine sections of the Boilerplate

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- Guaranty fee
- Servicing fee
- Lender requirements
- SBA forms
- Lender contingencies
- The note
- Use of Proceeds
- Collateral
- Additional conditions

The Wizard ...

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THE technical tool for loan specific authorization preparation in conjunction with the SOP requirements

Initial set up:

- One time entry for lender information and as information may change.

Section of the wizard:

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Section 1:

Loan information –
Boilerplate sections A
through E

Basic details,
identification of
applicant/borrower

Section 2:

Repayment terms –
Boilerplate section F

Loan terms

Section 3 of the Authorization

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Section 3:

Use of Proceeds –
Boilerplate section G

DO NOT -

DO NOT -

DO NOT -

bundle the uses of
proceeds together

Example:

If two loans are being
refinanced, include two
listings here.

Each item should have its
own listing: equipment,
inventory etc.

Section 4

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□ Collateral – Boilerplate Section H

- Real estate
- Business Assets:
Machinery & Equipment
Inventory, a/r, intangibles,
etc.
- Cash Value of life
insurance
- Etc...

Section 5

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Additional Conditions
one and
two...Boilerplate
Section I

Protecting your asset,
the loan and the
collateral behind it.

Care and protection of
your loan and the
repayment ability

Last Section #6

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- SIGNATURE(s)

IMPORTANT NOTE:
some guidelines, some requirements are **STANDARD** for all loans and some are loan specific.

Example of standard language required

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“Loan Prepayment:

Notwithstanding any provision in this Note to the contrary:

- Borrower may prepay this Note. Borrower may prepay 20 percent or less of the unpaid
- principal balance at any time without notice. If Borrower prepays more than 20 percent and the
- Loan has been sold on the secondary market, Borrower must:
 - a. Give Lender written notice;
 - b. Pay all accrued interest; and
 - c. If the prepayment is received less than 21 days from the date Lender receives the notice,
 - pay an amount equal to 21 days’ interest from the date lender receives the notice, less any
 - interest accrued during the 21 days and paid under subparagraph b., above.
- If Borrower does not prepay within 30 days from the date Lender receives the notice, Borrower
- must give Lender a new notice.”

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Standard language to be added for loans of 15 years or longer...

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“Subsidy Recoupment Fee. When in any one of the first three years from the date of initial disbursement Borrower voluntarily prepays more than 25% of the outstanding principal balance of the loan, Borrower must pay to Lender on behalf of SBA a prepayment fee for that year as follows:

SBA Loan Number: -----

SBA Loan Name: -----

- a. During the first year after the date of initial disbursement, 5% of the total prepayment amount;
- b. During the second year after the date of initial disbursement, 3% of the total prepayment amount; and
- c. During the third year after the date of initial disbursement, 1% of the total prepayment amount.”

Follow the FINAL Authorization EXACTLY!

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- Some sections are optional & some sections are required...
- However regardless of this fact....

ALL ITEMS that are included in the AUTHORIZATION MUST BE FOLLOWED TO THE LETTER to insure the guaranty remains intact.

And perhaps this road is not the road less travelled! Food for thought, anyone?

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- Stop before possible “group-think”!
- Follow guidelines to get to an objective not only to follow the car ahead of you.

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Some nitty gritty...

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First few pages of the boilerplate are logistical details, then information about the current version and a list of the recent changes within the current document.

Be sure to use the latest version available of the wizard:

The wizard's first section includes:

Borrower name etc,
EPC, OC, co borrower,
if applicable...

Wizard section guaranty fee

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- This guaranty fee can be automatically calculated based on the loan amount and the percentage of the guaranty.

IF MORE THAN ONE LOAN within a 90 day period, this fee amount will be different than the automatic calculation for the one loan.

Multiple loans within 90 days of each other must be added together to determine the guaranty fee due.

Ongoing servicing fee...

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Known as the 1502 fees and are due monthly through the SBA's fiscal transfer agent

Wizard will default to what is in place currently....

Presently at 55 bps...

Next.....

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Some
standard
language....

Lender's responsibility...to close the loan in accordance with the terms and conditions of the authorization, obtain valid and enforceable loan documents, obtain correct signatures, perfect security interests.....

...continued..

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Required
forms...

- Note 147
 - Guaranty(ies) 148
 - Settlement sheet 1050
 - Compensation Agreement - 159
 - Equal Opportunity poster to be provided to borrower/applicant
- ...others as applicable

Date of final disbursement...

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Generally 6 to 12 months depending on specific loan requirements

-”completing disbursement NO LATER THAN ___ number of months from the approval date of this authorization.....”
- NO EXCEPTION ALLOWED FOR DISBURSEMENT LATER THAN 48 months from the authorization approval date.

Repayment terms...

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LANGUAGE
HERE MUST
MATCH
EXACTLY
VERBAITIM
TO THE NOTE
REPAYMENT
TERMS

- Repayment terms are provided by the loan authorization.
- Term can either be blended using a weighted average or utilize the term associated with the majority use of proceeds. Maturity can be either from the date of the note or date of first disbursement.

TERMS...Rate ...and more

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REPAYMENT
LANGUAGE
MUST
MATCH
EXACTLY
VERBAITIM
TO THE
NOTE
REPAYMENT
TERMS

- Interest rate index, if variable:
- Variable rate must include an adjustment period, which period cannot be less than monthly.
- Option to use a ceiling and a floor but the spread must be the same if using both.
- P&I
- Interest plus principal....

More terms...

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LANGUAGE
MUST
MATCH
EXACTLY TO
THE NOTE
REPAYMENT
TERMS

- State specific language will default according to the address and city and state entered.
- Late charge.

A caution...

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Automate
wherever
possible.

Set up
standard
options when
possible.

Confirm that the repayment terms chosen in the authorization can be accommodated on your loan system or set that up or request that change be added.

BE ABSOLUTELY certain that whatever you chose to set up as repayment terms, each and every detail must match to the loan credit memo and when booked, must be boarded on the loan system **EXACTLY** as the repayment terms show on the authorization and the note.

Use of Proceeds

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Must benefit the borrower.
Not to be used to pay delinquent taxes!!!

Standard language here referencing that all disbursement must be documented with receipts etc. to match the approved use of proceeds!

Note: working capital generally includes a 7 year maturity and with a convincing argument, a 10 year term is possible.

COLLATERAL COLLATERAL COLLATERAL

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Reasonable
and prudent

Reasonable
and prudent

SBA is not a collateral lender...HOWEVER,
For all guaranteed loans, *all available collateral*
must be included as collateral!!!

**UCC Filings: If use of proceeds includes
PURCHASE of equipment, inventory, utilize
a PURCHASE MONEY SECURITY
INTEREST in the asset(s) particularly if
another lender has a first lien position.**

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GUARANTIES! GUARANTIES!

Full guaranties but there is an option for limited guaranty.

REALTY & LEASEHOLDS

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If your lending institution has a lien position **OTHER** than first, you must obtain complete information about the lien holders ahead of you....name, amount, position.



Always learn along the way..

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- Every day is a gift!
....One of today's life reminders...

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Back to it...More...on real property.

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- Evidence of title and lien priority must be based on what type of title work..
 - ALTA policy
 - Search only
 - other

Other interesting options...

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- Collateral assignment of or lien on purchaser's interest in land contract of sale or seller's interest in land contract of sale
- Leasehold interest in land on building on leased land with or without construction option
- Tribal land....

Other items to consider...

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- IF an EPC is a part of the transaction, a collateral condition for an ASSIGNMENT OF RENTS will be automatically added
 - As it is mandatory and not an option to omit

Software helps

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- Be sure to have your software set up to automatically insert the Federal law language into your lien instruments for all 7a loans.
- The language will automatically appear in the authorization. Page 19 of the boilerplate

A note on state specifics.

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- State specific language will appear automatically as needed in the authorization.
- APPENDIX B of the boilerplate defines the type of lien instrument by state, type of title evidence needed & reference to required boilerplate language.

SECURITY INTEREST

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Several options:

- Type of collateral and lien position....
- Liquor license
- Vehicles
- Mobile homes
- Landlord lien waiver is optional **HOWEVER** at a minimum **DO endeavor to obtain this executed document from the landlord!**

Additional conditions..

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□ FLOOD INSURANCE....

See boilerplate page 22,
middle of the page item
3

- If any loan collateral is located in a building, that is NOT collateral for the loan, where any portion is located in a flood zone, STOP and determine if prudent lending would include a requirement for flood insurance! DOCUMENT WHY if this item is waived.

Hazard insurance

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- MANDATORY for real property and for personal property
- FULL REPLACEMENT VALUE

LENDER's loss payable clause

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- As apposed to LOSS PAYABLE CLAUSE:
- “Any action of failure to act by the debtor or owner of the insured property will not invalidate the interest of the lender and the SBA..”
- 10 day notice....Prior written notice to lender of policy cancellation...

Insurance

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- Life insurance -
Address carefully!
- Liability insurance
- Product liability insurance
- Liquor liability insurance
- Malpractice, disability, worker's comp

Other mandatory sections...

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- Company documents
- Environmental
- Verification of financial information
- Lease requirements
- Injection
- Standby debt
- Appraisal
- construction

Signature page but don't forget the appendix!

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- Appendix A – standard collateral conditions
- Appendix B – State Specific Options
- Appendix C – FAQ's
- Appendix D
Sample Loan Agreement
Sample Borrower's Certification

In conclusion...KEY POINTS

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- FOLLOW THE FINAL EXECUTED AUTHORIZATION EXACTLY no matter who prepares it. DOCUMENT any changes CLEARLY
- USE the boilerplate and the wizard as a tool and a guide....during origination, servicing & request for Guaranty purchase

Thank you for tuning in...

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Lisa G. Lerner, Enhanced Consultive Solutions, LLC

Helping you achieve your SBA lending goals

Loan Administration/Expertise in SBA Lending

Lisaglerner@cox.net

⑩ 602 684 5521

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