



SBA Procedural Notice

TO: All SBA Employees and 7(a) Lenders

CONTROL NO.: 5000-20042

SUBJECT: Guidance on Underwriting 7(a) Loans during the COVID-19 Pandemic and Miscellaneous Related Matters

EFFECTIVE: August 7, 2020

On March 13, 2020, President Trump declared the ongoing Coronavirus Disease 2019 (COVID-19) pandemic of sufficient severity and magnitude to warrant an emergency declaration for all States, Territories, and the District of Columbia. The purpose of this Notice is to provide guidance on the additional credit analysis a 7(a) Lender should conduct and include in its credit memorandum during the COVID-19 emergency in order to evidence that the 7(a) Lender has performed prudent underwriting and provided an adequate financial analysis of the Applicant's ability to repay the loan. This guidance on the additional credit analysis is in effect through December 31, 2020. This Notice also discusses certain miscellaneous matters related to 7(a) loans during the COVID-19 emergency.

A. Underwriting Criteria for New 7(a) Loans Made During the COVID-19 Emergency:

SOP 50 10 5(K), Subpart B, Ch. 4, paragraph I.A. states that a 7(a) Lender must analyze each 7(a) loan application in a commercially reasonable manner, consistent with prudent lending standards, and further provides that the cash flow of the applicant is the primary source of repayment, not the liquidation of collateral. The SOP also states that if the Lender's financial analysis demonstrates that the applicant lacks reasonable assurance of repayment in a timely manner from the cash flow of the business, the loan request must be declined, regardless of the collateral available or outside sources of cash. SBA recognizes that prudent underwriting during the COVID-19 emergency includes taking into consideration the current and future effects the emergency has on business operations, cash flow and the repayment ability of 7(a) applicants.

The Lender's financial analysis of the applicant and credit memorandum must comply with the requirements in SOP 50 10 5(K), Subpart B, Ch. 4, paragraph I.C. (or such requirements as may be amended in a successor SOP). In addition, as a best practice during the COVID-19 emergency and with respect to applications received after the date of this Notice, SBA recommends that the Lender consider the factors listed below to demonstrate that the Lender has performed prudent underwriting and provided an adequate financial analysis of the applicant's ability to repay the loan. For 7(a) loans processed on a non-delegated basis, the Loan Guaranty Processing Center (LGPC) may request additional information to facilitate the proper loan

decision if sufficient information is not provided when the application is submitted. These additional factors include but are not limited to:

- (1) Does the applicant have any other loan(s) (PPP, EIDL, or other stimulus financing, etc.) that have repayment or contingent repayment requirements that could impact cash flow? If yes:
 - a. What is the loan's status (on deferment, past due, for PPP loans forgiveness application in process etc.)?
 - b. What is the cash flow during and after any payment deferment period?
 - c. What will the cash flow be if the loan is fully, partially or not forgiven?
 - d. What lien position will the new 7(a) loan have?
- (2) Based on the sector and industry in which the applicant operates, how is the industry and the business impacted by the COVID-19 emergency? Have the applicant's business revenue and staffing levels have been impacted, and has the applicant provided a plan to return to normal operations? Does the business have a contingency plan for revenues and operations for a minimum of the next 18 months (i.e. changes in products and/or service)?
- (3) How have any restrictions such as "stay-at-home orders", social distancing, travel, traffic flow, and trade limitations impacted the applicant's cost projections, clientele or access to supplies, inventory and/or equipment?
- (4) What are the other impacts to the business' operational cost(s) such as providing protective gear, cleaning materials and essential costs to ensure the safety of customers and employees?
- (5) Is the historical financial information reliable based on current market conditions? Consider using month to month financial proforma with break-even analysis based on current market conditions (i.e. unemployment rates, decreased household disposable income).
- (6) How concentrated or diversified is the customer base? How reliant is the applicant on sales to or receivables from customers in those concentrations?
- (7) How concentrated or diversified is the applicant's vendor/supplier pool, and which, if any, vendors/suppliers have decreased ability to support the business?
- (8) Discussion of the impact current market conditions have on collateral adequacy.
- (9) For Change of Ownership loans, given current market conditions, does the applicant have adequate industry experience to operate the business? (see *Business Valuation below*). Does the seller have any other loan(s) (PPP, EIDL, or other stimulus financing, etc.) that have repayment or contingent repayment requirements that could impact cash flow? If yes, the Lender must address the issues in 1. (a)-(d) above and follow any requirements applicable to the other loan program(s).
- (10) For any loans where 50% or more of the loan proceeds will be used for working capital, the Lender should specifically address in its credit memorandum why this

level of working capital is necessary and appropriate for the subject business in light of the COVID-19 emergency.

B. SBA Express COVID-19 Reminders:

As set forth in SBA Information Notice 5000-20025, Temporary Increase to SBA Express Maximum Loan Amount and Permanent Changes to Fee Relief for SBA Express Loans to Veteran-Owned Small Businesses in the CARES Act, the SBA Express maximum loan amount has been increased to \$1,000,000 through December 31, 2020. The maximum SBA Express loan amount will revert back to \$350,000 effective January 1, 2021.

SOP 50 10 5(K), Subpart A, Ch. 1, Paragraph IV.D. provides that to the maximum extent practicable, SBA Express Lenders may use their own forms, internal credit memoranda, notes, collateral documents, and servicing and liquidation documentation. In using their documents and procedures, Lenders must follow their established and proven internal procedures used for their similarly sized non-SBA guaranteed commercial loans. Therefore, in making an SBA Express Loan up to \$1,000,000, SBA expects the Lender to follow the same established and proven internal procedures that it uses for its similarly sized non-SBA guaranteed loans up to \$1,000,000. The SBA Office of Credit Risk Management may at any time review the Lender's commercial loan policy for compliance.

SBA Express Lenders are also reminded that for each new 7(a) loan made through September 27, 2020, Lenders may not consider the availability of section 1112 payments in establishing the repayment schedule or the loan term of the SBA Express loan. The repayment schedule and the loan term must be established in accordance with SBA Loan Program Requirements as if no section 1112 payments would be made. ([See, SBA Procedural Notice 5000-20029](#), Guidance on Establishing Maturities of New 7(a) Loans Eligible to Receive Payments under Section 1112 of the CARES Act.)

SBA Express Lenders are further reminded that SOP 50 10 5(K), Subpart B, Ch. 6, Paragraph II.E. provides that Lenders may not use their delegated authority to approve a loan after submitting a loan on a non-delegated basis to the LGPC where they receive a screen out or a decline. There are no exceptions to this prohibition for SBA Express loans over \$350,000.

C. Guidance Regarding Obtaining Required Documents to Close and Disburse 7(a) Loans:

SBA is aware that, due to the COVID-19 emergency, some 7(a) Lenders are currently experiencing delays in obtaining certain documents required for loan closings and disbursement such as IRS transcripts, appraisals, and valuations. SBA is providing the following guidance regarding these items:

(1) IRS 4506-T Tax Verification: On April 8, 2020, SBA issued Procedural Notice 5000-20016, Changes to 4506-T Tax Transcript Verification Procedures during the COVID-19 Emergency. That Notice provided certain temporary procedures for tax verification that are effective until further notice.

(2) Verification of USCIS Status: As set forth in SOP 50 10 5(K), Subpart B, Ch. 2, Para. III.C.6., 7(a) Lenders must receive verification of the status of each alien required to submit USCIS documents prior to submission of the application to SBA or, for delegated processing, prior to submission of the request for loan number. The 7(a) Lender must document the findings in the loan file. If the 7(a) Lender is unable to obtain the required verification, the

application cannot be submitted to SBA, or for delegated processing, the Lender cannot submit a request for a loan number.

(3) Business Valuations: Valuations performed on businesses that have been negatively impacted by COVID-19 restrictions put in place for health and safety concerns of the public and employees may not have taken into consideration the impact of the COVID-19 emergency, which can result in an inaccurate or inflated valuation. All 7(a) Lenders should review the business valuation to ensure that it addresses the economic impact of the COVID-19 emergency, including such factors as whether the business provides essential or non-essential services, has been subject to closures or occupancy restrictions, and has incurred any additional debt as a result of the COVID-19 emergency. If the valuation does not satisfactorily address the impact of the COVID-19 emergency, the 7(a) Lender should consider requesting an updated business valuation.

(4) Appraisals: All 7(a) Lenders must continue to follow the appraisal requirements in SOP 50 10 5(K), Subpart B, Ch. 4, Paragraph IV. 7(a) Lenders should consult with appraisers and other persons performing real estate inspections about acceptable alternative arrangements that comply with the SOP requirements if the appraiser or inspector cannot access the interior of a property due to concerns related to the COVID-19 emergency.

(5) Electronic Closing Capability: In the event, an in-person loan closing is not a viable option, the 7(a) Lender may use electronic signatures on SBA forms and other documents requiring signatures in connection with a 7(a) loan, provided that the Lender complies with the standards outlined in SOP 50 10 5(K), Appendix 8. Additionally, until September 30, 2020, where electronic signatures are not feasible, 7(a) Lenders may use the procedures outlined in SBA Procedural Notice 5000-20009, Guidance on Acceptable Signatures for Applications and Loan Documents in the 7(a) and 504 Business Programs.

The above guidance is not intended to be a complete listing of criteria for underwriting in these unprecedented times. 7(a) Lenders must continue to follow prudent lending practices and adhere to all parameters set by their primary regulator or, for Small Business Lending Companies and Community Advantage Pilot Program Lenders, by SBA.

Questions

Questions concerning this Notice may be directed to the Lender Relations Specialist in the local SBA Field Office. Local SBA Field Offices can be found at <https://www.sba.gov/tools/local-assistance/districtoffices>.

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