**SBA** SOP 50 56 1

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Lender Participation Requirements**

Office of Credit Risk Management

U.S. Small Business Administration

**U.S. Small Business Administration**

Standard Operating Procedure
Summary

**S.O.P. Number:** SOP 50 56 Version: 01 Series: N/A

**SOP Version This Replaces:** 50 10 6 Part 1

**Purpose:** Move Loan Program Requirements for Participating in the SBA 7(a) and 504 Loan Programs from SOP 50 10 6, Part 1 to this new SOP 50 56 1 and add requirements for the new SBA Lender type.

**Key Pages Affected in this Version: All**

**Stakeholders Affected:** All SBA employees and SBA Lenders

**Originating Office:** Office of Capital Access

**Authorized By:** Bailey DeVries, Acting Associate Administrator for the Office of Capital Access

**Effective Date:** August 1, 2023

# Table of Contents

[Table of Contents 3](#_Toc136590432)

[User Tips: How to Use this Document 5](#_Toc136590433)

[Participating in the SBA 7(a) and 504 Loan Programs 7](#_Toc136590434)

[Section A. 7(A) Lender Participation 9](#_Toc136590435)

[Chapter 1: Lender Participation in the 7(A) Loan Program 9](#_Toc136590436)

[A. Process to Become a 7(a) Participating Lender 10](#_Toc136590437)

[B. Loan Guaranty Agreement 17](#_Toc136590438)

[C. Responsibilities of 7(a) Lenders 17](#_Toc136590440)

[D. SBA Oversight of 7(A) Lenders 21](#_Toc136590441)

[E. Delegated Authority in the 7(a) Loan Program 28](#_Toc136590442)

[Chapter 2: Small Business Lending Companies 49](#_Toc136590443)

[A. SBLC Requirements 49](#_Toc136590444)

[B. Process for Acquiring an SBLC 51](#_Toc136590445)

[C. Community Advantage SBLCs (CA SBLCs) 55](#_Toc136590446)

[Chapter 3: Lender Financing and Operations 57](#_Toc136590447)

[A. Secondary Market for Guaranteed Loans 57](#_Toc136590448)

[B. Secondary Market Resources 58](#_Toc136590449)

[C. Loan Transfers 58](#_Toc136590450)

[D. Loan Participation Sales 59](#_Toc136590451)

[E. Securitization and Other Conveyances 60](#_Toc136590452)

[F. Lender Loan Reporting 62](#_Toc136590453)

[Section B. Certified Development Company (CDC) Participation 63](#_Toc136590454)

[Chapter 1: CDC Participation 64](#_Toc136590455)

[A. Application to Become Certified as a CDC 64](#_Toc136590456)

[B. Form 1081 CDC Character Determinations 67](#_Toc136590457)

[C. Types of Authorities 69](#_Toc136590458)

[D. Operating Requirements 78](#_Toc136590459)

[E. Reporting Requirements 90](#_Toc136590460)

[F. Expanding Service Area 94](#_Toc136590461)

[G. Mergers 101](#_Toc136590462)

[Chapter 2: SBA Oversight of CDCs 105](#_Toc136590463)

[A. Loan and Lender Monitoring System (L/LMS) 105](#_Toc136590464)

[B. Lender Portal 106](#_Toc136590465)

[C. Monitoring and reviews 107](#_Toc136590466)

[D. Supervision and Enforcement 108](#_Toc136590467)

[E. Oversight and Enforcement Actions 108](#_Toc136590468)

# User Tips: How to Use this Document

**SOP 50 56** contains the SBA’s participation guidance for 7(a) Lenders and Certified Development Companies (CDCs), together known as “SBA Lenders,” Here you will find criteria for becoming an SBA Lender; types of delegated authority; a brief overview of how SBA conducts oversight of SBA Lenders; processes for loan reporting, Secondary Market transactions, loan transfers, and securitization.

Navigating the SOP in Microsoft Word

The SOP contains bookmarks and built-in style headings to enable easy navigation using the Navigation Pane, which is a vertical panel on the left of the viewing screen. The Navigation Pane looks like a table of contents. Clicking on a line will jump you to the corresponding section in the SOP.

**Hint 1**: The sections expand and collapse by clicking on the arrows on the far left.

**Hint 2**: Clicking the “alt” and “left arrow” keys will return you to your original page when you click on a hyperlink that redirects you to a different place within the SOP. You may need to click your mouse once before you click the alt and left arrow keys.

Navigation Pane Expanded

Navigation Pane Collapsed



* Method 1: “CTRL+F” will launch a search screen. From here you can access the Navigation Pane by selecting Headings. You can also type in a keyword search here.
* Method 2: From the menu bar at the top of the screen, select “View,” and then select the “Navigation Pane” box in the “Show” group.

# Participating in the SBA 7(a) and 504 Loan Programs

**This SOP contains:**

* Criteria for 7(a) Lenders and Certified Development Companies (CDCs) (defined in 13 CFR 120.10 as “SBA Lenders”) to participate in SBA lending programs;
* The different types of delegated authority SBA grants to SBA Lenders;
* How SBA Lenders maintain their participating status with SBA;
* A brief overview of how SBA oversees its participating SBA Lenders; and
* Lender financings and operations, including but not limited to 7(a) loan program Secondary Market transactions, loan transfers, securitization, and Lender reporting.

SBA Lenders must act ethically and exhibit good character ([13 CFR § 120.140](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1140)). The SBA Lender is responsible for the conduct of its Associates (including, but not limited to, Agents and Lender Service Providers) and staff (including individuals or entities operating under an SBA-approved professional services contract). SBA Lenders are required to notify SBA immediately upon becoming aware of any unethical behavior by its staff or its Associates. Examples of unethical behavior are found at [13 CFR § 120.140](https://www.ecfr.gov/cgi-bin/text-idx?SID=a61daf0e1dc2a257f09e41b677566967&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1140).

SBA requires all participating SBA Lenders, including but not limited to, Small Business Lending Companies (SBLCs) and Community Advantage Small Business Lending Companies (CA SBLCs), to comply with the U.S. Department of the Treasury regulations for Customer Identification Programs (CIP) for banks, savings associations, credit unions, and certain non-federally-regulated banks (defined in 31 CFR § 1020.220).

## Section A. 7(A) Lender Participation

### Chapter 1: Lender Participation in the 7(A) Loan Program

The 7(a) Loan Program is authorized by section 7(a) of the Small Business Act and is governed by the regulations outlined in Parts [103](https://www.ecfr.gov/cgi-bin/text-idx?SID=96140bc8bdf0b7fbd19c2780ad6bffab&mc=true&node=pt13.1.103&rgn=div5), [105](https://www.ecfr.gov/cgi-bin/text-idx?SID=96140bc8bdf0b7fbd19c2780ad6bffab&mc=true&node=pt13.1.105&rgn=div5), [120](https://www.ecfr.gov/cgi-bin/text-idx?SID=564c889d04ed1d07a3e0cb26cbd17118&mc=true&node=pt13.1.120&rgn=div5), [121](https://www.ecfr.gov/cgi-bin/text-idx?SID=96140bc8bdf0b7fbd19c2780ad6bffab&mc=true&node=pt13.1.121&rgn=div5), and [134](https://www.ecfr.gov/cgi-bin/text-idx?SID=96140bc8bdf0b7fbd19c2780ad6bffab&mc=true&node=pt13.1.134&rgn=div5) of [Title 13 of the Code of Federal Regulations (CFR)](https://www.ecfr.gov/cgi-bin/text-idx?SID=a61daf0e1dc2a257f09e41b677566967&mc=true&tpl=/ecfrbrowse/Title13/13tab_02.tpl).[[1]](#footnote-2)

This multi-purpose business loan program is administered as a deferred participation program where SBA guarantees a portion of the loan made by a Lender. The Lender initiates the loan to a small business and, if the SBA agrees to guarantee the loan, the Lender funds and services the loan. In the event of default, the Lender conducts the work-out or the liquidation efforts and the Lender and SBA share in the loss, if any, in accordance with the percentage guaranteed by the SBA.

Definitions applicable to this section can be found in 13 CFR §§[103.1](https://www.ecfr.gov/cgi-bin/text-idx?SID=777f83029a14697fdd7fb41cda08729b&mc=true&node=pt13.1.103&rgn=div5#se13.1.103_11), [105.201](https://www.ecfr.gov/cgi-bin/text-idx?SID=777f83029a14697fdd7fb41cda08729b&mc=true&node=pt13.1.105&rgn=div5#se13.1.105_1201), [120.10](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_110), [120.420](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1420).

Types of lenders that may participate:

* The following lenders may apply to participate with SBA as a 7(a) Lender:
	+ Federally-regulated lenders, including those lenders regulated by Federal Financial Institution Regulators (e.g., the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Office of the Comptroller of the Currency, the National Credit Union Administration, and the Farm Credit Administration); and
	+ SBA Supervised Lenders:
		- Non-Federally Regulated Lenders (NFRLs), including State-regulated lenders not regulated by any Federal banking authority ;
		- Small Business Lending Companies (SBLCs); and
		- Community Advantage Small Business Lending Companies (CA SBLCs).
* The following lenders may not apply to participate with SBA as a 7(a) Lender:
	+ SBA-licensed Small Business Investment Companies (SBICs);
	+ Certified Development Companies (see [13 CFR § 120.820(c)](https://www.ecfr.gov/cgi-bin/text-idx?SID=a61daf0e1dc2a257f09e41b677566967&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1820), except with respect to the Community Advantage Pilot Program and the CA SBLC ); and
	+ Bank holding companies.

#### Process to Become a 7(a) Participating Lender

* 1. Federally-Regulated Lenders:
		1. An institution that has Federal deposit or share insurance protection and is a State or National bank, a State or federally-chartered thrift institution or a State or federally-chartered credit union must submit a request in writing to the Lead District Office (see definition in Appendix 3) serving the geographic area where the lender’s principal office is located. With the exception of State-chartered credit unions, these institutions automatically comply with the Agency’s examination and supervision requirements under 13 CFR § [120.410](https://www.ecfr.gov/cgi-bin/text-idx?SID=96140bc8bdf0b7fbd19c2780ad6bffab&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1410).
		2. When a State-chartered credit union applies to become a participating Lender:
			1. If the credit union has Federal deposit or share insurance protection, it must submit an application to the Lead District Office servicing the geographic area where its principal office is located. The application must include:
				1. The name and contact information for the credit union’s state regulator;
				2. How often the credit union is examined by its state regulator;
				3. Date of the last examination by the state regulator;
				4. Evidence of good standing with the state regulator;
				5. Evidence of the state regulator’s authorization for the proposed area of operations;
				6. A description of the credit union’s experience in commercial lending including the dollar value and number of small business loans originated over the past 12 months;
				7. A list of personnel and a brief summary of staff with SBA lending experience. If the credit union does not have staff with SBA lending experience, provide a staff training plan for loan origination, servicing, and liquidation;
				8. An operation plan detailing the nature of proposed SBA lending, including detailed projections for the first 3 years as an SBA Lender;
				9. SBA may request additional information.
			2. If the credit union does not have Federal deposit or share insurance protection, it must send to the Lead District Office the items required in paragraph 2.b. below for Non-Federally Regulated Lenders.
			3. The SBA counsel must review the application for legal sufficiency. As part of that review, SBA counsel must determine that the credit union has the authority to apply for participation with SBA and, specifically, that the person who submitted the application has the authority to act on behalf of the credit union. Applications submitted on behalf of a credit union by a Credit Union Service Organization (CUSO) or Lender Service Provider (LSP) are not acceptable.
			4. The Lead District Office must submit the application, any supporting information, and SBA counsel’s review to OCRM at OCRM@sba.gov for a written determination by OCRM regarding the State’s level of regulatory supervision and examination.
		3. A lender must be considered in good/satisfactory standing with its state regulator and considered to be satisfactory by its Federal Financial Institution Regulator (FFIR) as determined by SBA. For purposes of participation in the 7(a) program, SBA considers a lender to be in good/satisfactory standing with its state/FFIR if it has satisfactory financial condition and satisfactory small business credit administration and servicing policies, procedures, and practices. Accordingly, the lender’s written request to participate must include a written statement that to the best of its knowledge, the lender has satisfactory: i) financial condition (e.g., capital and liquidity); ii) small business credit administration policies, procedures, and practices that it continues to adhere to in its operations; and iii) small business servicing policies, procedures, and practices that it continues to adhere to in its operations. When reviewing good standing or whether a lender is considered satisfactory, SBA will look to see that a lender does not have significant deficiencies or weaknesses in these areas. “Significant” may be evidenced by the number or seriousness of the deficiencies, as determined by SBA in its discretion. SBA will verify any good standing/satisfactory status statement where possible with public (e.g., Cease and Desist Orders and Call Reports) and/or non-public information from the lender’s primary and/or other regulators.
		4. The Lead District Office must determine whether the lender meets the requirements of [13 CFR § 120.410](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1410) to be a 7(a) participant. If the Lead District Office determines that the lender meets these requirements, it may enter into a Loan Guaranty Agreement with the lender. The lender will sign an SBA Form 750, “Loan Guaranty Agreement (Deferred Participation),” and return it to the Lead District Office for execution by the District Director or designee. Once the SBA Form 750 is executed, the Lead District Office will add the Lender to the SBA Partner Information Management System (PIMS), which identifies the Lender as an SBA participating Lender. Note: The District Director or designee must not sign the SBA Form 750 until after the Lender has signed the form and returned it to the SBA. The Lead District Office will retain the executed SBA Form 750 in the Lead District Office’s files.
	2. Non-Federally Regulated Lenders:
		1. Non-Federally Regulated Lenders (NFRLs) are entities engaged in small business lending that are subject to the oversight and supervision by a state regulator authorized to evaluate the safety and soundness of its regulated members. These entities operate without Federal deposit or share insurance protection (such as Business and Industrial Development Companies (BIDCOs)). NFRLs are authorized by the Administrator to make loans pursuant to section 7(a) of the Small Business Act. NFRLs are subject to additional regulations specific to SBA Supervised Lenders (see [13 CFR §§ 120.460-120.465](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#sg13.1.120_1453.sg34)) as well as all other 7(a) regulations specific to loan processing, servicing, and liquidation. NFRLs must have internal controls that meet the requirements set forth for SBLCs in Chapter 2, [Small Business Lending Companies](#_Chapter_2:_Small).

To become a 7(a) participant, the lender must submit an application containing the information and documents specified below to the Office of Financial Assistance (OFA) at 409 Third Street SW, Washington DC 20416, ATTN: Director, Office of Financial Assistance. The applicant must submit two complete binders of fully executed paper copies and one executed electronic scanned copy (in pdf format) to OFA addressing each of the elements set forth below (“NFRL Application”). The NFRL Application must be complete and organized in tabular format. Incomplete NFRL Applications will not be processed by SBA and will be returned to the applicant. An applicant that submits an incomplete NFRL Application (as determined by SBA) must wait 30 calendar days before reapplying.

SBA reserves the right to deny any applicant requesting to become an NFRL in its sole discretion. In addition to SBA’s evaluation of the elements required below, SBA may consider risk factors in its evaluation of an NFRL Application. These factors include, but are not limited to, historical performance measures (such as default, purchase and loss rate), and other performance data or program integrity concerns associated with the lender or its senior management team, along with other relevant information (such as SBA-observed gaps in small business lending not served by the existing 7(a) Lender population).

* + 1. The Lender’s application must include:
			1. Lender’s name, address, telephone number and email address;
			2. A copy of the lender’s organizational formation documents and bylaws filed with the appropriate authority and certified by an appropriate officer of the applicant;
			3. The identification of all classes of stock, partnership interest or members interests, the rights and preferences accorded to these forms of ownership, including voting rights, redemption rights, distribution rights and rights of convertibility and any conditions for the transfer, sale, or assignment of such interests;
			4. The lender’s proposed geographical area of operations, as authorized by the lender’s state regulator;
			5. A list of officers, directors, managing partners, managing members, Associates , and holders of 10% or more of any class of the lender’s capital stock or ownership interest;
			6. An organizational chart showing all officers, directors, managers, and Key Employees of the lender, which includes senior managers, members of loan committees, and individuals who have a meaningful participation in the direction of the operations, policies, or financial decisions of the lender, including any relationships between the lender and any Associates;
			7. An executed [SBA Form 1081](https://www.sba.gov/document/information-notice-5000-20051-revised-sba-form-1081), “Statement of Personal History,” and FBI Form [FD-258](https://www.fbi.gov/file-repository/standard-fingerprint-form-fd-258-1.pdf/view) Applicant Fingerprint Form (fingerprint card) or Electronic Fingerprint Submission (see definition in [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs)), each signed and dated within 90 days of submission to SBA for:
				1. Each officer, managing partner, and managing member of lender, and all holders of 10% or more of any class of stock or ownership, limited partnership, or member’s interest; and
				2. Each director and Key Employee of the lender organization. Directors and Key Employees must only submit either Form FD-258 (fingerprint card) or Electronic Fingerprint Submission along with SBA Form 1081 if the individual answered affirmatively to questions 10a, 10b, 10c, 11a, and/or 11b on the SBA Form 1081.
			8. A copy of the most recent audited financial statements of the lender;
			9. A copy of the most recent audited financial statements on any entity, other than natural persons, holding 10% or more of any class of the lender’s stock or ownership interest;
			10. An operations plan detailing the nature of the lender’s proposed loan activity, the volume of activity projected over the first 3 years as a 7(a) Lender, projected balance sheets, income statements and statement of cash flows of the lender, with alternative profit and loss scenarios based on run rates equivalent to 70% and 50% of projected loan activity, the type and projected amount of financing needed to support its lending plan, along with a discussion of lender’s proposed wind-down plan in the event the lender decides to leave the program;
			11. A detailed analysis of the lender’s projected Secondary Market activities during the first 3 years of operation, including a sensitivity analysis of the effect any changes in premium from the sale of the guaranteed portion of 7(a) loans in SBA’s Secondary Market may have on the lender’s prospective earnings. The analysis must also include a description of the lender’s plans (if any) to securitize or sell participations in the unguaranteed portion of 7(a) loans;
			12. If the lender intends to acquire any 7(a) loans, a written plan detailing the extent of this acquisition activity in its operating plan, and how the lender intends to manage the transition of the 7(a) loan portfolio;
			13. A copy of the lender’s policies and procedures governing business loan origination, servicing, and liquidation in accordance with the requirements at Chapter 2, [Para. A.1](#_SBLC_Requirements) & 2, of this Section. NFRLs must adhere to their internal policies and procedures for originating, closing, servicing, and when necessary liquidating SBA loans. When this SOP states that Lenders are to follow their own policies and procedures on their similarly-sized, non-SBA guaranteed loans, NFRLs must follow the written policies and procedures that have been reviewed by SBA;
			14. A copy of the lender’s internal control policies;
			15. A certification that the lender will not be engaged primarily in financing the operations of an Affiliate, as defined in 13 CFR §§ [121.103](https://www.ecfr.gov/cgi-bin/text-idx?SID=afd20320932386eea6006510855b87d3&mc=true&node=pt13.1.121&rgn=div5#se13.1.121_1103) and [121.301](https://www.ecfr.gov/cgi-bin/text-idx?SID=afd20320932386eea6006510855b87d3&mc=true&node=pt13.1.121&rgn=div5#se13.1.121_1301).
			16. A copy of the State or Federal statute or regulations governing the lender’s operations, including those pertaining to audit, examination, and supervision of the lender. Each lender bears the burden of demonstrating that it is subject to continuing supervision by a State or Federal regulatory authority satisfactory to SBA;
			17. A copy of the latest report covering the examination of the lender, and/or any regulatory orders if such reports can be released to SBA. If the report cannot be released or the lender is newly formed and has not been examined by its primary regulator include a statement to that effect;
			18. A copy of the license, certificate, and/or charter, if any, issued to the lender by a regulatory authority;
			19. A certified copy of a Resolution of the Board of Directors designating the person(s) authorized to submit the application on behalf of the lender;
			20. Disclosure of any and all actions, proceedings, investigations, or litigation, pending or threatened, against the lender and/or its [Associates](#Associate), including complete details of any actions disclosed; and
			21. A written legal opinion of independent counsel (“Independent Counsel” is counsel that is not an “Associate” of the lender under [13 CFR § 120.10](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_110).), satisfactory to SBA that addresses whether the lender:
				1. Is duly formed, organized, and validly existing in good standing under the laws of the State of its organization, and is in full compliance with all Federal, State, and local laws in connection with the formation and organization of the lender;
				2. Has the power, legal right, and authority to conduct business in the lender’s proposed operating area; and
				3. Is in full compliance with all appropriate Federal and State securities laws.
		2. Once received, the D/FA or designee, in consultation with the Director, Office of Credit Risk Management (D/OCRM), makes the final determination on the application and notifies the Lead District Office. If the application is approved, the Lead District Office will send an SBA Form 750 to the Lender for signature and return to the Lead District Office.

Note: SBA must not sign the SBA Form 750 until after the lender has signed the form and returned it to the Lead District Office.

* + 1. When the Lead District Office receives the SBA Form 750 signed by the Lender:
			1. The District Director or designee will execute the agreement, and the Lead District Office will send a copy of the executed agreement to the D/FA;
			2. The Lead District Office will add the Lender to the SBA Partner Information Management System (PIMS), which identifies the Lender as an SBA participating Lender;
			3. The Lead District Office will retain the executed SBA Form 750 in the Lead District Office’s files.
		2. Change of Ownership or Control. Control, as defined in this paragraph, means the possession, direct or indirect, or the power to direct or cause the direction of the management or policies of an NFRL, whether through the ownership of voting securities, by contract, or otherwise.
			1. SBA’s prior written consent is required for:
				1. Any single (or aggregate over time) change of ownership or control of 10 percent or more of any class of an NFRL’s stock or ownership interests.
				2. Any proposed transaction or event that results in control by any entity or person(s) not previously approved by SBA.
			2. A new application in accordance with the above requirements must be submitted for SBA’s prior written consent with respect to a change of ownership or control transaction. For change of control transactions, the Lender must reapply for any delegated authorities.
			3. If the proposed change of ownership is for less than a majority interest, SBA, in its sole discretion, may limit the items required by the Lender in paragraph 2.b., “The Lender’s application must include,” above to support a request for prior SBA consent.
	1. Small Business Lending Companies (SBLCs) (13 CFR §§ [120.460](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5%20-%20sg13.1.120_1453.sg34%20-%20se13.1.120_1460#sg13.1.120_1453.sg34) – [120.490](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1490)):

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. See chapter 2, “[Small Business Lending Companies](#_Chapter_2:_Small),” of this section for more information on becoming an SBLC.

A Community Advantage Small Business Lending Company (CA SBLC) is a type of SBLC that is a nonprofit lending institution licensed and authorized by SBA to make loans pursuant to section 7(a) of the Small Business Act. Note: This includes former Community Advantage Pilot Lenders that were grandfathered in at the time Community Advantage SBLC licenses were authorized regardless of their profit or nonprofit status. SBA accepts applications for Community Advantage SBLCs from time to time as published in the **Federal Register**. CA SBLCs are expected to make at least 60% of its loans to small businesses in underserved markets.

* 1. Export Working Capital Program (EWCP):

To participate in the Export Working Capital Program (EWCP):

* + 1. Existing SBA Lenders:

Note: SBA Form 750, “Loan Guaranty Agreement (Deferred Participation),” was updated as of July 1, 2019. Lenders with an executed:

* + - 1. July 1, 2019, version of SBA Form 750 are eligible to submit applications for guaranty under non-delegated processing procedures.
			2. SBA Form 750 that is prior to the July 1, 2019, version, and that also have an executed SBA Form 750EX, are permitted to submit applications for guaranty under non-delegated processing procedures.
			3. SBA Form 750 that is prior to the July 1, 2019, version, and that do not have an executed SBA Form 750EX, must execute a new July 1, 2019, version of SBA Form 750 to be eligible to submit applications for guaranty under non-delegated processing procedures. Such Lenders may contact the local Lead District Office to request authority to participate.

If the lender meets the criteria set forth above for 7(a) Lenders (or, for SBLCs, in Chapter 2, [Small Business Lending Companies](#_Chapter_2:_Small), of this Section below), and if the lender is approved to participate, the Lead District Office staff will provide the lender with SBA Form 750, which the lender must sign and return. Once the executed SBA Form 750 is returned, the District Director or designee will sign SBA Form 750 and the Lead District Office staff will enter the SBA Form 750 into the Partner Information System and notify the Export Finance Manager in the appropriate United States Export Assistance Center (USEAC). Note: A complete listing of Export Finance Managers and USEAC locations may be found at [Export Finance Managers](https://www.sba.gov/article/2017/nov/01/list-useacs-sba-staff).

Note: The District Director or designee must not sign the SBA Form 750 until after the lender has signed the form and returned it to the SBA.

* + 1. Non-SBA lender:
			1. A lender that is not an existing SBA Lender must be approved by SBA to participate in the 7(a) loan guaranty program before they can participate in EWCP. Such lenders may contact the local Lead District Office to request authority to participate in SBA lending.
			2. If the lender meets the criteria set forth above for 7(a) Lenders (or, for SBLCs, in Chapter 2, [Small Business Lending Companies](#_Chapter_2:_Small), of this Section below), and if the lender is approved to participate, the Lead District Office staff will provide the lender with SBA Form 750, which the lender must sign and return. Once the executed SBA Form 750 is returned, the District Director or designee will sign the SBA Form 750 and the Lead District Office staff will enter the SBA Form 750 into the Partner Information System and notify the appropriate Export Finance Manager.

Note: The District Director or designee must not sign the SBA Form 750 until after the lender has signed the form and returned it to the SBA.

* + 1. The Export Finance Manager will consult, advise and train Lenders and small business exporters on the procedures and benefits of SBA’s EWCP.
		2. To request authority to participate in the Preferred Lenders Program (PLP) for EWCP, see paragraph E.2.j. [PLP Lender Authority and Responsibilities](#Authority_Responsibilities_PLP), below in this chapter.

#### Loan Guaranty Agreement

The SBA Form 750, “Loan Guaranty Agreement,” provides a basic framework for the responsibilities and duties of the Lender and SBA when making, closing, and administering any individual SBA-guaranteed loan.[[2]](#footnote-3) ([13 CFR § 120.400](https://www.ecfr.gov/current/title-13/section-120.400)) This agreement is subject to SBA’s rules and regulations, as amended from time to time. A Lender must execute this agreement prior to submitting any applications for guaranty to SBA.

The Lender’s executed SBA Form 750 is the written agreement between the SBA and the Lender requiring the Lender to comply with all SBA Loan Program Requirements as defined in [13 CFR 120.10](https://www.ecfr.gov/current/title-13/section-120.10), including but not limited to, the applicable statute, regulations, and SOP guidance, and allowing the Lender to make loans with an SBA guaranty when authorized by SBA.

The E-Tran loan guaranty authorization request, also known as the Terms and Conditions Agreement, is the digital request by the Lender to SBA to authorize the Lender to make the loan with an SBA guaranty under the terms and conditions submitted in E-Tran. SBA’s guaranty is subject to the terms and conditions authorized by SBA in E-Tran (including any changes) and the Lender’s compliance with those terms and conditions and all other applicable SBA Loan Program Requirements. Unless otherwise required by SBA (e.g., OCRM), the Lender should not send SBA any other loan closing documentation, including disbursement information, except through the required periodic loan status reports using SBA Form 1502. See SOP 50 57 for directions on servicing and liquidating loans.

#### Responsibilities of 7(a) Lenders

* 1. In making SBA-guaranteed loans, 7(a) Lenders must:
		1. For all loans submitted using the non-delegated process through the LGPC:
			1. The Lender submits the loan guaranty request by submitting the loan terms and conditions in E-Tran. SBA will review the application and issue the SBA loan number if the loan is approved.
		2. For all loans processed using the Lender’s delegated authority (PLP, PLP-EWCP, SBA Express, or Export Express):
			1. The Lender submits the loan guaranty request with the loan terms and conditions in E-Tran. The SBA loan number will be issued in E-Tran.
		3. The terms and conditions that must be digitally submitted to E-Tran include:
			1. 7(a) Lender fees payable to SBA:
				1. Statement of the Upfront Fee;
				2. Statement of Lender’s Annual Service Fee;
			2. Repayment terms;
			3. Use of Proceeds;
			4. Guarantors;
			5. Collateral
			6. Insurance and environmental conditions.
		4. Close the loan in accordance with the Terms and Conditions Agreement and consistent with the Lender’s similarly-sized, non-SBA guaranteed commercial loans , all SBA policies, regulations, and Loan Program Requirements;
		5. Maintain complete loan files and allow SBA’s authorized representatives access to those files during normal business hours consistent with the Lender’s similarly-sized, non-SBA guaranteed commercial loans (SBA expects Lender’s loan files and related records to be under the direct control of the Lender, not an Agent or Lender Service Provider);
		6. Service the loan in accordance with [SOP 50 57](https://www.sba.gov/document/sop-50-57-7a-loan-servicing-and-liquidation) and regulations;
		7. Liquidate the loan in accordance with [SOP 50 57](https://www.sba.gov/document/sop-50-57-7a-loan-servicing-and-liquidation) and regulations;
		8. Comply with SBA Loan Program Requirements (as defined in [13 CFR § 120.10](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_110)) for the 7(a) program, as such requirements are revised from time to time. SBA Loan Program Requirements in effect at the time that a Lender takes an action in connection with a particular loan govern that specific action. For example, although loan closing requirements in effect when a Lender closes a loan will govern closing actions, a Lender’s liquidation actions on the same loan are subject to the liquidation requirements in effect at the time that a liquidation action is taken ([13 CFR § 120.180](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1180)). SBA Loan Program Requirements, Center contacts, and other information can be found at [7(a) Loan Program](https://www.sba.gov/partners/lenders/7a-loan-program); and
		9. SBA expects Lenders to exercise due diligence and prudent oversight of their third party vendors, including Lender Service Providers (LSPs) and other loan agents, which should include having written policies governing such relationships and monitoring performance of loans referred by an Agent or where an Agent provided assistance. SBA will review evidence of such due diligence and oversight of such relationships when conducting lender oversight activities. Federally-regulated Lenders are reminded that they must comply with the requirements of their primary Federal Financial Institution Regulator regarding third party vendors.
	2. Preferences:
		1. A Lender may not take any action in connection with an SBA-guaranteed loan that establishes a preference in favor of the Lender ([13 CFR § 120.411](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1411)). A Lender must be particularly careful to avoid establishing a preference when using its delegated authority (for example, reducing its existing exposure to the Borrower through the use of an SBA-guaranteed loan).
		2. A Lender must not:
			1. Take any side collateral or guaranty that would secure only its own interest in a loan;
			2. Obtain a separate guaranty on the unguaranteed portion of the 7(a) loan without SBA’s approval;
			3. Require a Borrower to purchase certificates of deposit;
			4. Maintain a compensating balance not under the control of the Borrower;
			5. Take a side loan which would have the effect of ensuring a risk-free or limited-risk investment on the participant’s share; or
			6. Have an SBA-guaranteed loan in a “piggyback” structure.
				1. Piggyback financing occurs when one or more lenders provide more than one loan to a single Borrower at or about the same time, financing the same or similar purpose, and where the SBA-guaranteed loan is secured with a junior lien position or no lien position on the collateral securing the non-guaranteed loan(s). SBA considers “at or about the same time” to mean loans approved within 90 days of each other.
				2. SBA does not consider a scenario where both the SBA-guaranteed loan and the non-SBA guaranteed loan are for working capital and the non-SBA guaranteed loan is secured only by working/trading assets to be a piggyback structure.
				3. SBA does not consider a shared lien position with the lender (pari passu) to be a piggyback structure when the maturity of the non-SBA guaranteed loan is not shorter than the maturity of the SBA-guaranteed loan.
		3. Under the following circumstances, a Lender may make a side loan to the Borrower to purchase stock of the participating Lender (as may be required by certain Lenders, such as Farm Credit Administration entities):
			1. The enabling authority of the Lender requires the purchase as a condition for making the loan.
			2. The Lender makes a separate side loan not guaranteed by SBA for the Borrower to buy the stock or debentures. The side loan must be subordinated to the SBA loan, but the Lender may hold a first lien on any stock collateralizing the side loan.
			3. The interest to be charged on the side loan must not exceed the maximum rate of interest acceptable for SBA-guaranteed loans, and the maturity of the side loan must not be less than that of the SBA-guaranteed loan.
			4. In the event of default, either on the side loan or the SBA-guaranteed loan, the Lender may not take any action to collect or liquidate the side loan, except canceling or retiring the stock securing the side loan, until the SBA loan has been fully liquidated.
	3. Forward Commitments:

A forward commitment exists when a Lender issues a commitment to a builder or developer to finance future sales of real estate. The SBA will not guarantee loans made by the Lender to small businesses to purchase such real estate. This is a potential conflict of interest for the Lender because of its predisposition to make SBA loans in order to honor their prior agreement with the builder or developer. Such loans are ineligible for SBA’s guarantee regardless of whether the Lender gets a fee for issuing the commitment.

* 1. Notifying SBA of Suspected Fraud or Illegal Activity:

SBA Lenders, Borrowers, and others must notify both D/OCRM and the SBA Office of Inspector General (OIG) of any information that indicates fraud or illegal activity may have occurred in connection with a 7(a) or 504 loan. Notify D/OCRM at OCRM@sba.gov. Notify the OIG either [online](https://sbax.sba.gov/oigcss/) or by mail (preferably by overnight courier) to the Assistant Inspector General for Investigations, Office of Inspector General, U.S. Small Business Administration, 409 3rd Street, SW, Washington, DC 20416. Any substantiating evidence should be included when contacting the Office of the Inspector General and D/OCRM. [13 CFR § 120.197](https://www.ecfr.gov/cgi-bin/text-idx?SID=564c889d04ed1d07a3e0cb26cbd17118&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1197)

* 1. Advertising of Relationship with SBA ([13 CFR §120.413](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1413)):
		1. General Advertising. To further clarify the above referenced section of the Code of Federal Regulations, a Lender may not use the SBA seal or logo in any manner in any advertisement, brochure, publication or promotional piece, or state or imply that the Lender or its Borrowers will receive any preferential treatment by SBA. However, a Lender may publicize its relationship with the SBA by identifying itself as an SBA participating Lender. In addition, to protect the Lender from any perceived misrepresentation or false impression by the public of SBA endorsement, the SBA has created an SBA-approved window decal and identical digital icon that may be used in the following manner:
			1. Window Decals. The SBA-approved Lender decal may only be used to inform the public of the Lender’s relationship with SBA and may not be used to promote, or appear to promote, the Lender’s non-SBA products or services. Window decals are available from Lead District Offices for display in the lending institution’s window, e.g., alongside the required decals of other regulating institutions such as the FDIC.
			2. Digital Icon on Website. The SBA-approved Lender digital icon is an exact replica of the window decal and may only be used to inform the public of the Lender’s relationship with SBA and may not be used to promote, or appear to promote, the Lender’s non-SBA products or services.
				1. When using the SBA-approved Lender digital icon on a website, the Lender must include the following public statement: “Approved to offer SBA loan products under SBA’s Preferred Lenders Program” (or SBA Express Program, etc.).
				2. The Lender digital icon may be downloaded from and must be used in accordance with [SBA's Lender digital icon guidelines](https://www.sba.gov/document/support--advertising-your-sba-relationship).
			3. Digital Icon in Advertising. The SBA Lender digital icon may only be used in print, television, digital advertising, and exhibit signage, dedicated exclusively to SBA lending products, e.g., brochure, advertisement, publication, or promotional piece. The digital icon may only be used to inform the public of the Lender’s relationship with the SBA and may not be used to promote, or appear to promote, the Lender’s non-SBA products or services. The SBA Lender digital icon may not be used on an SBA Lender’s stationery or business cards.
			4. Digital Icon on Construction Signage. In connection with construction made possible by an SBA-guaranteed loan, if the SBA Lender initiates the signage and invites the SBA to add its logo, the SBA Lender digital icon may be used with the following disclaimer: “This project is made possible by an SBA-guaranteed loan.” It is also acceptable for the SBA Lender to choose only to display the disclaimer.
		2. Oversight. An SBA Lender’s usage of the window/building decal and any identical digital icons on its website and how it represents its relationship with SBA may be reviewed as part of the Agency’s SBA Lender oversight activities.
	2. If a Lender makes a major change in its structure or organization after execution of the SBA Form 750, it must notify OCRM at OCRM@sba.gov (with a copy to the Lead District Office) in writing. Major changes that may impact continued SBA participation include:
		1. Acquisition by another entity;
		2. Merger into another legal entity;
		3. A change of name;
		4. Substantial changes in management;
		5. Establishment of a subsidiary or affiliate, or acquisition of another entity, to administer Lender’s SBA loan portfolio;
		6. Substantial changes in how the Lender handles SBA loans, including a proposed sale of its SBA loan portfolio;
		7. Takeover or closure of the Lender by a regulatory agency; or
	3. If Lender enters into an Order or Consent Agreement with its primary Federal Regulator that may affect the Lender’s 7(a) lending activities, the Lender must notify OCRM at OCRM@sba.gov within 30 calendar days of the Order issuance.
	4. Record Retention: See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) Appendix 11.
	5. Lenders must register in the System for Awards Management (SAM) and receive a unique entity identifier. Lenders must maintain an active registration in SAM, which requires the Lender to review and update information in the SAM database on an annual basis, and ensure the data in SAM is current, accurate, and complete. (Refer to Information Notice 5000-20094.)

#### SBA Oversight of 7(A) Lenders

SBA oversees 7(a) Lenders through:

* 1. Loan and Lender Monitoring System (L/LMS):
		1. L/LMS is an internal SBA data system that includes the use of historical data and predictive small business credit scoring. All SBA 7(a) loans with an outstanding balance are credit-scored quarterly. Data on 7(a) loans are aggregated, analyzed, and evaluated to assess the credit quality of each individual 7(a) Lender’s portfolio of SBA-guaranteed loans. SBA uses this information to monitor the performance of 7(a) Lenders individually and in comparison to their peers and the 7(a) program portfolio.
		2. Using SBA’s L/LMS system, SBA assigns all 7(a) Lenders a composite rating. The composite rating reflects SBA’s assessment of the potential risk to the government of that 7(a) Lender’s SBA portfolio. The specific performance factors which comprise the composite rating are published from time to time by SBA’s Office of Credit Risk Management (OCRM). In general, these factors reflect both historical 7(a) Lender performance and projected future performance. SBA performs quarterly recalculations on the common factors for each 7(a) Lender, so 7(a) Lenders’ composite risk ratings are updated on a quarterly basis.
		3. SBA has established peer groups to minimize the differences in loan performance relative to portfolios of different sizes. The peer groups are based upon gross outstanding SBA loan dollars. For 7(a) Lenders, they are:
			1. $350,000,000 or more
			2. $100,000,000 - $349,999,999
			3. $10,000,000 - $99,999,999
			4. $4,000,000 - $9,999,999
			5. $1,000,000 - $3,999,999
			6. $0 - $999,999B (active with at least one loan disbursed in past 12 months)
			7. $0 - $999,999A (inactive with no loans disbursed within the past 12 months)
		4. SBA assigns a composite rating of “1” to “5” to each 7(a) Lender generally based upon its portfolio performance, as reported in L/LMS. A rating of “1” indicates strong portfolio performance, the least risk, and requires the lowest degree of SBA management oversight (relative to other 7(a) Lenders in its peer group). A “5” rating indicates weak portfolio performance, the highest risk, and requires the highest degree of SBA management oversight. (See [13 CFR § 120.10](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_110) (definitions related to Risk Rating); [13 CFR § 120.1015](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11015) (Risk Rating System); [75 FR 9257, March 1, 2010](https://www.federalregister.gov/documents/2010/03/01/2010-4266/sba-lender-risk-rating-system); [75 FR 13145, March 18, 2010](https://www.federalregister.gov/documents/2010/03/18/2010-5888/sba-lender-risk-rating-system); and [79 FR 24053, April 29, 2014](https://www.federalregister.gov/documents/2014/04/29/2014-09642/sba-lender-risk-rating-system) (Risk Rating Notices)) As set forth in the Risk Rating Notices, SBA may take into account rapid growth that may skew metrics and other factors in considering a Lender’s risk.
	2. Lender Portal:
		1. SBA communicates Lender performance to individual 7(a) Lenders through the use of SBA’s Lender Portal (Portal). The Portal allows a 7(a) Lender to view its own quarterly performance data, including, but not limited to, its current composite risk rating, peer and portfolio metric averages, and its PARRiS score (as discussed below). Portal data includes both summary performance and credit quality data. Summary performance data is largely derived from data that 7(a) Lenders provide to SBA through [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm) and 172 Reports; therefore, 7(a) Lenders bear much of the responsibility for ensuring data accuracy. If a 7(a) Lender reviews its performance components and finds a discrepancy with its records, the 7(a) Lender should contact OCRM.
		2. SBA 7(a) Lenders with at least 1 outstanding SBA Loan may apply for the Portal access. Currently, SBA issues only one Portal user account per 7(a) Lender. Submission of initial requests for a Portal user account must be submitted to SBA’s OCRM, and must include the following information:
			1. Request must be made by a senior officer with proper authority of the 7(a) Lender (Senior Vice President or higher);
			2. Request must be sent via email or overnight mail or courier to the SBA’s OCRM at 409 Third Street SW, Washington DC 20416, ATTN: Director, Office of Credit Risk Management;
			3. Request must be made using the 7(a) Lender’s stationery;
			4. Request must include the user’s business card;
			5. The stationery and business card should include the 7(a) Lender’s name and address;
			6. The request must include the following data:
				1. SBA FIRS ID Number(s);
				2. Account user’s name and title;
				3. Account user’s mailing address, telephone number and email address at the 7(a) Lender;
				4. Requesting officer’s name and title; and
				5. Requesting officer’s mailing address, telephone number and email address at the 7(a) Lender.
			7. Once SBA receives and approves the user’s request, SBA will forward the approval to SBA’s Portal contractor for issuance of a user account name and password. The Portal contractor will email the user their username and password within approximately 2 weeks of account approval. The user can then access its data by logging into the SBA Lender Portal web page. Before accessing the Portal, Lenders must agree to the terms of a Confidentiality Agreement, which is found on the SBA Lender Portal web page.
			8. Lenders are responsible for complying with and maintaining the Portal user accounts and passwords as set forth in the Confidentiality Agreement on the Portal web page, and as published by SBA from time to time. Lenders are also responsible for timely informing SBA to terminate or transfer an account if the person to whom it was issued no longer holds that responsibility for the 7(a) Lender. Lenders must take full responsibility for protecting the confidentiality of the user password and the 7(a) Lender Risk Rating, PARRiS score, and confidential information and for ensuring the security of the data. See [13 CFR § 120.1060](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11060). A Lender is not permitted to share access to the SBA Lender Portal or its portal information with an individual or entity operating as a Lender Service Provider or other third party.
	3. Monitoring and Reviews: (13 CFR §§ [120.1025](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11025) and [120.1050 - 1060](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11050))

L/LMS provides performance information that allows SBA to monitor and conduct reviews of all Lenders. L/LMS-related monitoring/reviews serve as the primary means of reviewing Lenders with less than $10 million in gross outstanding SBA loan dollars although SBA may determine, in its discretion, to conduct other more in-depth reviews (e.g., Analytical, Targeted, Full, or Delegated Authority Renewal) of these Lenders. SBA may also perform Desk Reviews, Secondary Market Evaluations, Loan-by-Loan Reviews, Other Reviews, and pilot test reviews. In addition to these types of reviews, SBA may perform for SBA Supervised Lenders Safety and Soundness Examinations and Quarterly Condition and Certification of Capital Compliance Reviews. (“L/LMS-related” refers to the L/LMS reviews and the SBA Lender Profile Assessment (LPA) including the PARRiS Score (defined below).) SBA will contact the Lender if the review detects performance issues or trends requiring further discussion.

* + 1. For Lenders with more than $10 million in gross outstanding SBA loan dollars, L/LMS details historical and projected performance data:
			1. For use in planning and conducting more in-depth reviews or examinations;
			2. To assist in prioritizing more in-depth reviews or examinations; and
			3. To monitor Lenders between the more in-depth reviews or examinations.
		2. SBA’s 7(a) risk-based reviews generally feature a composite risk measurement methodology and scoring guide, known as “PARRiS.” PARRiS is an acronym for the specific risk areas or components that SBA reviews: **P**ortfolio Performance; **A**sset Management; **R**egulatory Compliance; **Ri**sk Management; and **S**pecial Items.
		3. Additionally, in accordance with [13 CFR § 120.1010](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11010), a Lender must allow SBA’s authorized representatives, including representatives authorized by SBA’s Inspector General, during normal business hours, access to its files to review, inspect and/or copy all records and documents relating to SBA-guaranteed loans or as requested for SBA oversight. In keeping with Lender’s responsibility to maintain complete loan files and to allow SBA’s authorized representatives access to those files during normal business hours, SBA expects that all loan files and related records will be under the direct control of Lender (not an Agent or Lender Service Provider).
		4. SBA may request reports on a case-by-case basis.
		5. Additional information regarding reviews and examinations can be found in:
			1. [13 CFR §§ 120.1050-1060](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11050);
			2. [SBA Policy Notice 5000-1332](https://www.sba.gov/document/policy-notice-5000-1332-revised-risk-based-review-protocol-sba-operations-federally-regulated-7a-lenders): Revised Risk-Based Review Protocol for SBA Operations of Federally Regulated 7(a) Lenders (December 29, 2014), available for download at [SBA Document Search](https://www.sba.gov/documents);
			3. [SBA Information Notice 5000-1397](https://www.sba.gov/document/information-notice-5000-1397-updated-parris-methodology-oversight-sba-operations-federally-regulated-7a-lenders): Updated PARRiS Methodology for Oversight of SBA Operations of Federally Regulated 7(a) Lenders (November 15, 2016), available for download at [SBA Document Search](https://www.sba.gov/documents) ;
			4. [SBA Policy Notice 5000-1940](https://www.sba.gov/document/policy-notice-5000-1940-revised-risk-based-reviewexamination-protocol-sba-supervised-lenders): Revised Risk-Based Review/Examination Protocol for SBA Supervised Lenders (January 18, 2017), available for download at [SBA Document Search](https://www.sba.gov/documents); and
			5. SBA’s [SOP 51 00](https://www.sba.gov/document/sop-51-00-site-lender-reviewsexaminations).
		6. Lender oversight fees. Lenders are required to pay SBA fees to cover the costs of examinations and reviews and, if assessed by SBA, other Lender oversight activities.
		([13 CFR § 120.1070](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11070))
			1. The fees may cover:
				1. The cost of conducting L/LMS-related reviews/monitoring of a 7(a) Lender;
				2. The cost of conducting more in-depth reviews of a 7(a) Lender (e.g., Analytical, Targeted, and Full Reviews, Delegated Authority Reviews, Quarterly Condition and Certification of Capital Compliance Reviews (for SBA Supervised Lenders), Secondary Market Evaluations, and related review activities, such as corrective action assessments);
				3. The cost of conducting loan reviews (e.g., Secondary Market loan-by-loan reviews);
				4. The cost of conducting risk based reviews and/or safety and soundness examinations of an SBA Supervised Lender (SBLCs, CA SBLCs and NFRLs); and
				5. Any additional expenses that SBA incurs in carrying out Lender oversight activities (e.g., technical assistance and analytics to support the monitoring and review program, supervision and enforcement activity costs, salaries and travel expenses of SBA employees, and equipment expenses directly related to Lender oversight.
			2. In general, where the costs that SBA incurs for a review, examination, monitoring, or other Lender oversight activity are specific to a particular 7(a) Lender, SBA will charge that Lender a fee for the actual costs of the oversight activity. For example, for most examinations or reviews conducted under i.b) through d) above, SBA will invoice each Lender for the amount owed following completion of the examination or review.
			3. In general, where the costs that SBA incurs for the Lender oversight activity are not sufficiently specific to a particular Lender, SBA will assess a fee based on each 7(a) Lender’s portion of the total dollar amount of SBA guaranties in SBA’s total portfolio or in the relevant portfolio segment being reviewed or examined, to cover the costs of such activity. For these fees, such as the L/LMS related reviews/monitoring and other Lender oversight activity expenses incurred under i.a) and i.e) above, SBA will invoice each Lender on an annual basis.
				1. The invoice will state the charges, the date by which payment is due and the approved payment method(s).
				2. The payment due date will be no less than 30 calendar days from the invoice date.
				3. SBA may waive the fees assessed under this paragraph f(iii) for those Lenders owing less than a threshold amount if SBA determines that it is not cost effective to collect the fee.
			4. Payments that are not received by the due date shall be considered delinquent, and SBA will charge interest and other applicable charges and penalties as authorized by [31 U.S.C. 3717](https://www.gpo.gov/fdsys/granule/USCODE-2010-title31/USCODE-2010-title31-subtitleIII-chap37-subchapII-sec3717/content-detail.html). A Lender’s failure to pay any of the fee components described above, or to pay interest, charges and penalties that have been charged, may result in a decision to suspend or revoke a Lender’s eligibility to participate in SBA’s loan programs or participant’s delegated authority or other remedy available under law. ([13 CFR § 120.1070](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11070))
			5. For the schedule of fees that SBA charges for certain activities, refer to SBA Notices that SBA may issue and update from time to time. For example, see SBA Information Notice 5000-19008, FY 2019 Updated Fee Schedule for SBA Oversight of 7(a) Lenders (January 1, 2019).
	1. Supervision and Enforcement:

An integral part of overseeing the 7(a) loan program is SBA’s authority to supervise and take enforcement actions as necessary. For further guidance on Lender Supervision and Enforcement, see [SOP 50 53 (2)](https://www.sba.gov/document/sop-50-53-2-supervision-enforcement).

* 1. Suspension or Revocation:
		1. SBA may suspend or revoke the authority of a Lender to conduct 7(a) program activities, in accordance with [13 CFR §§ 120.1400-1600](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#sg13.1.120_11070.sg66).
		2. Examples of circumstances that may result in suspension or revocation under the above cited regulation include but are not limited to:
			1. Failure to comply materially with any requirement imposed by Loan Program Requirements, (e.g., credit elsewhere; maintaining ability within Lender to originate, service, and liquidate SBA Loans; charging impermissible or unreasonable fees; 1502 reporting; failing to pay oversight fees);
			2. Failure to underwrite, service, and liquidate SBA Loans in a commercially reasonable and prudent manner;
			3. Failure to maintain Lender eligibility requirements for SBA loan programs or delegated authority;
			4. Engaging in a pattern of uncooperative behavior (after notice);
			5. Any other reason that SBA determines may increase SBA’s financial risk, for example, a Less Than Acceptable examination/review assessment, regulatory order or agreement, indictment on felony or fraud charges of an officer, key employee or loan agent involved with SBA Loans for Lender, or repeated Less Than Acceptable Risk Rating, the latter generally in conjunction with other grounds.
		3. SBA will consider the severity and frequency of violations among other facts.
		4. SBA will notify the Lender of a proposed suspension or revocation in accordance with [13 CFR § 120.1600](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11600). The Lender will be provided an opportunity to respond prior to final action.
	2. Receiverships of NFRLs:
		1. Upon SBA’s determination that grounds for an enforcement action against a NFRL exist under [13 CFR § 120.1400](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5%20-%20sg13.1.120_11070.sg66#se13.1.120_11400), SBA may, pursuant to [13 CFR § 120.1500(c)(3)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11500), apply to a Federal court for the appointment of a receiver. Typically, SBA will use its receivership authority as a remedy of last resort. The appointment of a receiver is only one of several types of enforcement actions set forth in [13 CFR § 120.1500](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11500).
		2. SBA will review the facts and circumstances of the enforcement action when deciding whether or not to seek the appointment of a receiver. SBA will also make a determination regarding the scope of the receiver’s duties and powers, including whether the receivership will be limited to the NFRL’s assets related to the SBA loan programs. In deciding whether to seek a receiver and in determining the scope of a receivership, SBA will consider the following:
			1. The existence of fraud or false statements;
			2. A NFRL’s refusal to cooperate with SBA enforcement action instructions or orders;
			3. A NFRL’s insolvency (legal or equitable);
			4. The size of the NFRL’s SBA loan portfolio(s) in relation to other activities of the NFRL;
			5. The dollar amount of any claims SBA may have against the NFRL; and/or
			6. The existence of other non-SBA enforcement actions against the NFRL.
		3. Under [13 CFR § 120.1400(a)(2)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11400), a NFRL that makes 7(a) guaranteed loans after October 20, 2017, has consented to SBA’s right to seek a receivership in appropriate circumstances. Such consent is deemed to apply only if the NFRL makes 7(a) loans on or after January 1, 2018. The NFRL’s consent does not in any way preclude the NFRL from contesting whether or not SBA has established the grounds for seeking the remedy of receivership. A NFRL’s consent to receivership as a remedy does not require SBA to seek the appointment of a receiver in any particular SBA enforcement action.

#### Delegated Authority in the 7(a) Loan Program

SBA may grant delegated authority to lenders to process, close, service, and liquidate certain SBA-guaranteed loans without prior SBA review. The delegated authorities are:

* Preferred Lenders Program (PLP) (Standard 7(a) loans, 7(a) Small loans, CAPLines, EWCP, and International Trade loans);
* SBA Express; and
* Export Express.

##### **Delegated Authority Criteria**

* + 1. In making its decision to grant or renew a delegated authority, SBA considers, in accordance with [13 CFR § 120.440](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5%20-%20se13.1.120_1410#se13.1.120_1440) whether the Lender, as determined by SBA in its discretion:
			1. Has the continuing ability to evaluate, process, close, disburse, service, liquidate and litigate SBA loans. This includes the ability to develop and analyze complete loan packages. SBA may consider the experience and capability of Lender’s management and staff. Review and exam results may also inform on Lender capability. A minimum level of loan volume may be needed to make this assessment;
			2. Has satisfactory SBA performance (as defined in [13 CFR § 120.410(a)(2)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1410)). Factors may include, but are not limited to, review/examination assessments, PARRiS metrics, historical performance measures (like default rate, purchase rate and loss rate), loan volume to the extent that it impacts performance measures or is of sufficient level for SBA to assess performance, Lender Purchase Rating, and other performance related measurements and information (such as contribution toward SBA’s mission);
			3. Is in compliance with SBA Loan Program Requirements (i.e., [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm) reporting, SBA Form 159 reporting, and timely payment of all fees to SBA). For further guidance on SBA Form 1502 reporting, see Chapter 3, [Lender Financing and Operations](#_III._Lender_Financing) below;
			4. Has completed, to SBA’s satisfaction, all required corrective actions;
			5. Is in good standing with SBA as defined in [13 CFR § 120.420(f)](https://www.ecfr.gov/cgi-bin/text-idx?SID=a61daf0e1dc2a257f09e41b677566967&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1420) (as determined by SBA in its discretion), and, as applicable, with its state regulator and is considered satisfactory by its FFIR (as determined by SBA and based on, for example, information in orders/agreements, and call reports) ([13 CFR § 120.410(e)](https://www.ecfr.gov/cgi-bin/text-idx?SID=a61daf0e1dc2a257f09e41b677566967&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1410)):
				1. The Lender’s written request to participate must include a written statement that to the best of its knowledge, the Lender has satisfactory: (a) financial condition (i.e., is deemed well-capitalized based on size of entity, has sufficient liquid assets, etc.); (b) small business credit administration policies, procedures, and practices that it continues to adhere to in its operations; and (c) small business servicing policies, procedures, and practices that it continues to adhere to in its operations. When reviewing good standing/satisfactory status, SBA will look to see that a Lender does not have significant deficiencies or weaknesses in these areas. “Significant” may be evidenced by the number or seriousness of the deficiencies, as determined by SBA in its discretion. SBA will verify any good-standing/satisfactory status statement where possible with public (e.g., Cease and Desist Orders and Call Reports) and/or non-public information from the Lender’s primary and/or other regulators.
				2. In conjunction with this eligibility criteria, SBA reviews whether Lender is subject to any enforcement action, order or agreement with a regulator or the presence of other regulatory concerns as determined by SBA;
			6. Is not subject to any SBA enforcement actions;
			7. Has not received a major substantive objection from its Lead District Office relating to the [delegated authority criteria](#Delegated_Authority_Criteria_7a) set forth in 13 CFR § [120.440](https://www.ecfr.gov/cgi-bin/text-idx?SID=96140bc8bdf0b7fbd19c2780ad6bffab&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1440); and
			8. Exhibits other risk/program integrity factors (i.e., has rapid growth; low SBA activity; SBA loan volume; Lender, an officer or director is under investigation or indictment, inadequate capital, inadequate governance or management).
		2. Delegated authority decisions are made by the appropriate SBA official in accordance with Delegations of Authority and are final.
		3. If delegated authority is approved or renewed, Lender must execute a Supplemental Guarantee Agreement, which will specify a term not to exceed 2 years. SBA may grant shorter terms based on risk or any of the other delegated authority criteria. See also [SOP 50 53 (2)](https://www.sba.gov/document/sop-50-53-2-supervision-enforcement), discussion on Shortened and Non-Renewals of Delegated Authority. Lenders with less than 3 years of SBA lending experience generally will be limited to a term of 1 year.
		4. Changes in a delegated Lender’s structure:
			1. If a delegated Lender changes its structure or organization in any of the following ways, it must inform OCRM in writing at OCRM@sba.gov (with a copy to the Lead District Office) in writing. Changes include:
				1. Acquisition by another entity;
				2. Merger into another legal entity;
				3. A change in name;
				4. Substantial changes in management
				5. Establishment of a subsidiary or affiliate, or acquisition of another entity, to administer Lender’s SBA loan portfolio;
				6. Substantial changes in how the Lender handles SBA loans, including a proposed sale of its SBA portfolio;
				7. Takeover or closure of the Lender by a regulatory agency; or
				8. Orders or Consent Agreements issued by a regulator (for additional guidance see 13 CFR § 120.660(a)(3)) .
			2. When a delegated Lender’s structure changes and the Lender continues as the same legal entity that signed the SBA Form 1347, a new SBA Form 1347 is not required including when:
				1. The delegated Lender changes its name;
				2. The delegated Lender is acquired by another entity and the delegated Lender continues as a separate legal entity; or
				3. The delegated Lender acquires another Lender and the acquired Lender does not continue as a separate legal entity.
			3. When a delegated Lender acquires another Lender and the acquired Lender continues to operate as a separate legal entity, the delegated Lender’s delegated authority does not transfer to the acquired Lender; however, the acquired Lender may apply for its own delegated authority.
			4. SBA will not renew a Lender’s delegated authority or will revoke, suspend, or terminate a Lender’s delegated authority when:
				1. The Lender changes its operations so much that it cannot show that it handles SBA Loans appropriately; or
				2. The delegated Lender is merged into a non-delegated lender (the surviving Lender may apply for delegated authority).
			5. SBA will terminate the Lender’s delegated authority and prohibit the Lender from making any new SBA loans when the Lender is dissolved, closed, or taken over by a regulatory authority.
			6. If any SBA office discovers any of the above circumstances, OCRM must be immediately notified in writing.
		5. Monitoring and reviews:

SBA uses the L/LMS system to assess Lenders quarterly through the composite risk rating and other performance metrics. In addition, those Lenders with outstanding SBA balances of $10 million or more may also receive more in-depth reviews. See Section A, Ch. 1, Para. D., [SBA Oversight of 7(a) Lenders](#_SBA_Oversight_of) above for further information.

* + 1. Supervision and enforcement:

See paragraph D.4, [Supervision and Enforcement](#Supervision_and_Enforcement_7a) above for further information.

* + 1. Suspension or revocation:

See paragraph D.5, [Suspension or Revocation](#Suspension_or_Revocation_7a_Lender) above for further information.

##### **Preferred Lenders Program (PLP)**

[13 CFR § 120.450](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1450)

Experienced Lenders may be designated as PLP Lenders and delegated the authority to process, close, service, and liquidate most SBA-guaranteed loans without prior SBA review.

* + 1. PLP Lenders are authorized to make SBA-guaranteed loans without prior SBA review of eligibility or creditworthiness. An SBA Loan Number is assigned by SBA upon notification by the PLP Lender of approval of the loan. PLP Lenders are expected to handle servicing and liquidation of all of their SBA loans with limited involvement of SBA.
		2. Qualifications for Initial PLP Consideration:

The Lender must demonstrate to SBA’s satisfaction that it:

* + - 1. Meets the delegated authority criteria set forth in paragraph 1 above; and
			2. Has the continuing ability to evaluate, process, close, and disburse SBA loans by having processed and fully disbursed at least 10 SBA loans within the past 24 months. Acquired loans do not count towards this minimum amount needed for SBA to assess Lender against the delegated authority criteria in 13 CFR § 120.440.
		1. Process to obtain PLP authority:
			1. To apply for initial PLP authority or to reapply for PLP authority, a Lender must submit a request along with all applicable supporting documents to D/OCRM or designee at DelegatedAuthority@sba.gov.
			2. The Lender’s request should include:
				1. Legal name and address of Lender;
				2. Legal name of any holding company of Lender;
				3. Name, title, address, phone number, email address and fax number for contact person at Lender;
				4. Lender’s Lead District Office;
				5. A copy of the Lender’s SBA Form 750 and SBA Form 750B, if applicable;
				6. If Lender was previously a PLP Lender, an explanation of why the Lender left the Preferred Lenders Program;
				7. A description of the Lender’s history, organization, and management, including:

When the Lender was chartered;

Any recent mergers or acquisitions;

Personnel who will be in charge of PLP loan activities for the Lender, have PLP loan approval authority, and their experience with the Lender, in the industry, and with SBA loans, including any training they have received; and

Where and how PLP loans will be processed, closed, serviced, and liquidated;

* + - * 1. A [good standing/satisfactory statement](#Lender_good_standing_statement) (as described above in paragraph E.1.a.v.a) in this chapter) on Lender’s letterhead.
			1. In conjunction with the criteria set forth in [13 CFR § 120.440](https://www.ecfr.gov/cgi-bin/text-idx?SID=6767dcda852633ec0cecec3da8827fc3&mc=true&node=se13.1.120_1440&rgn=div8), SBA may consider:
				1. Any Lead District Office concerns regarding the Lender;
				2. The processing, servicing, and liquidation centers’ written opinion of Lender’s ability to process, close, service and liquidate SBA loans, as applicable; and
				3. The Lender’s commitment to SBA lending.
			2. D/FA will make the final Agency decision in consultation with and upon receipt of recommendations from D/OCRM.
			3. Upon approval of the PLP application, OCRM notifies the Lender and the Lead District Office:
				1. That the request for delegated authority is approved; and
				2. Of the term of the delegated authority (not to exceed 2 years). For Lenders with less than 3 years of SBA lending experience/data, the Agency may consider performance over the period of time that the Lender has been a participating Lender but will limit the Lender’s initial term of delegated authority to 1 year or less. Lenders that identify significant differences between the performance numbers developed by the Lender and those developed by SBA (not related to a lack of accurate [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm) reporting) should contact OCRM.
			4. OCRM sends the Lender an SBA Form 1347, “Supplemental Guaranty Agreement, Preferred Lenders Program.” The Lender must sign, attest/witness, and return the executed form to OCRM at DelegatedAuthority@sba.gov within 30 calendar days before the Lender’s PLP authority can be effective. OCRM sends the Lead District Office a copy of the approval letter. OCRM will enter the effective term of the Lender’s PLP authority on the SBA Partner Information Management System (PIMS). This is an essential step for Lenders processing PLP loans.
			5. Decline of PLP application:

If the PLP application is declined, OCRM notifies the Lender and Lead District Office with the reason(s) for decline.

To reapply, the Lender must submit a request to OCRM at DelegatedAuthority@sba.gov explaining how it has overcome the reason(s) for decline.

OCRM will review the request, make a recommendation, and send it to the D/FA for a final Agency decision. OCRM will notify the Lender in writing of SBA’s final decision.

* + 1. Process for Renewal of PLP Authority:

For renewal of its PLP authority, the Lender must demonstrate to SBA’s satisfaction that it meets the criteria for delegated authority set forth in Paragraph E.1., [Delegated Authority Criteria](#Delegated_Authority_Criteria_7a) above.

* + - 1. OCRM will generally initiate the renewal process approximately 90 days prior to the expiration of the Lender’s PLP authority. It is the Lender’s responsibility to ensure its point of contact information is accurate in PIMS. However, if the Lender has not received any correspondence from OCRM 60 days prior to expiration of its PLP authority, it must initiate the process by submitting to OCRM at DelegatedAuthority@sba.gov a [good standing/satisfactory status statement](#Lender_good_standing_statement) (as described in paragraph E.1.a.v.a) above) on the Lender’s letterhead.
			2. OCRM may ask the Lead District Office and SBA’s processing, servicing and liquidation centers for comments regarding the Lender’s activity for its most recent PLP term, which may include:
				1. Recommendation for or against, and why;
				2. Whether the Lender can process, close, service and liquidate SBA loans;
				3. Changes in Lender’s organization or management;
				4. Any recurring denial of liability or repair situations with the Lender;
				5. Reasons for any unfavorable loan volume or repurchase rate data;
				6. Identification of any areas of concern; and
				7. An explanation of any discussions with the Lender that may impact the PLP renewal decision.
		1. Notification of Renewal:

OCRM will approve or decline renewals of PLP authority. OCRM notifies the Lender and the Lead District Office of the approval and the term.

OCRM sends the Lender a new SBA Form 1347. The Lender must sign, attest/witness, and return the form to OCRM at DelegatedAuthority@sba.gov within 30 calendar days before the Lender’s PLP renewal can be effective.

* + 1. Non-Renewal and Short Renewal:

If SBA determines in its discretion that a Lender does not meet the delegated authority criteria or that increased supervision is necessary, SBA may:

* + - 1. Grant a shorter renewal period; or
			2. Not grant renewal of delegated authority.
				1. If renewal is declined, OCRM notifies the Lender and Lead District Office with the reason(s) for decline. The Lender may not make PLP loans after its PLP authority expires.
				2. To reapply, the Lender must submit a request to OCRM at DelegatedAuthority@sba.gov explaining how it has overcome the reason(s) for decline. OCRM will review the request and make the final Agency decision. OCRM will notify the Lender in writing of the final decision. See paragraph E.2.h., Reapplying for PLP Authority, below.

See [SOP 50 53 (2)](https://www.sba.gov/document/sop-50-53-2-supervision-enforcement) on Increased Supervision.

* + 1. Temporary Extension of PLP Authority:

If SBA has not completed the renewal process before the Lender’s PLP authority expires, OCRM may extend the Lender’s PLP authority for a short, interim period as determined by the D/OCRM.

* + 1. Reapplying for PLP Authority:

If a Lender’s PLP authority was revoked, not renewed, or voluntarily terminated, after 6 months the Lender may reapply for PLP authority by following paragraph E.2.c., [Process to obtain PLP authority](#Process_to_obtain_PLP_authority), above.

* + 1. PLP - Export Working Capital Program (EWCP) Authority:
			1. This program offers the opportunity for SBA 7(a) Lenders with experience making EWCP loans or who are participants in the Delegated Authority Lender Program of the Export-Import Bank to apply for PLP authority to underwrite EWCP loans. Lenders with PLP-EWCP authority are delegated the same level of authority to process, close, service, and liquidate EWCP loans as is granted to approved 7(a) Lenders with PLP authority.
			2. Application requests include the following elements:
				1. Legal name and address of Lender;
				2. Address, city, and state where Lender’s EWCP underwriting will be performed;
				3. Name, title, telephone and fax numbers and email address of the lending unit’s primary contact for the EWCP program;
				4. A copy of the Lender’s SBA Form 750 and/or SBA Form 750EX (if the Lender has an SBA Form 750 that was executed before July 2019, it must provide both SBA Forms 750 and 750EX; if the Lender executed the July 2019 version of SBA Form 750, then only that agreement is needed);
				5. Identification of the SBA Export Finance Managers the lending unit works with on EWCP loans (A complete listing of [Export Finance Managers and USEAC locations](https://www.sba.gov/article/2017/nov/01/list-useacs-sba-staff) is available);
				6. A description of the lending unit’s experience in international trade lending, including its level of EWCP lending over the last 2 years, Export-Import Bank (“Ex-Im”) lending activity over the same 2-year period, and identification of any form of delegated lender authority with Ex-Im Bank or other trade finance agencies;
				7. Identification of personnel in charge of EWCP lending and explanation of their experience in export trade finance for small concerns; and
				8. Documentation supporting the bank’s delegation of authority to the contact person filing this PLP expansion request.
			3. Completed applications should be directed to the local Export Finance Manager, who then sends the application to the Director, Office of International Trade (“OIT”) at SBA. OIT staff will be responsible for screening and collecting information from the applicable SBA offices on the current regulatory authority of the Lender and the Lender’s capabilities as an EWCP participant. OIT will forward its recommendation and the comments of the other offices to OCRM at DelegatedAuthority@sba.gov to either concur or non-concur on the recommendation to the D/FA. The D/FA makes the final decision. The Lender must demonstrate to SBA’s satisfaction that it:
				1. Meets the [delegated authority criteria](#Delegated_Authority_Criteria_7a) in paragraph E.1. above; and
				2. Has a satisfactory history of providing trade finance to exporters (both the Lender and the Lender’s loan officers); and
				3. Has been an active participant in the EWCP with SBA and/or with Ex-Im Bank for at least 6 consecutive months immediately prior to application and, if not an Ex-Im Bank delegated lender, has booked at least three SBA EWCP loans during the 24 months prior to application.
			4. Lenders are notified of the final decision by written letter from OCRM with a copy to OIT and the Lead District Office. If approved, OCRM will provide the Lender with SBA Form 2310, “Supplemental Guaranty Agreement – Preferred Lenders Program (PLP) for Export Working Capital Program (EWCP) Loans,” which the Lender must execute, attest/witness, and return to OCRM at DelegatedAuthority@sba.gov within 30 calendar days before the Lender can submit any loan applications under its PLP-EWCP authority. Upon receipt, OCRM will execute SBA Form 2310 and enter the information into PIMS. OCRM will maintain the documentation in its file.
			5. If the PLP-EWCP application is declined, OCRM notifies the Lender, OIT, and Lead District Office with the reason(s) for decline.

To reapply, the Lender must submit a request to the local Export Finance Manager explaining how it has overcome the reason(s) for decline. OIT will review the request, make a recommendation, and send it to OCRM for a final Agency decision. OCRM will notify the Lender in writing of SBA’s final decision.

* + - 1. All PLP-EWCP approvals will be for a period not to exceed the existing term of the Lender’s PLP authority. The succeeding PLP renewal of the Lender will include a section on the Lender’s EWCP lending, with comment requests from OCRM directed to OIT.

Lenders that are participating in the Delegated Authority Lender Program of the Export-Import Bank of the United States (Ex-Im Bank) (or any successor Program) are eligible to participate in the PLP-EWCP program. Lenders should be aware that they must comply with [13 CFR § 120.410(d)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1410), which requires SBA Lenders to “be supervised and examined by either a Federal Financial Institution Regulator or a state banking regulator satisfactory to SBA.” Ex-Im Bank Delegated Authority Lenders must comply with the PLP-EWCP application procedures described above; however, such lenders are not required to have prior experience with SBA 7(a) lending and are deemed to be an active participant with Ex-Im Bank for purposes of the application.

* + 1. PLP Lender Authority and Responsibilities (including PLP-EWCP):
			1. Eligibility Requirements:

In addition to the SBA’s business loan eligibility standards set forth in [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs), the following restrictions apply to PLP Loans.

* + - * 1. Lenders may use PLP only for 7(a) loans. Lenders may not use PLP for any pilot program unless SBA authorizes use of PLP for the pilot.
				2. The following types of loans are not eligible under PLP processing:

Disabled Assistance Loans (DAL);

Loans to a cooperative or to an eligible small business owned or controlled by a cooperative (see [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for more information);

Loans involving a Single Employer 401(k) plan, including a ROBS plan, unless the only investment held by the 401(k) plan (including a ROBS plan) at the time of application is the equity in the Applicant business;

Loans involving a Multiple-Employer 401(k) plan (i.e., a plan that holds in trust the assets of other businesses), including a ROBS plan (see [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for more information);

Pollution Control Program Loans;

International Trade Loans not secured by a first lien position on the assets being financed;

Applications Previously Submitted to LGPC or SLPC for Processing. Once submitted to LGPC, or to SLPC if a 504 loan, an application withdrawn by a Lender, screened-out, or declined by LGPC or SLPC may not be approved by any Lender under its PLP Authority. E‑Tran will not permit the submission of such an application under any Lender’s PLP authority for a period of 12 months from the date of the withdrawal, screen-out, or decline of the application; and

Revolving credits are not eligible except under CAPLines and, if the Lender has authority from SBA to make PLP-EWCP loans, under the EWCP.

See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for the types of businesses that are not eligible for SBA financial assistance.

* + - * 1. Additional restrictions specific to PLP refinancing are found in [13 CFR § 120.452](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1452), and explained further in [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs).
			1. PLP Lenders’ Processing Responsibilities ([13 CFR § 120.452(a)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1452)):

SBA’s business loan eligibility requirements, credit policy, and procedures apply to PLP loans. The PLP Lender must stay informed on and must apply all of SBA’s Loan Program Requirements.

* + - * 1. Eligibility Review:

All 7(a) Lenders will digitally submit, as they do today, E-Tran loan authorization application requests to SBA. SBA will screen for eligibility. SBA will determine whether the Applicant is eligible by requiring the Applicant to certify program eligibility requirements and validating those certifications through a digital, real-time regulatory compliance framework.

For a PLP loan, size of the Applicant is determined as of the date of the Lender’s approval of the loan.

* + - * 1. Applicant Certification:

The Applicant must sign and execute a borrower application form that contains a certification regarding the Applicant’s eligibility. The application form for 7(a) is SBA Form 1919, “Borrower Information Form”. The Applicant must certify to the following:

The Applicant complies with all Loan Program Requirements as defined in 13 CFR § [120.10](https://www.ecfr.gov/current/title-13/chapter-I/part-120#p-120.10(Loan%20Program%20Requirements%20or%20SBA%20Loan%20Program%20Requirements)), including but not limited to requirements in 13 CFR §§ [120.100](https://www.ecfr.gov/current/title-13/section-120.100), [120.110](https://www.ecfr.gov/current/title-13/section-120.110), [121.301](https://www.ecfr.gov/current/title-13/section-121.301), and 31 CFR § [285.13](https://www.ecfr.gov/cgi-bin/text-idx?SID=fe79aea444b3ce794fbc3703edfbd8bf&mc=true&node=pt31.2.285&rgn=div5#se31.2.285_113). The Applicant further certifies that the applicant business is at least 51 percent owned and controlled by persons who are citizens of the U.S. or are Lawful Permanent Residents and that all SBA loan proceeds will be used in accordance with Loan Program Requirements. SBA or the Lender may request additional information to determine that an Applicant fulfills any eligibility requirement. SBA or a Lender processing a loan under delegated authority may accept as true the Applicant is eligible as certified. **By signing the application, the Applicant has certified that it fulfills all eligibility requirements. If the Applicant eligibility certification is determined to be invalid, SBA will not use this as a basis to deny or repair the guaranty purchase request.**

* + - * 1. Credit Analysis:

SBA has authorized PLP Lenders to make the credit decision without prior SBA review. The Lender must perform a thorough and complete credit analysis of the applicant, establish that the loan is of such sound value as to reasonably assure repayment and document its analysis in the loan file.

* + - * 1. Closing Requirements:

SBA closing requirements are the same for PLP loans as for non-delegated 7(a) loans. The same SBA forms are required. The Lender must obtain all required collateral positions and must meet all other required conditions before loan disbursement. SBA delegates to the PLP Lender responsibility for all pre-disbursement requirements in [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs). The only actions that the Lender may not take on a PLP loan are those specifically reserved to SBA.

Within 15 business days after final disbursement, the PLP Lender must ensure that any modifications to loan terms made subsequent to loan approval have been recorded in E-Tran. The PLP Lender must retain any amendments or modifications to the loan terms and retain all other documents in the PLP Lender’s loan file. The PLP Lender should not send SBA any other closing documentation, including disbursement information, except through the required periodic loan status reports using [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm).

* + - * 1. Servicing and Liquidation Responsibilities:

See [SOP 50 57](https://www.sba.gov/document/sop-50-57-7a-loan-servicing-and-liquidation) and [13 CFR Part 120, Subpart E](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#sp13.1.120.e) for guidance.

* + - 1. Change of PLP Lender’s Structure:
				1. When a PLP Lender’s structure changes and the Lender continues as the same legal entity that signed the SBA Form 1347, a new SBA Form 1347 is not required including when:

The PLP Lender changes its name;

The PLP Lender is acquired by another entity and the PLP Lender continues as a separate legal entity; or

The PLP Lender acquires another Lender and the acquired Lender does not continue as a separate legal entity;

* + - * 1. When a PLP Lender acquires another Lender and the acquired Lender continues to operate as a separate legal entity, the PLP Lender’s delegated authority does not transfer to the acquired Lender; however, the acquired Lender may apply for its own PLP authority;
				2. SBA will not renew a Lender’s PLP authority or will revoke, suspend, or terminate a Lender’s PLP authority when:

The Lender changes its operations so much that it cannot show that it handles SBA Loans appropriately;

The PLP Lender is merged into a non-PLP lender (the surviving Lender may apply for PLP authority);

* + - * 1. SBA will terminate the Lender’s PLP authority and prohibit the Lender from making any new SBA loans when the Lender is dissolved, closed, or taken over by a regulatory authority.
				2. If any SBA office discovers any of the above circumstances, OCRM must be immediately notified in writing.
			1. Requests for New SBA Guaranty Agreements:

When necessary, the Lender may obtain a new:

* + - * 1. SBA Form 750 from the Lead District Office; and
				2. SBA Form 1347 from OCRM.

##### **SBA Express Program**

* + 1. SBA Express loans are loans that are $500,000 or less and may only be made by a Lender with SBA Express authority. SBA Express Lenders may ***not*** request that an SBA Express loan be processed under non-delegated authority by SBA’s LGPC.
		2. SBA Express was established as a permanent SBA program under P.L.108-447 and signed into law on December 8, 2004. The program reduces the number of government mandated forms and procedures, streamlines the processing, and reduces the cost of smaller, less complex SBA loans. The program allows Lenders to use, to the maximum extent practicable, their respective loan analyses, procedures, and documentation. In return for the expanded authority and autonomy provided by the program, Lenders agree to accept a maximum SBA guaranty of 50 percent. SBA Express Lenders may make SBA Express loans in any area of the country and must apply and comply with all of SBA’s Loan Program Requirements.
		3. Qualifications for Initial SBA Express Lender Authority:
			1. An existing SBA Lender must demonstrate to SBA’s satisfaction that it meets the [delegated authority criteria](#Delegated_Authority_Criteria_7a) set forth above in paragraph E.1.
			2. For SBA Lenders with less than 3 years of SBA lending experience/data, the Agency may consider performance over the period of time the Lender has been an SBA Lender, but generally will limit the Lender’s initial term of participation to 1 year or less. Lenders that identify significant differences between the performance numbers developed by the Lender and those developed by SBA (not related to a lack of accurate [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm) reporting) may contact OCRM.
		4. Lenders that do not currently participate with SBA:

In addition to meeting the Agency’s Lender requirements as set forth in paragraph A., [Process to Become a 7(A) Participating Lender](#Application_Become_7a_Lender) above, in support of 13 CFR § [120.440(a)(1)](https://www.ecfr.gov/cgi-bin/text-idx?SID=96140bc8bdf0b7fbd19c2780ad6bffab&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1440), a lender that does not currently participate with SBA also must demonstrate to SBA’s satisfaction that it:

* + - 1. Has at least 20 commercial or business loans for $500,000 or less in its portfolio at its most recent fiscal year end; and
			2. Ensures its primary SBA loan personnel have received appropriate training on SBA’s policies and procedures (such training could include Lead District Office training and/or trade association training that adequately addresses SBA’s regulations and Standard Operating Procedures, including SBA’s loan processing, servicing, and liquidation requirements); and
		1. Has no major substantive objections from the D/OCRM (e.g., relating to risk or program integrity.
		2. Process to become an SBA Express Lender:
			1. To apply for initial SBA Express authority or to reapply for SBA Express authority, a Lender must submit a request with all applicable supporting documents to D/OCRM or designee at DelegatedAuthority@sba.gov.
			2. As noted above, lenders not currently participating with the SBA must meet the Agency’s Lender requirements and must become an approved 7(a) Lender before participating in SBA Express. (An application for SBA Express authority may be made simultaneously with the application for 7(a) Lender authority.)
			3. The Lender’s request should include:
				1. Legal name and address of Lender;
				2. Legal name of any holding company of Lender;
				3. Name, title, address, phone number, email address, and fax number for contact person at Lender;
				4. Lender’s Lead District Office;
				5. A copy of the Lender’s SBA Form 750 and SBA Form 750B, if applicable; and
				6. A [good standing/satisfactory statement](#Lender_good_standing_statement) on the Lender’s letterhead (as described in paragraph E.1.a.v.a) above.
			4. D/FA will make the final Agency decision in consultation with and upon receipt of recommendations from D/OCRM. OCRM notifies the Lender and the Lead District Office of SBA’s decision.
			5. SBA may limit a new SBA Express Lender to a yearly maximum of $25 million of SBA Express loans in its first year of participation.
		3. Supplemental Guaranty Agreement:
			1. If the Lender’s request for SBA Express authority is approved, OCRM notifies the Lender of the decision and sends the Lender an [SBA Form 2424](https://www.sba.gov/document/sba-form-2424-supplemental-loan-agreement-sba-express-program), “Supplemental Loan Guaranty Agreement SBA Express Program.” The lender must sign, attest/witness, and return the form to OCRM at DelegatedAuthority@sba.gov within 30 calendar days before the Lender’s SBA Express authority is effective.
			2. If the Lender is a PLP Lender, the term of its SBA Express authority, when possible, will be aligned with the Lender’s remaining PLP term.
			3. Lenders not currently participating in SBA’s loan programs that are approved for SBA Express will be limited to an initial SBA Express term of 1 year.
		4. Decline of SBA Express Authority:

If the request for SBA Express authority is declined, OCRM notifies the Lender and Lead District Office with the reason(s) for decline.

To reapply, the Lender must submit a request to OCRM at DelegatedAuthority@sba.gov explaining how it has overcome the reason(s) for decline. OCRM will review the request, make a recommendation, and send it to the D/FA for a final Agency decision. OCRM will notify the Lender in writing of SBA’s final decision.

* + 1. Renewals of SBA Express Authority:

For renewal of its SBA Express authority, the Lender must demonstrate to SBA’s satisfaction that it meets the [delegated authority criteria](#Delegated_Authority_Criteria_7a) set forth in paragraph E.1. above.

* + - 1. OCRM will generally initiate the renewal process approximately 90 days prior to the expiration of the Lender’s SBA Express authority. It is the Lender’s responsibility to ensure its point of contact information is accurate in PIMS. However, if the Lender has not received any correspondence from OCRM 60 days prior to expiration of its SBA Express authority, it must initiate the process by submitting to OCRM at DelegatedAuthority@sba.gov a [good standing/satisfactory status statement](#Lender_good_standing_statement) (as described in paragraph E.1.a.v.a) above) on the Lender’s letterhead.
			2. OCRM may ask the Lead District Office and the appropriate processing, servicing, and liquidation centers for comments regarding the Lender’s activity for its most recent SBA Express term, which may include:
				1. Recommendation for or against, and why;
				2. Whether the Lender can effectively process, close, service and liquidate SBA loans;
				3. Changes in Lender’s organization or management;
				4. Any recurring denial of liability or repair situations with the Lender;
				5. Reasons for any unfavorable loan volume or repurchase rate data;
				6. Identification of any areas of concern; and
				7. An explanation of any discussions with the Lender that may impact the SBA Express renewal decision.
			3. Lenders that have participated in SBA Express for 2 years or more may be renewed in the program for 2 years, SBA in its discretion may renew for less than 2 years if Lender or program circumstances warrant. Lenders participating in SBA Express for less than 2 years may be renewed in SBA Express for an additional year and may be renewed for terms of up to 2 years thereafter.
		1. Notification of Renewal:

OCRM makes the decision and notifies the Lender and the Lead District Office of the approval and term. OCRM sends the Lender a new SBA Form 2424. The Lender must sign, attest/witness, and return the form to OCRM at DelegatedAuthority@sba.gov within 30 calendar days before the Lender’s SBA Express renewal can be effective.

* + 1. Non-Renewal and Short Renewal:

If SBA determines in its discretion that an SBA Express Lender does not meet the delegated authority criteria or that increased supervision is necessary, SBA may:

* + - 1. Grant a shorter renewal period; or
			2. Not grant renewal of the delegated authority.
				1. If renewal is declined, OCRM notifies the Lender and the Lead District Office with the reason(s) for decline. The Lender may not make SBA Express loans after its SBA Express authority expires.
				2. To reapply, the Lender must submit a request to OCRM at DelegatedAuthority@sba.gov explaining how it has overcome the reason(s) for decline. OCRM will review the request and make the final Agency decision. OCRM will notify the Lender in writing of the final decision. See paragraph E.3.l. Reapplying for SBA Express Authority, below.

See [SOP 50 53 (2)](https://www.sba.gov/document/sop-50-53-2-supervision-enforcement), for more information on increased supervision.

* + 1. Temporary Extension of SBA Express Authority:

If SBA has not completed the renewal process before the Lender’s SBA Express authority expires, OCRM may extend the Lender’s SBA Express authority for a short, interim period as determined by the D/OCRM.

* + 1. Reapplying for SBA Express Authority:

If a Lender’s SBA Express authority was revoked, not renewed, or voluntarily terminated, after 6 months the Lender may reapply for SBA Express authority by following paragraph E.3.e., [Process to become an SBA Express Lender](#Process_Become_SBA_Express_Lender) above.

* + 1. SBA Express Lender Authority and Responsibilities
			1. SBA Express Lenders may make SBA Express loans in any area of the country.
			2. Applications Previously Submitted to LGPC or SLPC for Processing. Once submitted to LGPC, or to SLPC if a 504 loan, an application withdrawn by the Lender, screened-out, or declined by LGPC or SLPC may not be approved by any Lender under its SBA Express Authority. E‑Tran will not permit the submission of such an application under any Lender’s SBA Express authority for a period of 12 months from the date of withdrawal, screen-out, or decline of the application.
			3. An application that did not receive an acceptable credit score under 7(a) Small Loan procedures may be withdrawn prior to submission through E‑Tran and may be processed under SBA Express.
			4. See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for other restrictions on SBA Express loans.
			5. SBA Express Lender’s Processing Responsibilities:
				1. Eligibility Review:

All 7(a) Lenders will digitally submit, as they do today, E-Tran loan authorization application requests to SBA. SBA will screen for eligibility. SBA will determine whether the Applicant is eligible by requiring the Applicant to certify program eligibility requirements and validating those certifications through a digital, real-time regulatory compliance framework.

For a PLP loan, size of the Applicant is determined as of the date of the Lender’s approval of the loan.

* + - * 1. Applicant Certification:

The Applicant must sign and execute a borrower application form that contains a certification regarding the Applicant’s eligibility. The application form for 7(a) is SBA Form 1919, “Borrower Information Form”. The Applicant must certify to the following:

The Applicant complies with all Loan Program Requirements as defined in 13 CFR § [120.10](https://www.ecfr.gov/current/title-13/chapter-I/part-120#p-120.10(Loan%20Program%20Requirements%20or%20SBA%20Loan%20Program%20Requirements)), including but not limited to requirements in 13 CFR §§ [120.100](https://www.ecfr.gov/current/title-13/section-120.100), [120.110](https://www.ecfr.gov/current/title-13/section-120.110), [121.301](https://www.ecfr.gov/current/title-13/section-121.301), and 31 CFR § [285.13](https://www.ecfr.gov/cgi-bin/text-idx?SID=fe79aea444b3ce794fbc3703edfbd8bf&mc=true&node=pt31.2.285&rgn=div5#se31.2.285_113). The Applicant further certifies that the applicant business is at least 51 percent owned and controlled by persons who are citizens of the U.S. or are Lawful Permanent Residents and that all SBA loan proceeds will be used in accordance with Loan Program Requirements. SBA or the Lender may request additional information to determine that an Applicant fulfills any eligibility requirement. SBA or a Lender processing a loan under delegated authority may accept as true the Applicant is eligible as certified. **By signing the application, the Applicant has certified that it fulfills all eligibility requirements. If the Applicant eligibility certification is determined to be invalid, SBA will not use this as a basis to deny or repair the guaranty purchase request.**

* + - * 1. See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for eligibility and underwriting requirements.
		1. Closing, Servicing and Liquidation:
			1. The SBA Express Lender must close, service, and liquidate its SBA Express loans using the same reasonable and prudent practices and procedures that the Lender uses for its similarly-sized, non-SBA guaranteed commercial loans.
			2. Within 15 business days after final disbursement, the SBA Express Lender must ensure that any modifications to loan terms made subsequent to loan approval have been recorded in E-Tran. The SBA Express Lender must retain all other documents in the SBA Express Lender’s loan file. The SBA Express Lender should not send SBA any other closing documentation, including disbursement information, except through the required periodic loan status reports using [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm).

##### **Export Express Program**

* + 1. The Export Express Program was designed to help SBA meet the export financing needs of small businesses too small to be effectively met by existing SBA export loan guaranty programs. It is generally subject to the same loan processing, making, closing, servicing, and liquidation requirements as well as the same maturity terms, interest rates, and applicable fees as the SBA Express Loan Program. Any differences between the Export Express requirements are set forth in the appropriate section of [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs). (For example, certain uses of loan proceeds are allowed under Export Express that are not allowed under SBA’s other lending programs.)
		2. Becoming an Export Express Lender:
			1. Lenders must have a signed SBA Form 2426, “Supplemental Loan Guarantee Agreement Export Express Program,” to make Export Express loans.
			2. The procedures for receiving Export Express authority are different based on the Lender’s existing authority:
				1. Active SBA Express Lenders in good standing with SBA (as defined in 13 CFR § [120.420](https://www.ecfr.gov/current/title-13/chapter-I/part-120#p-120.420(e))) are eligible to participate in the Export Express program for a term that will coincide with their SBA Express term in accordance with the following:

Lenders that currently have SBA Express authority that would like to make Export Express loans must submit a request to SBA. The request should be submitted to the Lender’s Lead District Office or SBA Export Finance Managers the lending unit works with on Export Express loans. These offices should submit the Lender’s request to OCRM, at DelegatedAuthority@sba.gov. Note: A complete listing of [Export Finance Managers and USEAC locations](https://www.sba.gov/article/2017/nov/01/list-useacs-sba-staff) is available.

D/FA will make the final Agency decision in consultation with and upon receipt of recommendations from D/OCRM.

OCRM will send the Lender the approval letter and SBA Form 2426 with a copy of the approval letter to OIT and the Lead District Office.

The Lender must sign, attest/witness, and return the form to OCRM at DelegatedAuthority@sba.gov within 30 calendar days before the Lender’s Export Express authority can be effective.

* + - * 1. Existing 7(a) Lenders that Do Not Participate in the SBA Express Program:

Existing 7(a) Lenders that would like to participate in the Export Express Program must submit a request to its Lead District Office or USEAC. These offices should submit the request to OCRM at DelegatedAuthority@sba.gov.

If the request was received from the Lead District Office, OCRM will contact the Export Finance Manager in the appropriate USEAC for comments and process the request in accordance with the procedures and process for the SBA Express Program, as described in paragraph E.3.e., [Process to become an SBA Express Lender](#Process_Become_SBA_Express_Lender), above.

Lenders can request SBA Express and Export Express authority simultaneously but are not required to do so.

D/FA will make the final Agency decision in consultation with and upon receipt of recommendations from D/OCRM.

If approved, OCRM will send the Lender the approval letter and SBA Form 2426, with a copy of the approval letter to OIT and the Lead District Office.

The Lender must sign, attest/witness, and return the form to OCRM at DelegatedAuthority@sba.gov within 30 calendar days before the Lender’s Export Express renewal can be effective.

* + - 1. To obtain or renew Export Express authority, SBA Express Lenders must demonstrate to SBA’s satisfaction that it:
				1. Meets the criteria for delegated authority set forth in paragraph E.1., [Delegated Authority Criteria](#Delegated_Authority_Criteria_7a), above;
				2. Can effectively process, make, close, service, and liquidate Export Express loans;
				3. Is in compliance with SBA Loan Program Requirements;
				4. Has received no major substantive objections regarding renewal from the Lead District Office covering the territory where the Lender generates significant numbers of Export Express loans; and
				5. Has received acceptable review results on the Export Express portion of any SBA-administered Lender reviews.
				6. OCRM will generally initiate the renewal process approximately 90 days prior to the expiration of the Lender’s Export Express authority. It is the Lender’s responsibility to ensure its point of contact information is accurate in PIMS. However, if the Lender has not received any correspondence from OCRM 60 days prior to expiration of its Export Express authority, it must initiate the process by submitting to OCRM at DelegatedAuthority@sba.gov a [good standing/satisfactory status statement](#Lender_good_standing_statement) (as described in paragraph E.1.a.v.a) above) on the Lender’s letterhead.
				7. OCRM may ask the Lender’s Lead District Office and the appropriate processing, servicing, and liquidation centers for comments regarding the Lender’s activity for its most recent Export Express term, which may include:

Recommendation for or against, and why;

Whether the Lender can effectively process, close, service and liquidate SBA loans;

Changes in Lender’s organization or management;

Any recurring denial of liability or repair situations with the Lender;

Reasons for any unfavorable loan volume or repurchase rate data;

Identification of any areas of concern; and

An explanation of any discussions with the Lender that may impact the Export Express renewal decision.

* + - 1. D/FA will make the final Agency decision on initial requests for Export Express authority, and D/OCRM will concur or non-concur in recommendations to the D/FA. OCRM will approve or decline renewals of Export Express authority.
			2. SBA will generally grant Lenders Export Express loan authority for a term that aligns with the Lender’s SBA Express term, unless the D/FA determines a shorter term is appropriate. The maximum term for all Export Express Lenders is 2 years. For lenders that have not participated in SBA Express prior to applying for Export Express authority, the term may be less than 2 years at the discretion of the D/FA.
			3. Notification of Renewal:
				1. OCRM will approve or decline renewals of Export Express authority and will provide written notification to the Lender, OIT, and the Lead District Office of the approval and the term.
				2. OCRM sends the Lender a new SBA Form 2426. The Lender must sign, attest/witness, and return the form to OCRM at DelegatedAuthority@sba.gov within 30 calendar days before the Lender’s Export Express renewal can be effective.
			4. Non-Renewal and Short Renewal:

If SBA determines in its discretion that the Export Express Lender does not meet the delegated authority criteria or that increased supervision is necessary, SBA may:

* + - * 1. Grant a shorter renewal period; or
				2. Not grant renewal of Export Express authority.

If renewal is declined, OCRM notifies the Lender, OIT, and the Lead District Office with the reason(s) for decline. The Lender may not make Export Express loans after its Export Express authority expires.

To reapply, the Lender must submit a request to OCRM at DelegatedAuthority@sba.gov explaining how it has overcome the reason(s) for decline. OCRM will review the request and make the final Agency decision. OCRM will notify the Lender in writing of the final decision. See paragraph E.4.b.ix, Reapplying for Export Express Authority, below.

See [SOP 50 53 (2)](https://www.sba.gov/document/sop-50-53-2-supervision-enforcement) on Increased Supervision.

* + - 1. Temporary Extension of Export Express Authority:

If SBA has not completed the renewal process before the Lender’s Export Express authority expires, OCRM may extend the Lender’s Export Express authority for a short, interim period as determined by the D/OCRM.

* + - 1. Reapplying for Export Express Authority:

If a Lender’s Export Express authority was revoked, not renewed, or voluntarily terminated, after 6 months the Lender may reapply for Export Express authority following paragraph E.4.b.iii. above.

* + 1. Export Express Authority and Responsibilities
			1. Export Express Lenders may make Export Express loans in any area of the country.
			2. Eligibility Requirements: In addition to SBA’s business loan eligibility standards set forth in [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs), the following restrictions apply to Export Express loans.
				1. Lenders may not use Export Express for any pilot program unless SBA authorizes use of Export Express for the pilot..
				2. Applications Previously Submitted to LGPC or SLPC for Processing. Once submitted to LGPC, or to SLPC if a 504 loan, an application withdrawn by the Lender, screened-out, or declined by LGPC or SLPC may not be approved by any Lender under its Export Express Authority. E‑Tran will not permit the submission of such an application under any Lender’s Export Express authority for a period of 12 months from the date of withdrawal, screen-out, or decline of the application.
				3. See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for the types of businesses that are not eligible for SBA financial assistance.
			3. Export Express Lender’s Processing Responsibilities:
				1. Eligibility Review:

All 7(a) Lenders will digitally submit, as they do today, E-Tran loan authorization application requests to SBA. SBA will screen for eligibility. SBA will determine whether the Applicant is eligible by requiring the Applicant to certify program eligibility requirements and validating those certifications through a digital, real-time regulatory compliance framework.

For a PLP loan, size of the Applicant is determined as of the date of the Lender’s approval of the loan.

* + - * 1. Applicant Certification:

The Applicant must sign and execute a borrower application form that contains a certification regarding the Applicant’s eligibility. The application form for 7(a) is SBA Form 1919, “Borrower Information Form”. The Applicant must certify to the following:

The Applicant complies with all Loan Program Requirements as defined in 13 CFR § [120.10](https://www.ecfr.gov/current/title-13/chapter-I/part-120#p-120.10(Loan%20Program%20Requirements%20or%20SBA%20Loan%20Program%20Requirements)), including but not limited to requirements in 13 CFR §§ [120.100](https://www.ecfr.gov/current/title-13/section-120.100), [120.110](https://www.ecfr.gov/current/title-13/section-120.110), [121.301](https://www.ecfr.gov/current/title-13/section-121.301), and 31 CFR § [285.13](https://www.ecfr.gov/cgi-bin/text-idx?SID=fe79aea444b3ce794fbc3703edfbd8bf&mc=true&node=pt31.2.285&rgn=div5#se31.2.285_113). The Applicant further certifies that the applicant business is at least 51 percent owned and controlled by persons who are citizens of the U.S. or are Lawful Permanent Residents and that all SBA loan proceeds will be used in accordance with Loan Program Requirements. SBA or the Lender may request additional information to determine that an Applicant fulfills any eligibility requirement. SBA or a Lender processing a loan under delegated authority may accept as true the Applicant is eligible as certified. **By signing the application, the Applicant has certified that it fulfills all eligibility requirements. If the Applicant eligibility certification is determined to be invalid, SBA will not use this as a basis to deny or repair the guaranty purchase request.**

* + - * 1. See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for eligibility and underwriting requirements.
		1. Closing, Servicing and Liquidation:
			1. The Export Express Lender must close, service, and liquidate its Export Express loans using the same reasonable and prudent practices and procedures that the Lender uses for its similarly-sized, non-SBA guaranteed commercial loans.
			2. Within 15 business days after final disbursement, the Export Express Lender must ensure that any modifications to loan terms made subsequent to loan approval have been recorded in E-Tran. The Export Express Lender must retain any amendments or modifications to the loan terms and retain all other documents in the Export Express Lender’s loan file. The Export Express Lender should not send SBA any other closing documentation, including disbursement information, except through the required periodic loan status reports using [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm).

### Chapter 2: Small Business Lending Companies

Small Business Lending Companies (SBLCs) 13 CFR [120.460-120.490](https://www.ecfr.gov/cgi-bin/text-idx?SID=564c889d04ed1d07a3e0cb26cbd17118&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1460)

An SBLC is a non-depository lending institution that is authorized by SBA to make loans pursuant to section 7(a) of the Small Business Act and loans to Intermediaries in SBA’s Microloan program. An SBLC is:

* + Regulated, supervised, and examined solely by SBA at the federal level;
	+ Subject to additional SBA Loan Program Requirements, as defined in [13 CFR 120.10](https://www.ecfr.gov/current/title-13/section-120.10), including but not limited to regulations specific to SBLCs regarding formation, capitalization, and enforcement actions; and
	+ Subject to all other 7(a) Loan Program Requirements including but not limited to regulations specific to origination, servicing, and liquidation.

As required of all SBA Lenders, SBLCs must analyze each application in a commercially reasonable manner, consistent with prudent lending standards.

#### SBLC Requirements

SBLCs are subject to the requirements in Chapter 1. Additionally, SBLCs must:

* 1. Submit to the D/OCRM for review their polices for the following, which must be acceptable to SBA in its discretion:
		1. Policies that demonstrates compliance with Title 13 of the CFR and SBA’s Standard Operating Procedures (SOPs) for origination, servicing, and liquidation of 7(a) loans, including but not limited to policies on credit underwriting, hazard and other insurances (e.g., product liability, dram shop/host liquor liability, disability, workers’ compensation, malpractice, etc.), flood insurance, life insurance, equity, equity injection, verification of equity injection, collateral, owner/guarantor analysis (including SBLC’s policies on requiring owner financial statements), how the SBLC will verify an Applicant’s financial information, and how the SBLC will document the refinancing of any debts.
		2. Fees and interest rates, including frequency of interest rate adjustments, the SBLC charges to its Applicants/Borrowers.
		3. Contents and maintenance of a complete loan file.
		4. Closing documentation, including how SBLC documents disbursements and verification of equity injection.
		5. Borrower access to funds.
		6. For SBA Express and Export Express: In addition to the above, non-financial default provisions and default interest rates. For loan increases, SBLC’s internal credit review and analysis procedures to determine whether the increase is appropriate.
		7. For CAPLines: In addition to a – e above, the SBLC’s policies for obtaining Borrower prepared financial statements and tax returns, financial covenants, how the SBLC will monitor the lines of credit, policies on BBCs, how the SBLC will monitor payments received for funds control of Working Capital CAPLines, for Working Capital CAPLines, and the SBLC’s policies for advancing the line up to maturity in conjunction with the SBLC’s annual review.
		8. For EWCP: In addition to a-e above, for asset-based revolving lines of credit – how frequently the SBLC requires a BBC from its Borrowers and whether to permit a small business to retain the foreign accounts receivable proceeds (for PLP-EWCP processing), and the SBLC’s policies in reference to export-related inventory eligible to be included in the borrowing base.
	2. Submit to the D/OCRM for review and approval annual validation, with supporting documentation and methodologies demonstrating that any scoring model used by the SBLC is predictive of loan performance.
	3. Each SBLC’s Board of directors must adopt and fully implement an internal control policy that provides adequate direction to the institution for effective control over and accountability for operations, programs, and resources. The Board-adopted internal control policy must, at a minimum, comply with [13 CFR § 120.460](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1460). For example:
		1. The internal control policy implemented must ensure satisfactory monitoring and management of the SBA loan portfolio, including but not limited to, providing for a periodic loan review function to be performed at least annually by a person who is not directly or indirectly responsible for loan making or by outside contractors.
		2. It must include a list of monthly reports provided by the SBLC’s management for Board review to support adequate Board oversight.
		3. It must provide for internal controls for loan making, servicing and liquidation.
		4. It must provide for a risk rating system to risk classify SBA loan assets satisfactory to SBA.
		5. Internal control policies and procedures must include provisions to ensure compliance with SBA’s Loan Program Requirements on eligibility.
		6. Internal control policies and procedures must include provisions to ensure the SBLC exercises due diligence and prudent oversight of its third party vendors, including Lender Service Providers (LSP) and other loan Agents. Such policies and procedures should include, but not be limited to, monitoring performance of loans referred by an Agent or where an Agent provided assistance.
		7. SBLCs must provide documentation demonstrating that the internal control policies and procedures are fully implemented and followed.
	4. SBLCs must adhere to their internal policies and procedures for originating, closing, servicing, and when necessary liquidating SBA loans. When this SOP states that Lenders are to follow their own policies and procedures on their similarly-sized, non-SBA guaranteed loans, SBLCs must follow the written policies and procedures that have been reviewed by SBA.
	5. An SBLC may not make a loan to an Applicant that has received assistance from an affiliated Small Business Investment Company (SBIC). ([13 CFR § 120.476](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1476))
	6. Minimum capital requirements for SBLCs
		1. Beginning on January 4, 2024, each SBLC that makes or acquires a 7(a) loan must maintain, at a minimum, unencumbered paid-in capital and paid-in surplus of at least $5,000,000, or ten percent of the aggregate of its share of all outstanding loans, whichever is greater.
		2. Any SBLC approved on or after January 4, 2021, including in the event of a change of ownership or control, must maintain the minimum capital requirement set forth in subparagraph (a) above.
		3. Unless subject to subparagraph (a) or (b) of this section, an SBLC must comply with the minimum capital requirements that were in effect on January 3, 2021.

#### Process for Acquiring an SBLC

* 1. Per SBA regulations, to acquire an SBLC license, an entity must (1) purchase one of the existing lending authorities from a current SBLC or CA SBLC; or (2) apply for a new SBLC license or CA SBLC license when SBA opens an application period for new SBLC or CA SBLC licenses.
	2. SBA reserves the right to deny any entity proposing to acquire an SBLC’s SBA lending authority in its sole discretion. In addition to SBA’s evaluation of the elements required in paragraph 5, “SBLC Application,” below, SBA may consider risk factors in its evaluation of an SBLC application. These factors include, but are not limited to, historical performance measures (such as default, purchase and loss rate), and other performance data associated with the acquiring concern or its senior management team, along with other relevant information (such as SBA-observed gaps in small business lending not served by the existing 7(a) Lender population).
	3. SBA does not participate in facilitating the transfer of an SBLC’s SBA lending authority. Private party negotiations culminate in a definitive purchase and sale agreement which includes the terms and conditions related to the transfer of the SBA lending authority. This agreement must include provisions which condition the transfer upon the prior written approval of the SBA.
	4. To obtain written approval, the selling SBLC must send a written request or notice of intent to transfer to SBLCapps@sba.gov. The written request should include:
		1. The name and address of the acquiring concern;
		2. The primary name and contact information for the acquiring concern’s contact.
	5. SBLC Application:

The acquiring concern must submit an SBLC Application, as outlined below, for SBA’s prior written consent with respect to any change of ownership or control. (Refer to 13 CFR 120.466 (SBA Supervised Lender Application);120.467 (Evaluation of SBA supervised Lender applicants); and 13 CFR 120.468 (Change of Ownership or Control.)) The SBLC Application must be complete and organized in tabular format. Incomplete SBLC Applications will not be processed by SBA and will be returned to the acquiring concern. An applicant that submits an incomplete SBLC Application (as determined by SBA) must wait 30 calendar days before reapplying. The application must include:

* + 1. The Legal name, address, telephone, facsimile, and email address of the acquiring concern;
		2. Identification of the form of organization of the proposed SBLC along with file-stamped copies of the concern’s certificate of incorporation, certificate of formation or certificate of limited partnership (as applicable), and a copy of the concern’s corporate bylaws, limited liability company operating agreement, or limited partnership agreement (as applicable);
		3. Identification of the proposed SBLC’s capitalization including the form of ownership, the identification of all classes of equity capital and proposed funding amounts, rights and preferences accorded to each class of stock or members interest (including voting rights, redemption rights, and rights of convertibility) and conditions for transfer, sale, or assignment of these interests;
		4. The proposed SBLC’s geographic area of operation;
		5. Identification of all officers, directors, managing partners, managing members, Key Employee(s) of the acquiring concern, which includes senior managers, members of loan committees, and individuals who have a meaningful participation in the direction of the operations, policies, or financial decisions of the acquiring concern),and all other individuals or entities that propose to hold an equity interest of at least 10% of the economic interest in any class of stock or ownership interest in the proposed SBLC (such identification should include a discussion of any prior SBA experience);
			1. An organization chart showing the relationship of the proposed SBLC with all related Associates and affiliates within the organization;
			2. All individuals or entities identified in this paragraph must submit an executed [SBA Form 1081](https://www.sba.gov/document/information-notice-5000-20051-revised-sba-form-1081) and a Form [FD‑258](https://www.fbi.gov/file-repository/standard-fingerprint-form-fd-258-1.pdf/view) (fingerprint card)or [Electronic Fingerprint Submission](#Electronic_Fingerprint_Submission). SBA Form 1081 and the Form FD-258 or Electronic Fingerprint Submission must be signed and dated within 90 days of submission to SBA.
			3. A director or Key Employee of the lender organization is only required to submit either Form FD-258 (fingerprint card) or Electronic Fingerprint Submission if the director or Key Employee answered affirmatively to questions 10a, 10b, 10c, 11a and/or 11b on the SBA Form 1081.
		6. Proof of fidelity insurance coverage as detailed in [13 CFR § 120.470(e)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1470).
		7. A comprehensive business plan that details:
			1. The nature of proposed operations, including the organizational units involved in sourcing, evaluating, underwriting, closing, disbursing servicing, and liquidating small business loans in the organization;
			2. The identification of all sources of capital used to finance lending operations;
			3. An operations plan detailing the nature of the Lender’s proposed loan activity, the volume of activity projected over the first 3 years as an SBA Lender, projected balance sheets, income statements and statement of cash flows of the Lender, with alternative profit and loss scenarios based on run rates equivalent to 70% and 50% of projected loan activity, the type and projected amount of financing needed to support its lending plan, along with a discussion of Lender’s proposed wind-down plan in the event the Lender decides to leave the program;
			4. A detailed analysis of the Lender’s projected Secondary Market activities during the first 3 years of operation, including a sensitivity analysis of the effect any changes in premium from the sale of the guaranteed portion of 7(a) loans in SBA’s Secondary Market may have on the Lender’s prospective earnings. The analysis must also include a description of the Lender’s plans (if any) to securitize or sell participations in the unguaranteed portion of 7(a) loans; and
			5. If the Lender intends to acquire any 7(a) loans, a written plan detailing the extent of this acquisition activity in its operating plan, and how the Lender will manage the transition of the 7(a) loan portfolio;
		8. All documents associated with any type of external financing expected to be undertaken by the proposed SBLC;
		9. A written statement from an authorized official of the acquiring concern certifying that the SBLC will not be primarily engaged in financing the operations of an Affiliate as defined in [13 CFR § 121.103](https://www.ecfr.gov/cgi-bin/text-idx?SID=daa078fba05a89e1a3ba13488b68fb91&mc=true&node=pt13.1.121&rgn=div5#se13.1.121_1103).
		10. The most recent audited financial statements of the acquiring concern if it has been in operation for more than 1 year, or the audited financial statements of the acquiring concern’s parent company.
		11. A certified copy of a Board, limited partners, or members resolution specifying the individual(s) or official(s) granted the authority by the organization to submit this SBLC application;
		12. A certification by the acquiring concern that it is in full compliance with all Federal, State, and local laws;
		13. A written legal opinion of independent counsel (“Independent Counsel” is counsel that is not an Associate of the lender), satisfactory to SBA that addresses whether the proposed SBLC:
			1. Is duly formed, organized, and validly existing in good standing under the laws of the State of its organization, and is in full compliance with all Federal, State, and local laws in connection with the formation and organization of the proposed SBLC; and
			2. Has the power, legal right, and authority to enter into the sale transaction.
	1. Once received, the Director, Office of Financial Program Operations (D/OFPO) or designee, in consultation with the Director, Office of Credit Risk Management (D/OCRM) or designee, Director, Office of Financial Assistance (D/OFA) or designee, Director, Office of Performance and System Management (D/OPSM) or designee, and the Deputy Associate Administrator of the Office of Capital Access or designee, makes the final determination on the application. If approved, SBA will provide written notification to the selling SBLC and the acquiring concern that SBA consents to the transfer of the lending authority. Included with this letter will be SBA Form 750 for execution and return to SBA.
	2. SBA’s prior written consent is required for any proposed transaction or event that results in Control by any entity or person(s) not previously approved by SBA. Control as defined in this paragraph means the possession, direct or indirect, or the power to direct or cause the direction of the management or policies of an SBLC, whether through the ownership of voting securities, by contract, or otherwise.
		1. A new application in accordance with paragraph 5 above, “SBLC Application,” above must be submitted for SBA’s prior written consent with respect to any change of ownership or control transaction as specified in [13 CFR § 120.475](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1475).
		2. For change of control transactions, the Lender will need to reapply for any delegated authorities separately.
	3. If the proposed change of ownership is for less than a majority interest, SBA may in its sole discretion limit the items required from the Lender in the “SBLC Application” paragraph above to support a request for prior SBA consent.
	4. Receiverships of SBLCs (except Other Regulated SBLCs as defined in [13 CFR § 120.10](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_110)):
		1. Upon SBA’s determination that grounds for an enforcement action against an SBLC (except an Other Regulated SBLC) exist under [13 CFR § 120.1400](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11400), SBA may, pursuant to [13 CFR § 120.1500(c)(3)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11500), apply to a Federal court for the appointment of a receiver. Typically, SBA will use its receivership authority as a remedy of last resort. The appointment of a receiver is only one of several types of enforcement actions set forth in [13 CFR § 120.1500](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11500).
		2. SBA will review the facts and circumstances of the enforcement action when deciding whether or not to seek the appointment of a receiver. SBA will also make a determination regarding the scope of the receiver’s duties and powers. In deciding whether to seek a receiver and in determining the scope of a receivership, SBA will consider the following:
			1. The existence of fraud or false statements;
			2. An SBLC’s refusal to cooperate with SBA enforcement action instructions or orders;
			3. An SBLC’s insolvency (legal or equitable); and/or
			4. The dollar amount of any claims SBA may have against the SBLC.
		3. Under [13 CFR § 120.1400(a)(2)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11400), an SBLC (except an Other Regulated SBLC) that makes SBA 7(a) guaranteed loans after October 20, 2017, has consented to SBA’s right to seek a receivership in appropriate circumstances. Such consent is deemed to apply only if the SBLC makes 7(a) loans on or after January 1, 2018. The SBLC’s consent does not in any way preclude the SBLC from contesting whether or not SBA has established the grounds for seeking the remedy of a receivership. An SBLC’s consent to receivership as a remedy does not require SBA to seek the appointment of a receiver in any particular SBA enforcement action.

#### Community Advantage SBLCs (CA SBLCs)

SBA’s Office of Credit Risk Management (OCRM) has initiated a program to enable current Community Advantage Pilot Program Lenders (CA Pilot Lenders) to become Community Advantage Small Business Lending Companies (CA SBLCs). This conversion program will continue from May 11 to September 30, 2023, when the CA Pilot Program will sunset.

Under this program, current CA Pilot Lenders that are participating in the CA Pilot Program (in accordance with [13 CFR 120.420(e)](https://www.ecfr.gov/current/title-13/chapter-I/part-120#p-120.420(e))) will be provided the option to be licensed as CA SBLCs. When SBA authorizes a CA SBLC license for a CA Pilot Lender, the CA Pilot Lender will no longer be making 7(a) Community Advantage loans in a temporary pilot program but will instead be making regular 7(a) loans under a CA SBLC license in the 7(a) program.

To become a CA SBLC, current CA Pilot Lenders must execute a Form 750, Loan Guaranty Agreement (Deferred Participation). Current CA Pilot Lenders have or will receive an email from CAloans@sba.gov with an unexecuted 750 form to be reviewed, completed, and signed. The completed and signed form should be submitted to SBA via email at CAloans@sba.gov. Once the form is fully executed, SBA will sign it and finalize the CA Pilot Lender’s transition to a CA SBLC.

SBA will continue accepting new CA Pilot lender participation applications through August 1, 2023, from CDFIs, CDCs, SBA Microloan Intermediaries, and Intermediary Lending Pilot (ILP) lenders. Obtaining approval to the CA Pilot Program enables a lender to be grandfathered in as a CA SBLC.

Once a CA Pilot Lender has executed the Form 750, they will be subject to all the SBLC requirements and responsible for applying all small 7(a) loan criteria in their origination, servicing and liquidation process, except for the following:

* 1. CA SBLC Requirements
		1. A minimum of 60% of the number of CA SBLC loans closed must meet the underserved market requirements currently in place for the CA Pilot Program.
		2. Loan loss requirements:
			1. CA SBLCs with 5 or fewer years of participation in the program (including the CA Pilot Program) shall maintain a loan loss reserve of 5 percent of the outstanding amount of the unguaranteed portion of the loan portfolio of the CA SBLC under the program; and
			2. CA SBLCs with more than 5 years of participation in the program (including the CA Pilot Program) shall maintain a loan loss reserve equal to the average repurchase rate of the CA SBLC over the preceding 36-month period.
		3. SBA's Administrator, in consultation with SBA's Associate Administrator for the Office of Capital Access (AA/OCA) or their designee(s), at their discretion, will determine the appropriate fidelity insurance coverage levels for CA SBLCs. At this time, SBA is not setting fidelity insurance requirements for CA SBLCs.
		4. Certified Development Companies (CDCs) that are also CA Pilot Lenders as of May 12, 2023 may be licensed aFs CA SBLCs without having to form a separate entity.
		5. Capital Requirements: A Community Advantage SBLC must maintain a minimum amount of capital as determined at the discretion of the Administrator in consultation with SBA's Associate Administrator for the Office of Capital Access (AA/OCA), or their designee(s). The minimum capital amount as published in Loan Program Requirements will ensure sufficient risk protection for SBA and lenders while not burdening smaller lenders with large capital requirements.
		6. Lender Review and Examination Fees: CA Lenders are required to pay fees to cover the costs of reviews, examinations and other lender oversight activities (13 CFR 120.1070). Note that these costs may be dependent on the CA guaranty balances and risk assessment indicators presented. In general, for risk-based reviews and safety and soundness examinations, SBA will invoice each lender for the amount owed following the review or examination. For L/LMS, LPAs and other lender oversight activity expenses, SBA will typically invoice each lender on an annual basis.

SBA intends to sunset the CA Pilot Program on September 30, 2023. All current CA Pilot lenders must execute an SBA Form 750, in order to extend their authority to make 7(a) loans as CA SBLCs after the CA Pilot Program sunsets, otherwise the CA Pilot Lender’s authority to make 7(a) loans will terminate.

### Chapter 3: Lender Financing and Operations

#### Secondary Market for Guaranteed Loans

* 1. Sale of SBA 7(a) Loans into SBA’s Secondary Market:

The SBA Secondary Market was established to provide liquidity to Lenders, and thereby expand the availability of commercial credit for small business. A Lender may sell the guaranteed portion of disbursed loans into the Secondary Market and must use [SBA Form 1086](https://www.sba.gov/document/sba-form-form-1086-secondary-participation-guarantee-agreement), “Secondary Participation Guaranty Agreement.” SBA Form 1086 provides the terms and conditions that govern the sale and all subsequent servicing of the loan sold, which must be executed by the Lender, Registered Holder (or investor), Fiscal and Transfer Agent ([FTA](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm))(see [FTA Wiki](https://catran.sba.gov/ftadistapps/ftawiki/)), and SBA.

* 1. In order for a 7(a) loan to be sold, the Lender must certify, among other things, that:
		1. The Lender has underwritten, closed and serviced the loan in a prudent manner and in accordance with all SBA Loan Program Requirements;
		2. The Lender will not share any premium it has received from this sale with a Lender Service Provider, Packager, or other loan referral source;
		3. The loan is fully disbursed (a loan is considered to be fully disbursed and then may be sold on the Secondary Market when the Borrower has access to all of the loan proceeds and is able to use them in accordance with the terms and conditions digitally entered in E-Tran);
		4. The loan is not a revolving loan or line of credit facility;
		5. The SBA guaranty fee has been paid by the Lender;
		6. The Lender, including its officers, directors, and employees, has no knowledge of a default or likelihood of a default by Borrower; and
		7. The Lender has no authority to unilaterally repurchase the loan guaranty from the Registered Holder without SBA’s written consent.

Note: The Lender may not split a loan for the purpose of selling a loan in the Secondary Market before the funds to complete the project are fully disbursed and the project has been completed. For example, a Lender may not make one loan to acquire real estate to sell in the Secondary Market and then make a second loan for construction.

* 1. The following sale documents must be presented to the FTA:
		1. A fully executed [SBA Form 1086](https://www.sba.gov/document/sba-form-form-1086-secondary-participation-guarantee-agreement);
		2. A true and certified copy of the Borrower’s Note, including true and certified copies of any amendments or modifications. All Notes, modifications, or amendments presented for sale must have the SBA Loan Number on the first page of each document.
	2. Loan and sale information is recorded on SBA Form 1086 by the Lender and purchaser, who then presents the sale documents to the FTA for examination and processing. The FTA will identify any errors on the Note or SBA Form 1086 and notify either the Lender or the broker/dealer.
	3. Secondary Market Sale Settlement:
		1. Upon a confirmed settlement date, the Registered Holder (investor) will wire all sale proceeds, including all principal, interest and premium (if any), to the FTA. The FTA will wire sale proceeds to the Lender, pursuant to instructions, submitted to the FTA through a confirmation of sale document. The FTA will issue a Guaranteed Interest Certificate to the Register Holder (investor) evidencing ownership of the guaranteed portion of the loan. The guaranty to the Registered Holder or investor is unconditional.
		2. All Borrower payments received by the Lender after the settlement date must be remitted to the FTA using [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm) pursuant to the instructions contained in SBA Form 1086. This includes, but is not limited to, note payments and Borrower prepayments. All payments must be remitted by the Lender to the FTA.

#### Secondary Market Resources

SBA’s web page for Lenders has specific information on the [Secondary Market](https://www.sba.gov/partners/lenders/7a-loan-program/7a-secondary-market).

The Fiscal and Transfer Agent (FTA) [Wiki](https://catran.sba.gov/ftadistapps/ftawiki/) has program information, downloads and resources, and news.

SBA’s [SOP 50 57](https://www.sba.gov/document/sop-50-57-7a-loan-servicing-and-liquidation) provides additional information and can be accessed on SBA’s web page for Lenders.

#### Loan Transfers

* 1. SBA allows SBA 7(a) loan portfolio transfers under limited circumstances. Lenders may encounter situations that result in the ownership transfer of their entire interest in SBA 7(a) loans from one Lender to another. These situations may arise when Lenders merge, decide to leave a specific operating area, cease participation in the SBA 7(a) loan program, or as may be directed by other Federal financial regulators.
	2. Pursuant to [13 CFR § 120.432(a)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1432), Lenders selling or transferring the entire interest in a SBA 7(a) loan are required to obtain SBA’s prior written consent. All loan transfers must occur between Lenders in the 7(a) loan program. When the proposed transfer involves a single loan account, Lenders may request a transfer of participation from the appropriate SBA Commercial Loan Servicing Center ([Fresno CLSC](https://www.sba.gov/sites/default/files/forms/Transfer%20of%20Participation%282%29.pdf) or [Little Rock CLSC](https://www.sba.gov/sites/default/files/2017-11/Transfer%252520of%252520Participation%282%29_0.pdf)).
	3. When a transfer involves more than one SBA 7(a) loan, Lenders are required to obtain SBA’s prior written consent to the proposed portfolio transfer. Prior to conducting a review for approval, Lenders must pay all outstanding SBA receivables that are more than 30 days in arrears. Lenders must contact DFCActionDesk@sba.gov in advance of their consent request for information on any SBA receivables outstanding. All SBA receivables must be satisfied with proof of payment to SBA in order to consider a portfolio transfer of loans.
	4. Requests for consent for transfers involving more than one SBA 7(a) loan are submitted to OFA at 7aPortfolioTransfers@sba.gov. Failure to secure SBA consent will prevent the transfer of related SBA loan guarantees accompanying the loans scheduled for transfer. The written request shall include documents describing the basis for the portfolio transfer. These documents are either in the form of an asset purchase agreement or plan of merger agreement. If the transfer takes the form of an asset purchase, SBA will also require submission of a loan list (preferably in a Microsoft Excel spreadsheet) identifying the loans to be transferred. Listed loans are to be assembled in ascending order by SBA Loan Number and must include the name of the Borrower and the original loan amount. SBA will also require the proposed purchaser of the loan portfolio to submit a signed Lender Statement of Obligation which will identify points of contact and the purchasing Lender’s responsibilities and obligations after the transfer is completed.
	5. Upon SBA approval, the Lender purchasing the 7(a) loans and/or loan portfolio must take possession of the promissory notes and the other loan documents and service the 7(a) loans. The purchasing Lender will assume all of the obligations and responsibilities of the selling Lender, including but not limited to, all obligations, responsibilities and liabilities resulting from the making, servicing, closing and liquidation of the selling Lenders’ loans. The purchasing Lender purchases the 7(a) loans subject to SBA’s existing rights to deny liability on its guarantee as provided in [13 CFR § 120.524](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1524).
	6. Lenders that receive SBA approval must notify the Secondary Market Division once the proposed transaction is completed. At that time, OFA will notify OPSM to transfer loan accounts into the purchasing Lender portfolio. (Note that separate reporting and transfer requirements exist for PPP loans.)

#### Loan Participation Sales

* 1. Lenders are permitted to enter into 7(a) loan participation sales, pursuant to
	[13 CFR § 120.432(b)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1432) and [13 CFR § 120.433](https://www.ecfr.gov/cgi-bin/text-idx?SID=564c889d04ed1d07a3e0cb26cbd17118&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1433) provided the purchaser is another 7(a) lender participant. Participation sales involve the sale of a portion of an SBA 7(a) loan and are private sale transactions between Lenders.
	2. Lenders that sell loan participations are required to retain the SBA Note and service the loan on behalf of all participants. While participations may be for amounts equivalent to a loan’s guarantee percentage, purchasing Lenders are not permitted to sell a participation interest into SBA’s secondary market.
	3. Lenders are required to notify OCRM at OCRM@sba.gov if the Lender sells a participation in any portion of an SBA 7(a) loan to another Lender. Lenders that wish to sell a participation in which the unguaranteed amount retained is below 10% of the outstanding principal balance of the loan must obtain SBA’s prior written consent, which SBA may withhold in its sole discretion.
	4. Requests for prior approval shall be made in writing to OFA’s Secondary Market Division. The request from the selling Lender shall include a form of the participation agreement acceptable to SBA, identification of the purchasing Lender, and identification of the SBA loan(s) proposed for sale. These documents may be submitted electronically or by overnight mail or courier. OFA will coordinate its review with OCRM, and if approved, will issue conditional approval to the selling Lender. Lenders must close on the approved transaction and notify OFA upon the closing of the transaction.

#### Securitization and Other Conveyances

* 1. Securitizations.
		1. Lenders with an executed SBA Form 750, “Lender’s Loan Guaranty Agreement (Deferred Participation),” are permitted to securitize the unguaranteed portion of their SBA-guaranteed 7(a) loans subject to SBA’s prior written approval, which it may withhold in its sole discretion.
		2. A securitization is a financial transaction involving the pooling and sale of the unguaranteed portion of a 7(a) loan to a trust, special purpose vehicle or other mechanism, and the issuance of securities backed by such 7(a) loans to investors.
		3. Community Advantage Lenders are not permitted to securitize Community Advantage loans under the CA Pilot Program.
		4. A discussion of SBA’s requirements for securitizations can be found at
		[13 CFR §§ 120.420 through 120.428](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#sg13.1.120_1413.sg30).
	2. Conditions to Securitize.

There are certain basic conditions that a Lender must meet in order to securitize. SBA’s consent to a Lender’s securitization application may be withheld by SBA in its sole discretion. To securitize, a Lender must:

* + 1. Be in satisfactory standing with SBA (as defined in [13 CFR §120.420(f)](https://www.ecfr.gov/cgi-bin/text-idx?SID=ae4cd3282e2b94b443179e7363c41e9d&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1420));
		2. Have satisfactory SBA performance;
		3. Use a securitization structure satisfactory to SBA;
		4. Use transaction documents acceptable to SBA (including the execution of an SBA Multi-Party Agreement for securitizations);
		5. Obtain SBA’s written consent prior to executing a commitment to securitize; and
		6. Deposit the original 7(a) loan notes with SBA’s Fiscal Transfer Agent.
	1. There are certain minimum elements SBA requires for securitizations:
		1. All securitizers must be considered “well capitalized” by their regulator and meet SBA’s capital requirements. A discussion of SBA’s capital requirements for securitizations can be found at [13 CFR § 120.425(a)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1425). If a securitizer does not maintain the level of capital required for a securitization, SBA will not approve a securitization application.
		2. Each securitizer must retain a subordinated tranche of the securities issued in the securitization equal to the greater of two times the securitizer’s Loss Rate (as defined in [13 CFR § 120.420(i)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1420)) or 2 percent of the principal balance outstanding at the time of securitization of the unguaranteed portion of the loans in the transaction. The securitizer’s retained tranche must be subordinate to all other securities issued in the securitization (including other subordinated or junior tranches). The subordinated tranche may not be sold, pledged, transferred, assigned, participated, or otherwise conveyed by the securitizer during the first 6 years after the closing date of the securitization. A discussion of SBA’s requirements for the subordinated tranche can be found at [13 CFR §120.425(b)](https://www.ecfr.gov/cgi-bin/text-idx?SID=ae4cd3282e2b94b443179e7363c41e9d&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1425). SBA expects all securitizers to be in compliance with other laws, rules or regulations related to securitizations.
		3. OCRM may suspend a securitizer’s PLP loan approval privileges based on the relationship between the securitizer’s currency rate and the SBA 7(a) loan portfolio currency rate. See [13 CFR § 120.425(c)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1425).
		4. Prefunding – Lenders may only securitize 7(a) loans that are fully disbursed within 90 days of the securitization’s closing date. See [13 CFR § 120.423](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1423).
		5. Once transaction documents have been drafted, Lenders shall submit key transaction documents (together with a closing checklist of all documents to be included in the transaction) in electronic form to the Chief of the Secondary Market Division within OFA. This unit will review the transaction documents and provide comments to the Lenders on unacceptable terms and conditions. Once resolved, OFA will coordinate the review of the transaction within SBA. If approved, OFA will issue a consent letter along with signature pages to the Multi-Party Agreement executed by both SBA and the FTA.
	2. Other conveyances.
		1. Secured Credit Facilities. Under [13 CFR § 120.434](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1434), Lenders are required to obtain SBA’s prior written consent when pledging 7(a) loans as collateral for a secured credit facility. These credit facilities are entered into by Lenders as a source of funding for making 7(a) loans to small businesses. These credit facilities may only be used to finance the guaranteed and/or unguaranteed portions of 7(a) loans along with the cost and expenses of obtaining the credit.
		2. Lenders are permitted to make financing arrangements with credit providers which culminate in the drafting of a loan and security agreement as well as other ancillary transaction documents. SBA requires each secured financing transaction to include an SBA Multi-Party Agreement (MPA). The [SBA MPA](https://www.sba.gov/document/support-sba-multi-party-agreements) is available online. The MPA is a document executed by the Lender, the credit provider, SBA, and the Fiscal Transfer Agent (FTA). The MPA identifies rights and restrictions that limit actions that may be taken by the credit provider if a Lender default on the facility occurs. As stated in the MPA, inconsistent provisions identified between the MPA and other transaction documents are decided in favor of the MPA in all cases.
		3. Once transaction documents are drafted, Lenders shall submit these documents in electronic form to the Chief of the Secondary Market Division within OFA. This unit will review the transaction documents and provide comment to the Lenders on unacceptable terms and conditions. Once resolved, OFA will coordinate the review of the transaction within SBA and the FTA. If approved, OFA will issue its consent letter along with signature pages for the MPA from both SBA and the FTA. Lenders are to ensure that all conditions in the MPA are satisfied at closing including the delivery of opinions of counsel from both the Lender and the credit provider. Lenders are to send electronic editions of the closing binders for these transactions to OFA in care of the Secondary Market Division.

#### Lender Loan Reporting

* 1. Lenders must provide a monthly report on [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm), “Guaranty Loan Status & Lender Remittance Form,” (“Form 1502”) that includes loan status information for all of its SBA-guaranteed loans, regardless of whether the Borrower made a payment in the current month. International trade Lenders that participate in the EWCP must ensure that this reporting function is addressed within their own operation. Lenders with EWCP loans should determine how this reporting is carried out by any domestic affiliate group(s), to the extent these affiliates participate in other SBA programs and combine loan portfolio reporting into one source point where possible.

Detailed instructions for Form 1502 can be found on the FTA [Wiki](https://catran.sba.gov/ftadistapps/ftawiki/) in the Downloads and Resources section.

* 1. Loan reporting in a current month reflects Borrower payments received or omitted in the prior month.
	2. The report period begins with the first calendar day of the month and continues through the last calendar day of the month.
	3. Lenders must compute and remit with the Form 1502 either the payments owed if the guaranteed portions have been sold in the Secondary Market or the ongoing guaranty fees due if the guaranteed portion has not been sold.
	4. The due date for transmitting loan account updates and payments to the Fiscal and Transfer Agent (FTA) is the third calendar day of each month, or the next business day thereafter if the third calendar day of the month is not a business day, plus a two business day grace period.
	5. Lender must submit the [SBA Form 1502](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm) to SBA’s FTA following the instructions on the FTA [Wiki](https://catran.sba.gov/ftadistapps/ftawiki/) in the [Downloads and Resources](https://catran.sba.gov/ftadistapps/ftawiki/downloadsandresources.cfm) section.
	6. Wire Transfer instructions for Secondary Market Payoffs and Prepayments can be found on the FTA [Wiki](https://catran.sba.gov/ftadistapps/ftawiki/) in the Downloads and Resources section. Lender is responsible for any additional funds due to the Secondary Market for using the incorrect wire transfer instructions.

## Section B. Certified Development Company (CDC) Participation

[13 CFR Part 120 Subpart H](https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=b88811fd0b4dcacc36a5b56d0d41eff5&mc=true&n=pt13.1.120&r=PART&ty=HTML#sp13.1.120.h)

The SBA 504 Loan Program is an economic development program offering a financing package that stimulates private sector investment in long-term fixed assets to increase productivity, create new jobs, and increase the local tax base. The stimulus is provided by making long-term, low down payment, reasonably priced fixed-rate financing to healthy and expanding businesses which have the highest probability of successfully creating new jobs and competing in the world marketplace.

504 loans are issued through a partnership with Certified Development Companies (CDC) and private sector Third Party Lenders. CDCs are non-profit corporations (with the exception of several for-profit corporations grandfathered into the 504 Loan Program) certified and regulated by the Small Business Administration to package, process, close, and service 504 loans. Unless expressly provided otherwise in the regulations, any SBA Loan Program Requirement that applies to non-profit CDCs also applies to for-profit CDCs. ([13 CFR § 120.818](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1818))

The 504 Loan Program was authorized by Congress under the Small Business Investment Act. The regulations governing the 504 program can be found in 13 Code of Federal Regulations (CFR) [Part 103](https://www.ecfr.gov/cgi-bin/text-idx?SID=4f64ab3b91a6f1967807198a055b9fd4&mc=true&node=pt13.1.103&rgn=div5) and [Part 120](https://www.ecfr.gov/cgi-bin/text-idx?SID=2f4615b97e1a00e91d29ebe918a6e569&mc=true&node=pt13.1.120&rgn=div5), (Sections 120.800 - 120.991 refer exclusively to the Development Company Loan Program). Terms and definitions specific to the 504 program can be found at [13 CFR § 120.802](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1802).

### Chapter 1: CDC Participation

#### Application to Become Certified as a CDC

[13 CFR § 120.810](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5" \l "se13.1.120_1810)

* 1. The Application for Certification as a Certified Development Company is [SBA Form 1246](https://www.sba.gov/document/sba-form-1246-application-certification-certified-development-company). CDCs must also comply with all of the requirements prescribed in 13 CFR §§ [120.810](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1810) – [120.830](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1830). The applicant must demonstrate that it satisfies the CDC certification and operational requirements in 13 CFR §§ [120.816](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1816) through [120.830](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1830). It is important for the CDC to have adequate initial capital to reasonably assure its ability to sustain operations.

A CDC applicant must provide evidence of the following in its application (additional information may be requested by the reviewing parties at the Lead District Office and/or the 504 Program Branch):

* + 1. Copy of its IRS tax exempt status;
		2. Applicant CDC is in good standing in the State in which it is incorporated;
		3. Applicant CDC is in compliance with all laws, including taxation requirements, in the State in which the CDC is incorporated and any other State in which the CDC conducts business;
		4. List of Board of Directors and any Executive Committee or Loan Committee established, organized by area of expertise. For each of these individuals, identify the area(s) of expertise that they represent on the Board or committee to satisfy the representational requirements of 13 CFR 120.823(a), including a description of the individual’s experience that demonstrates that they are qualified to represent that area of expertise;
		5. Organizational Chart;
		6. List of all officers and paid employees of the CDC (including all contracted staff and contractors assisting in performing 504 loan functions, including but not limited to loan packaging, processing, closing, servicing and liquidation (if applicable) for the CDC);
		7. Each of the following must undergo a character determination in accordance with paragraph B. of this Chapter, [Form 1081 CDC Character Determinations](#_Character_Determinations_-): CDC manager; officers; Board members; CDC staff, and loan committee members.
			1. If SBA’s character determinations have already been received at the time of application submission, include a copy of the character determinations with the application.
			2. For loan committee members who do not require fingerprinting, provide a statement including the loan committee member’s name and noting that the CDC is retaining the individual’s SBA Form 1081 in the CDC’s files.
			3. If SBA’s character determination has not been received prior to submitting the application, include a statement that the original [SBA Form 1081](https://www.sba.gov/document/information-notice-5000-20051-revised-sba-form-1081) and any supporting documentation have been forwarded to OCA and that individuals have been fingerprinted. Note: A CDC may not be approved to begin 504 Loan Program operations until all staff have been cleared by SBA in accordance with paragraph B. of this Chapter, [Form 1081 CDC Character Determinations](#_Character_Determinations_-);
		8. Certificate of Incorporation;
		9. Articles of Incorporation;
		10. Bylaws, which must include the regulatory requirements regarding the Board of Directors and Membership (if applicable);
		11. Board Resolution authorizing the CDC’s creation;
		12. Plan of Operation - a detailed narrative describing the applicant’s ability to package, process, close, and service the loans. The plan must identify the applicant’s financial and legal capacity and identify how it plans to market the 504 program, the geographic area it plans to serve, and include plans for investment in economic development in their Area of Operations;
		13. Operating budget, approved by the applicant’s Board of Directors; financial statements; and detailed projections with assumptions demonstrating the CDC’s financial ability to operate (See paragraph D.8 of this Chapter, [Financial Ability to Operate](#Financial_Ability_to_Operate_CDC)), how the CDC can operate in a positive net asset position by the end of its two-year probationary period; and
		14. Information regarding any affiliates.
		15. System for Awards Management (SAM) unique entity identifier. CDC applicants must register in SAM and receive a unique entity identifier. (Per Information Notice 5000-20094.)
	1. Submission of Application

The completed application must be electronically submitted to the Lead District Office serving the proposed Area of Operations for review. If the Lead District Office determines that the application is complete and eligible, the Lead District Office will forward its recommendation to the 504 Loan Program Division for further review and recommendation to the Director, Office of Financial Assistance (D/FA).

* + 1. In addition to the items listed above, the application package must include:
			1. [SBA Form 1246](https://www.sba.gov/document/sba-form-1246-application-certification-certified-development-company), Application to Become a CDC;
			2. An assessment of the application by the Lead District Office with a recommendation for application approval.
		2. Decline at the Lead District Office: If the Lead District Office review determines that the CDC is not eligible for certification, it should decline the CDC application. If a CDC application is declined by the Lead District Office, the CDC will be notified in writing outlining the reasons for decline and the CDC’s rights of appeal, with a copy to the appropriate SBA official, including the D/FA. The CDC applicant has 60 days to send an appeal to the Lead District Office for action by the next higher authority.
		3. Final Decision: The final decision on CDC applications is determined by the D/FA. SBA will send a letter to the CDC applicant notifying it of the decision with a copy to the Lead District Office’s District Director. If the decision is a decline by the D/FA, SBA will notify the CDC applicant and Lead District Office in writing of the decision and the reason(s) for decline. There is no process for appeal of a final decision of decline. The CDC may submit a new application to the Lead District Office after a waiting period of 6 months from the date of notification of the decline by SBA.
	1. Probationary Period and Requests for Permanent Status

[13 CFR § 120.812](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1812)

The probationary period is meant for newly certified CDCs to establish their operation and demonstrate to SBA their ability to perform in accordance with the mission of the 504 Loan Program and comply with all Loan Program Requirements. Newly certified CDCs will be on probation for a period of 2 years. While in probationary status, the CDC is not eligible to apply for delegated authority, request expansions to their Area of Operations, receive portfolio transfers, or merge with another entity.

Ninety days prior to the end of the probationary period, the CDC must either apply for permanent status or for a one-year extension of the probationary period. If a one-year extension of probation is granted, at the end of this extension period, the CDC must either apply for permanent status or an additional one-year extension of probation. SBA will consider failure to apply for permanent status or for an extension of the probationary period before the end of the probationary period as a voluntary withdrawal from the 504 program. In such case, or if the CDC otherwise voluntarily withdraws from the 504 program, it must transfer all funded and/or approved loans to another CDC, SBA, or other servicer approved by SBA, including all related servicing fees, as directed by SBA.

* + 1. To be considered for permanent CDC status or an extension of probation: The CDC must have satisfactory SBA performance as determined by SBA. SBA will consider, among other factors:
			1. The CDC’s Risk Rating;
			2. Review/examination assessments;
			3. Historical performance measures (e.g. default rate, purchase rate and loss rate);
			4. Compliance with 504-specific Program requirements (e.g. loan volume, loan portfolio diversification, Job Opportunity average, and reporting requirements).
		2. The request for permanent CDC status or for extension of the CDC’s probationary status should be sent to the Lead District Office with a copy to the 504 Loan Program Division at 504Requests@sba.gov and contain:
			1. A current Board of Directors List, identifying each Director’s area of expertise;
			2. A list of all members of all Board-established committees (if established);
			3. A list of all current staff, including a description of each individual’s duties and an organizational chart;
			4. Current bylaws, including any amendments; and
			5. Current Articles of Incorporation, including any amendments.
		3. The Lead District Office must obtain comments from the SBA processing and servicing centers as to the quality of the CDC’s processing and servicing. The Lead District Office must include the centers’ comments and its own comments on the CDC’s performance in its recommendation and must submit the request/recommendation to the 504 Loan Program Division at 504Requests@sba.gov.
		4. The CDC must have appropriate personnel attend industry training in credit analysis, 504 packaging, closing, and servicing within 1 year of certification.
		5. SBA will notify the CDC in writing of its decision, and, if the petition is declined, the reason(s) for the decision. If the petition is declined, the CDC must transfer all funded and/or approved loans to another CDC, SBA, or other servicer approved by SBA, including all related servicing fees, as directed by SBA.

#### Form 1081 CDC Character Determinations

SBA uses the character determination process to clear individuals (i.e., CDC manager, officer, Board member, CDC staff, loan committee member) to participate in a CDC’s activities. Individuals may not begin activities at the CDC until the clearance process is complete. When fingerprints are required, the clearance process is complete when SBA provides written notification to the CDC. Once an individual is cleared by SBA, the clearance does not need to be renewed as long as the individual maintains uninterrupted service with the same CDC, and the CDC or SBA has no indication that the individual would need to update SBA Form 1081 due to a change in circumstances.

For the protection of personally identifiable information (PII) such as names, tax identification numbers, addresses, financial information, etc., the CDC must limit access to PII to only those who have been cleared through this process.

* 1. For each new CDC manager; officer; Board member; and CDC staff (including contractors who are providing services to the CDC under a professional services contract that requires prior SBA approval under 13 CFR 120.824) the CDC must submit to SBA the [SBA Form 1081](https://www.sba.gov/document/information-notice-5000-20051-revised-sba-form-1081) and any supporting documentation. The Subject Individual must also undergo an FBI Fingerprint Background Check.

However, if a professional services contractor has been cleared by SBA within the past 12 months for employment with a different CDC, and if the contractor answers “no” to question numbers 10a, 10b, 10c, 11a, and 11b on SBA Form 1081 (signed within 90 days of submission to SBA), a fingerprint background check is not required. The CDC must retain the signed SBA Form 1081 in the CDC’s files. Do not submit the SBA Form 1081 for such an individual to SBA.

* 1. For each new Loan Committee Member that is not serving on the CDC’s Board of Directors, the CDC must collect an SBA Form 1081.
		1. For those Loan Committee members who answer “no” to question numbers 10a, 10b, 10c, 11a, and 11b, the CDC must retain the signed SBA Form 1081 in the CDC’s files. No FBI Fingerprint Background Check is required. Do not submit SBA Form 1081 to SBA.
		2. If a Loan Committee member answers “yes” to question numbers 10a, 10b, 10c, 11a, or 11b on SBA Form 1081, the CDC must submit to SBA the SBA Form 1081 and any supporting documentation. The Subject Individual must also undergo an FBI Fingerprint Background Check.
	2. The following are not required to be cleared and do not have to complete SBA Form 1081:
		1. Attorneys providing legal services in connection with loan liquidation or litigation;
		2. Contractors providing services under co-employment contracts for payroll and employee benefits (although the staff co-employed through these contracts are not exempt).
	3. FBI Fingerprint Background Check: When required, the Subject Individual must provide **one** of the following:
		1. Fingerprint Submission.
			1. SBA will use an FBI-approved, SBA-contracted channeler to conduct fingerprint background checks via [Applicant Services](https://www.applicantservices.com/sba).
			2. After a CDC determines that a fingerprint background check is required, the CDC will refer the Subject Individual to the approved channeler’s website where they must create an account and register. The Subject Individual will select the “SBA Form 1081” option and complete the fingerprint process by following the directions on the approved channeler’s website: [Applicant Services](https://www.applicantservices.com/sba).
			3. The channeler will provide expedited fingerprint processing by directing Subject Individuals to approved electronic fingerprinting facilities listed on the channeler’s website based on the Subject Individual’s location.

Depending on the circumstances, the channeler will also provide additional locations where hard-copy fingerprints may be taken and will provide the FBI Form FD-258 Fingerprint Card for the Subject Individual to capture the fingerprints along with instruction on submitting the fingerprint cards to the SBA-contracted channeler for continued processing.

* + - 1. The channeler will electronically submit the fingerprints to the FBI, and the FBI will provide the results of the background check to the channeler who will, in turn, provide the results to SBA via a secure portal; or
		1. Evidence of a Federal clearance (e.g. FDIC, OCC, Federal Reserve) from the individual’s current employer.
	1. Submission to SBA.

SBA Form 1081 must be signed and dated within 90 days of submission to SBA. After the CDC has verified that the Subject Individual has submitted fingerprints to the channeler, the CDC must submit SBA Form 1081 along with supporting documents such as resume and court documents (if applicable) to SBA either by:

* + 1. Email: OCA1081@sba.gov; or
		2. Hard copy: Overnight mail or courier to U.S. Small Business Administration, Office of Capital Access, Attn: 1081 Processing, 409 3rd Street SW, 8th Floor, Washington, DC, 20416.

NOTE: CDCs must also notify SBA at 504Requests@sba.gov of the following: changes in CDC’s management, compensated and uncompensated officers, Board members, Executive Committee members, Loan Committee members, and staff (including contractors who are providing services to the CDC under a professional services contract that requires prior SBA approval under 13 CFR 120.824). See paragraph E, [Reporting Requirements](#_Reporting_Requirements_1) below.

* 1. CDC Certification Applications: Clearances made by SBA during the CDC certification application process will remain valid while the certification application is being processed; however, if the application is pending and more than 1 year has lapsed since an individual was cleared by SBA, the individual must certify under penalty of perjury either that nothing has changed on any of the responses to the questions in SBA Form 1081 or, if there have been changes, the individual must identify any such change(s) that have occurred since the individual signed and submitted the SBA Form 1081 that was used by SBA to clear the individual. The CDC must submit the certification to SBA at 504Requests@sba.gov and maintain a copy in the CDC’s files.

#### Types of Authorities

##### **Priority CDCs**

[13 CFR § 120.802](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1802)

* + 1. A Priority CDC is a CDC with permanent status that SBA has approved to participate in an expedited 504 loan and Debenture closing process. A Priority CDC must apply separately for delegated authority. For more information on delegated authority, see paragraph C.4, [Premier Certified Lenders Program - Delegated Authority](#_Premier_Certified_Lenders) below).
		2. To become a Priority CDC, a CDC must have:
			1. At least one 504 Designated Attorney (for more information, see [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs));
			2. Adequate experience and expertise in 504 loan closings;
			3. A history of presenting complete and accurate closing packages;
			4. [Satisfactory SBA performance](#satisfactory_performance_CDC) (see first paragraph of Chapter 2 below for more information);
			5. A qualified and knowledgeable staff;
			6. A satisfactory working relationship with its Lead District Office; and
			7. Evidence of Directors’ and Officers’ Liability and Errors and Omissions insurance in form and substance satisfactory to SBA as provided in paragraph D.17, [CDC Insurance](#CDC_Insurance) below.
		3. Application Process – CDCs may obtain Priority Status either through the submission of an Application or by nomination from their Lead District Office.
			1. Application by the CDC:
				1. The CDC submits the complete application to the 504 Loan Program Division to 504Requests@sba.gov or by overnight mail or courier to SBA Headquarters (409 3rd Street SW, 8th Floor, Washington, DC 20416). The application must address each of the items in the previous paragraphs to ensure that the CDC remains in compliance with these requirements.
				2. The 504 Loan Program Division will solicit comments and a recommendation from the Lead District Office’s District Director, District Counsel, SLPC, the appropriate loan servicing center, and other SBA District Offices, if applicable.
				3. If the application contains both a request for Designated Attorney delegation and a request for Priority Status, the CDC should send the complete package to the 504 Loan Program Division, who will forward the attorney information to the Office of General Counsel (OGC).
			2. Nomination by the Lead District Office:

The Lead District Office sends a nomination to the 504 Loan Program Division with a copy to the CDC. The nomination must be signed by the District Counsel and the District Director. The nomination should address all of the conditions above and include evidence of the required insurance coverage and the name of the Designated Attorney.

* + 1. Notification to the CDC:

The D/FA will make the final decision, with the concurrence or non-concurrence of the Director of the Office of Credit Risk Management (D/OCRM). The D/FA will notify the CDC in writing of its approval with a copy to the Lead District Office and the attorney will receive a separate approval letter from OGC.

* + 1. Termination of Priority CDC Status:

The D/FA or designee, with the concurrence or non-concurrence of the D/OCRM or designee, may terminate a CDC’s Priority designation for good cause, including, but not limited to: the CDC’s failure to use a Designated Attorney; failure to maintain adequate insurance coverage; submission of unsatisfactory closing packages; failure to maintain a good working relationship and good communications with SBA District Office personnel; and/or failure to comply materially with an SBA Loan Program Requirement.

##### **Accredited Lenders Program (ALP)**

13 CFR § [120.840](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1840) and [120.841](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1841)

SBA may designate a CDC as an Accredited Lender, which gives the CDC increased authority to process, close, and service 504 loans and provides expedited processing of loan approval and servicing actions. ALP CDCs are accountable for thorough credit analysis on loan applications and on servicing actions. The Agency relies on the ALP CDC’s credit analysis in making the decision to guarantee the debenture and complete the documentation in a reduced timeframe.

To be eligible for ALP status, a CDC must have permanent CDC status and meet all of the requirements of a Priority CDC set forth in this SOP.

A CDC may submit an ALP application electronically into the Corporate Governance Repository or may apply in writing to its Lead District Office, providing all applicable information for SBA Review. When the CDC chooses to upload the ALP application into the Corporate Governance Repository, it must also submit an email to 504Requests@sba.gov to notify OFA of the submission.

At a minimum, the following items must be included in the application package (NOTE: this list may not be all-inclusive, and the reviewing SBA official may request further information from the CDC in order to make a recommendation):

* + 1. CDC Submission Requirements

The application must include, at a minimum, the following documentation:

* + - 1. A certified copy of the CDC's Board of Directors' resolution authorizing the application for ALP status.
			2. A current list of the CDC’s staff with organizational chart and description of each staff member’s responsibilities and experience. If any of the professional staff is obtained under contract from a third party, the CDC must certify that it has already provided a copy of the executed contract to SBA (with the date and person to whom the copy was provided) or provide a copy of the executed contract;
			3. A current list of CDC Board of Directors, to include the name and address of the entity represented (if applicable) and each Director’s area(s) of expertise. Board composition must comply with [13 CFR § 120.823](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823);
			4. A current list of Executive Committee and Loan Committee members (if applicable);
			5. A copy of CDC’s current bylaws and Articles of Incorporation;
			6. A copy of CDC’s internal control policy in compliance with [13 CFR § 120.826(b)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1826);
			7. A copy of certificate and policy evidencing the Directors’ and Officers’ Liability and Errors and Omission insurance required by SBA in paragraph D. 17, [CDC Insurance](#CDC_Insurance) below;
			8. A copy of certificate and policy evidencing Designated Attorney’s malpractice insurance. If the CDC has Multi-State or Local Expansion Area (LEA) authority, include verification that designated attorneys are licensed to practice law in each State represented; and
			9. A copy of the CDC’s most current loan policy in compliance with [13 CFR § 120.823(d)14](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823).
		1. Lead District Office Submission Requirements

The Lead District Office will review the ALP application and submit a recommendation to OFA to 504Requests@sba.gov within 2 weeks of receipt of the CDC’s letter. The Lead District Office’s recommendation will include comments:

* + - 1. On its relationship and experience with the CDC, based on the criteria listed as part of the Lead District Office Review in the current version of the [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs); and
			2. From the District Counsel on Loan Closings.
		1. 504 Loan Program Division Review

The Lead District Office forwards the application and its recommendation to the Chief, 504 Loan Program Division, at 504Requests@sba.gov. The 504 Loan Program Division reviews the application and recommendation, and considers the criteria listed as part of the 504 Program Division analysis in the current version of the [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs), along with the following:

* + - 1. Comments from the Office of Credit Risk Management (OCRM) on:
				1. ALP qualifications; and
				2. Compliance with program reviews including SMART Reviews and Annual Reports.
			2. Comments from Sacramento Loan Processing Center and Fresno/Little Rock Commercial Loan Servicing Center

The 504 Loan Program Division will forward its recommendation to the D/FA or designee for final determination. The D/OCRM will concur or non-concur on the recommendation to the D/FA.

* + 1. D/FA Review

The D/FA will make the final decision. The D/FA may consider any information submitted or available related to the applicant and the application and will notify the CDC and the Lead District Office, OCRM, Sacramento Loan Processing Center, and Fresno/Little Rock Commercial Loan Servicing Center of the final decision. If the application is denied, the notification will include the reason(s) for denial.

If the application is approved, the 504 Loan Program Division will update SBA’s internal systems to reflect the CDC’s ALP status.

* + 1. Term of ALP Designation

SBA generally will designate a CDC as an ALP CDC for a 2-year period. SBA may renew the designation for additional 2-year periods if the CDC continues to meet the ALP program eligibility requirements.

* + 1. Renewal of an ALP CDC’s designation:

A CDC with ALP authority requesting renewal of its ALP designation must submit the information and documentation identified in paragraph 2.a., CDC Submission Requirements, to OCRM at CDCAnnualReports@sba.gov. The required information and documentation should be submitted at least 120 days prior to expiration of the CDC’s ALP status to ensure sufficient processing time. After receipt of the required information and documentation, OCRM will ask for comments from the Lead District Office, SBA’s processing, servicing, and liquidation centers. SBA’s review will address all of the requirements found at [13 CFR §§ 120.840-120.841](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1840) and the items noted above. The D/OCRM will make the final decision.

##### **Abridged Submission Method (ASM)**

SBA has established a streamlined loan application processing procedure known as the Abridged Submission Method (ASM). (Note: ASM is a streamlined application process and does not involve the exercise of any delegated authority.) For more information on delegated authority, see paragraph C.4, [Premier Certified Lenders Program - Delegated Authority](#_Premier_Certified_Lenders) below.

Under this process, the CDC must collect and retain all exhibits to [SBA Form 1244](https://www.sba.gov/document/sba-form-1244-application-section-504-loans), but is only required to submit certain documents to SBA. See SBA Form 1244 and [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs).

SLPC selects CDCs to participate in ASM. To be selected, CDCs must submit complete, quality loan applications

* + 1. To be eligible for ASM, a CDC must be selected by SLPC and:
			1. Have either Accredited Lender Program (ALP) status or Premier Certified Lenders Program (PCLP) status;
			2. Have submitted at least 10 loans in the last 12 months, and have passed benchmark measures using the most recent loans processed; and
			3. Earn an average “loan package score” (LPS) numeric equivalent rating of no more than “2.0” among the most recent 25 loans submitted as determined by the SLPC upon the review of the comprehensiveness and quality of the loan application package.
		2. Monitoring. SBA will monitor CDC’s continued eligibility to use ASM by reviewing one loan out of 10 loan applications based upon the following:
			1. Each CDC will have at least one loan reviewed during a 12-month period.
			2. No CDC will have more than 12 loans reviewed during a 12-month period.
			3. SLPC will send CDC a written notice for review, and CDC will have 3 business days to submit the entire file to the SLPC.
		3. The CDC will lose its ASM status if:
			1. The average “loan package score” (LPS) for the most recent 25 applications (or all applications since inception as ASM, if fewer than 25) submitted to the SLPC exceeds 2.0, the CDC will lose its ASM status until the average LPS returns to 2.0 or less.
			2. The average LPS of the ASM loans reviewed in the CDC’s annual review of ASM applications by SLPC exceeds 2.0, the CDC will lose its ASM status for a period of not less than 90 days.
			3. A CDC fails to meet the required portfolio performance standards or any other criteria for ASM.
			4. SBA will rely more heavily on the analysis of the CDCs therefore, continued quality performance of the CDCs portfolio is essential.
			5. The SLPC Center Director or designee may approve or remove ASM status at any time for good cause including, but not limited to, misrepresentation, quality of post-approval actions and findings of internal or external audits of the CDC.
			6. CDCs submitting applications using the ASM may upload documents using E‑Tran.

##### **Premier Certified Lenders Program – Delegated Authority**

Under the Premier Certified Lenders Program (PCLP), SBA designates qualified CDCs as PCLP CDCs and delegates to them increased authority to process, close, service and liquidate 504 loans ([13 CFR § 120.848](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1848)). SBA also may give PCLP CDCs increased authority to litigate 504 loans ([13 CFR § 120.845](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1845)). As an SBA Lender with delegated authority, PCLP CDCs are responsible for all loan approval decisions except eligibility as set forth in SBA Loan Program Requirements. Loans processed under a PCLP CDC’s delegated authority are subject to the same loan terms and conditions as other 504 loans.

* + 1. Application for PCLP Status:

A CDC may apply in writing to its Lead District Office providing all applicable information set forth in paragraph C.2.a., [CDC Submission Requirements](#CDC_Submission_Requirements) above and the following:

* + - 1. Documentation of meeting all ALP requirements to be eligible to obtain or retain PCLP status;
			2. A certified copy of the Board of Directors' resolution authorizing the application for PCLP status (this is only required for new PCLP CDC applications not for renewals);
			3. Evidence that the CDC:
				1. Has established a Loan Loss Reserve Fund (LLRF) in compliance with the requirements set forth in [13 CFR § 120.847](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1847);
				2. Has a demonstrated ability to process, close, service and liquidate 504 and/or PCLP loans; and
				3. Has satisfactory SBA performance as determined by SBA in its discretion. Factors may include, but are not limited to, review/examination assessments, [SMART](#SMART) metrics, historical performance measures (such as 60 days delinquent reports, 90 days or more past due reports, catch up reports, liquidation rates, past 12 month active purchase rates, Small Business Predictive Score (SBPS) average used by SBA’s Office of Credit Risk Management, default rate, purchase rate and loss rate), and the CDC’s [Risk Rating](#_Loan_and_Lender).
			4. Summary of experience of each of the CDC’s processing, closing, servicing, and liquidation staff members with significant authority; and
			5. Name, address, and summary of experience of the CDC’s Designated Attorney.
		1. SBA Review and Determination:

The D/FA makes the final Agency decision with the D/OCRM concurring or non-concurring in the recommendation.

* + 1. Notification of PCLP Status:

D/OCRM or designee will notify the CDC in writing and will notify all appropriate SBA offices.

* + 1. Loan Guaranty Agreement - Premier Certified Lenders Program (PCLP):

Upon approval as a PCLP CDC, D/OCRM or designee will send the CDC an SBA Form 2006, “Loan Guaranty Agreement - Premier Certified Lenders Program (PCLP).” The CDC must sign and return the agreement before it can begin processing PCLP loans.

* + 1. PCLP Term:

SBA will confer PCLP status for a period of up to 2 years and may renew the designation for additional periods of up to 2 years. The D/ORCRM approves or declines the renewal.

* + 1. Area of Operations:

The PCLP CDC may exercise its PCLP authority in its entire Area of Operations.

* + 1. Loan Loss Reserve Fund (LLRF) [13 CFR § 120.847](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1847):
			1. A PCLP CDC must establish and maintain an LLRF for its financings with a federally-insured depository institution. All documents must be satisfactory to SBA in both form and substance. SBA may require changes in, or supplements to, the documentation from time to time. If a depository institution will not enter into any agreement required by SBA or violates the terms of any such agreement, the PCLP CDC may not maintain an LLRF with that institution.
			2. The LLRF will be used to reimburse the SBA for 10 percent of any loss sustained by SBA as a result of a default in the payment of principal or interest on a PCLP debenture.0F0F[[3]](#footnote-4) For each PCLP debenture a PCLP CDC issues, it must establish and maintain an LLRF equal to 1% of the original principal amount of each PCLP debenture. The amount the PCLP CDC must maintain in the LLRF for each PCLP Debenture remains the same even as the principal balance of the PCLP Debenture is paid down over time except that, after the first 10 years of the term of the Debenture, the amount maintained in the LLRF may be based on 1% of the current principal amount of the PCLP Debenture (the declining balance methodology), as determined by SBA. All withdrawals must be made in accordance with the requirements of [13 CFR § 120.847(g)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1847).
			3. A CDC may not use the declining balance methodology:
				1. With respect to any Debenture that has been purchased. Within 30 days after purchase, the CDC must restore the balance maintained in the LLRF for the Debenture that was purchased to 1% of the original principal amount of that Debenture; or
				2. With respect to any other Debenture if SBA notifies the CDC in writing that it has failed to satisfy the requirements in [13 CFR § 120.847(e),(f),(h),(i), or (j)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1847). In such case, the CDC will not be required to restore the balance maintained in the LLRF to 1% of the original principal amount of the Debenture but must base the amount maintained in the LLRF on 1% of the principal amount of the Debenture as of the date of notification. The CDC may not begin to use the declining balance methodology again until SBA notifies the CDC in writing that SBA has determined, in its discretion, that the CDC has corrected the noncompliance and has demonstrated its ability to comply with these requirements.
			4. The PCLP CDC must grant SBA a first priority perfected security interest in its LLRF. The security interest in the PCLP CDC’s LLRF must be granted pursuant to a security agreement between the PCLP CDC and SBA. The security interest in the PCLP CDC’s LLRF must be perfected pursuant to a control agreement between the PCLP CDC, SBA and the applicable depository institution.
			5. When establishing an LLRF, a PCLP CDC must coordinate with OCRM to execute and deliver the required documentation. SBA created SBA Form 2230, “Control Agreement,” and [SBA Form 2229](https://www.sba.gov/document/sba-form-2229-premier-certified-lenders-program-security-agreement), “Security Agreement,” that must be used in connection with the LLRF. The fully executed original control and security agreements, as well as any applicable financing statements, must be provided to OCRM.
			6. Other LLRF Requirements:
				1. A PCLP CDC must contribute at least 50% of the required LLRF for a PCLP Debenture on or about the date that it issues the PCLP Debenture.
				2. A PCLP CDC must contribute at least an additional 25% of the required LLRF for a PCLP Debenture no later than 1 year after it issues the PCLP Debenture.
				3. A PCLP CDC must contribute any remainder of the required LLRF for a PCLP Debenture no later than 2 years after it issues the PCLP Debenture.
				4. In the event of default on the payment of any PCLP Debenture and upon the conclusion of liquidation efforts, SBA will determine the amount of any loss owed by the PCLP CDC to SBA and notify the CDC of the amount. If the PCLP CDC agrees with SBA’s calculation of the loss, it must reimburse SBA for ten percent of the amount of the loss no later than 30 days after notice from SBA.
				5. If the PCLP CDC disputes SBA’s calculations, it must reimburse SBA for ten percent of any loss amount that is not in dispute no later than 30 days after SBA’s notice. No later than 30 days after SBA’s notification, the PCLP CDC may submit to the D/FA (or their delegee) a written appeal of any disagreement regarding the calculation of SBA’s loss. The PCLP CDC must include with the appeal an explanation of its reasons for the disagreement. Upon the D/FA’s final decision as to the disputed amount of the loss, the PCLP CDC must promptly reimburse SBA for ten percent of that amount.
				6. A PCLP CDC must diligently monitor the LLRF to ensure that it contains sufficient funds to cover its Exposure for its entire portfolio of PCLP Debentures. If, at any time, the LLRF does not contain sufficient funds, the PCLP CDC must, within 30 days of the earliest of the date it becomes aware of this deficiency or the date it receives notification from SBA of this deficiency, make additional contributions to the LLRF to make up this difference.
				7. A PCLP CDC must report to and reconcile with OCRM any discrepancies between the Quarterly PCLP List of Required LLRF Deposits and its records as noted in paragraph E., Reporting Requirements, below, no later than 45 days after the end of each quarter. This report may be made either by sending an email to PCLPQuarterlyReport@sba.gov or via the Corporate Governance Repository.
				8. A PCLP CDC must submit the SBA Form 2233, “Quarterly Loan Loss Reserve Report,” no later than 45 days after the end of each quarter, to OCRM, either at PCLPQuarterlyReport@sba.gov or via the Corporate Governance Repository, and to the Lead District Office serving the territory where the 504 Borrowers are located. See paragraph E., Reporting Requirements below.
				9. A PCLP CDC must submit requests for withdrawals to the Lead District Office with a copy to OCRM at PCLPQuarterlyReport@sba.gov.
			7. Each Lead District Office Must:
				1. Notify Sacramento Loan Processing Center (SLPC) when a PCLP CDC meets LLRF initial establishment requirements.
				2. Process requests to withdraw interest earned on LLRF or excess funds in LLRF.
				3. Transmit to PCLP CDC the Quarterly PCLP List of Required LLRF Deposits.
				4. Work with PCLP CDCs to reconcile any differences in quarterly Loss Reserve calculations.
				5. Review and approve the Quarterly PCLP List of Required LLRF Deposits.
				6. Provide written notice to the PCLP CDC of SBA’s intent to transfer funds from the LLRF.
		2. Renewal of a PCLP CDC’s designation:

A PCLP CDC requesting renewal of its PCLP CDC designation must submit the request and the previous quarter’s confirmation of the CDC’s Loan Loss Reserve to OCRM at CDCAnnualReports@sba.gov. The required information and documentation should be submitted at least 120 days prior to expiration of the CDC’s PCLP status to ensure sufficient processing time. After receipt of the required information and documentation, OCRM will ask for comments from the Lead District Office, SBA’s processing, servicing, and liquidation centers. SBA’s review will address all of the requirements found at [13 CFR § 120.846](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1846) and the items noted above. The D/OCRM will make the final decision.

#### Operating Requirements

* 1. CDCs must comply with SBA Loan Program Requirements (as defined in [13 CFR § 120.10](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5%20-%20se13.1.120_1825#se13.1.120_110)) for the 504 Loan Program, as such requirements are revised from time to time. SBA Loan Program Requirements in effect at the time that a CDC takes an action in connection with a particular loan govern that specific action. For example, although loan closing requirements in effect when a CDC closes a loan will govern closing actions, a CDC’s liquidation actions on the same loan are subject to the liquidation requirements in effect at the time that a liquidation action is taken ([13 CFR § 120.180](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1180)). SBA Loan Program Requirements, Center contacts, and other information can be found at [SBA Lenders](https://www.sba.gov/partners/lenders);
	2. Non-Profit Status ([13 CFR § 120.816](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1816)): A CDC must be a non-profit corporation (with the exception of certain grandfathered CDCs) and must:
		1. Be in good standing in the State in which the CDC is incorporated; and
		2. Be in compliance with all laws, including taxation requirements, in the State in which the CDC is incorporated and any other State in which the CDC conducts business.
	3. Other CDC Services ([13 CFR § 120.827](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1827)):

A CDC may provide a small business with assistance unrelated to the 504 loan program as long as the CDC does not make such assistance a condition of the application for a 504 loan. A CDC is subject to [13 CFR Part 103](https://www.ecfr.gov/cgi-bin/text-idx?SID=8fa796b74d10ec52eaf649370cf5d198&mc=true&node=pt13.1.103&rgn=div5) when providing such assistance. See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) when providing such assistance on a 7(a) loan.

* 1. CDC Membership: CDC membership is optional. If a CDC elects to have a membership, the membership requirements must be included in the CDC’s bylaws. If the members are responsible for electing or appointing the voting directors to the CDC’s Board of Directors, no person or entity can control more than 25 percent of the voting membership.
	2. CDC Board of Directors Roles and Responsibilities under [13 CFR § 120.823](https://www.ecfr.gov/cgi-bin/text-idx?SID=8fa796b74d10ec52eaf649370cf5d198&mc=true&node=se13.1.120_1823&rgn=div8)(d)(10): The CDC must have a Board of Directors. The Board shall have and exercise all corporate powers and authority and be responsible for all corporate actions and business. The Board is responsible for ensuring that the structure and operation of the CDC as set forth in the CDC’s bylaws complies with SBA’s Loan Program Requirements. The Board must be actively involved in encouraging economic development in the CDC’s Area of Operations in which it has a portfolio. The initial Board may be created by any method permitted by State law.
	3. CDC Board of Directors Composition and Requirements: CDC Boards must comply with 13 CFR § [120.823](https://www.ecfr.gov/cgi-bin/text-idx?SID=8fa796b74d10ec52eaf649370cf5d198&mc=true&node=se13.1.120_1823&rgn=div8), as follows:
		1. All CDCs must have a Board of Directors with at least seven voting directors all of whom live or work in the CDC’s State of incorporation or in an area that is contiguous to that State that meets the definition of a Local Economic Area for the CDC.
		2. At a minimum, the CDC’s Board must have directors with background and expertise in internal controls; financial risk management; commercial lending: legal issues relating to commercial lending; corporate governance; and economic, community, or workforce development. Directors may be either currently employed or retired. Retirees may either represent the field from which they retired or represent the community. For purposes of complying with these representational requirements, one director may have more than one area of expertise.
		3. At least two voting Directors, other than the CDC manager, must possess commercial lending experience.
		4. No person who is a member of a CDC's staff (including contractors) may be a voting Director of the Board except for the CDC manager.
		5. No CDC Board member may serve on the Board of another CDC. CDC Board members may serve on the Boards of civic, charitable, or comparable organizations.
		6. The Board must meet at least quarterly and shall be responsible for all corporate actions and business of the CDC, including any committee(s) established by the Board.
		7. The Board meetings require a quorum to transact business. A quorum must be present for the duration of the meeting. The number of Directors that constitute a quorum shall be set by the CDC, provided that a quorum shall not be less than 50% of the voting Directors of the CDC Board. Attendance may be through any format permitted by State law.
		8. When the Board votes on SBA Loan approval or servicing actions, at least two voting members with commercial loan experience satisfactory to SBA, other than the CDC manager, must be present and vote.
		9. There must be no actual or appearance of conflict of interest with respect to any actions of the Board. The Board must establish a policy in the bylaws of the CDC prohibiting an actual conflict of interest or the appearance of same, and enforce such policy ([13 CFR § 120.823(d)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823)).
		10. Other Responsibilities of the CDC Board include, but are not limited to, the following:
			1. Approving the mission and policies of the CDC.
			2. Hiring, firing, supervising, and annually evaluating the CDC manager.
			3. Setting the salary for the CDC manager and reviewing all CDC staff salaries.
			4. Establishing committees, at the Board’s discretion.
			5. Ensuring that the CDC’s expenses are reasonable and customary.
			6. Directly hiring an independent auditor to provide the financial statements of the CDC in accordance with SBA Loan Program Requirements.
			7. Monitoring the CDC’s portfolio performance on a regular basis.
			8. Reviewing a semi-annual report on portfolio performance from the CDC manager, which includes, but is not limited to, asset quality and industry concentration.
			9. Ensuring that the CDC establishes and maintains adequate reserves for operations.
			10. Ensuring that the CDC invests in economic development in each of the states in its Area of Operations in which it has a portfolio and approving each investment. (If the investment is included in the CDC’s budget, the Board’s approval of the budget may be deemed approval of the investment. If the investment is not included in the CDC’s budget, the Board must separately approve the investment.)
			11. Retaining accountability for the actions of the CDC.
			12. Establishing written internal control policies in accordance with [13 CFR § 120.826](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1826).
			13. Establishing written commercially reasonable loan approval policies, procedures, and standards. The CDC must establish and set forth in detail in a policy manual its credit approval process. All 504 loan applications must have credit approval prior to submission to SBA. If a Loan Committee or Executive Committee is not established, the CDC Board must provide credit approval of all 504 loans.
			14. Each member of the Board must annually certify in writing that they have read and understand [13 CFR § 120.823](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5%20-%20sg13.1.120_1453.sg34#se13.1.120_1823), and copies of these annual certifications must be included in the CDC’s Annual Report.
			15. Maintaining Directors’ and Officers’ Liability and Errors and Omission insurance in amounts required by SBA. See paragraph D.17, [CDC Insurance](#CDC_Insurance) below.
			16. Ensuring compliance with loan servicing and liquidation requirements as set forth in [SOP 50 55](https://www.sba.gov/document/sop-50-55-504-loan-servicing-liquidation).
	4. Committees ([13 CFR § 120.823(d)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823)): If the CDC Board exercises its discretion to establish committee(s), any such committee must be authorized by the CDC’s bylaws. Delegation of authority to a committee(s) does not relieve the Board of its responsibility imposed by law or SBA Loan Program Requirements. Delegations of Authority to an Executive Committee or a Loan Committee, if established, must be included in the CDC’s bylaws. No further delegation or re-delegation of a Board’s authority is permitted.
		1. Executive Committee – The CDC Board may establish an Executive Committee and delegate management functions to the Executive Committee if this delegation is in compliance with [13 CFR § 120.823(d)(4)(i)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823) and is authorized by the CDC’s bylaws.
			1. The Executive Committee must:
				1. Be chosen by and from the Board of Directors; and
				2. Meet the same organizational and representational requirements as the Board of Directors, except that the Executive Committee must have a minimum of 4 voting members present to conduct business.
			2. Only the Board or Executive Committee, if authorized by the Board, may provide credit approval for 504 loans greater than $2,000,000.
		2. Loan Committees – The Board may establish a Loan Committee
		[(13 CFR § 120.823(d)(4)(ii))](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823). The Loan Committee may exercise the authority of the CDC Board as set forth below.
			1. The Loan Committee reports to the Board, and members must:
				1. Be chosen by the Board of Directors and consist of individuals with a background in financial risk management, commercial lending or legal issues relating to commercial lending who are not associated with another CDC.
				2. Have a quorum of at least four Loan Committee members authorized to vote, with attendance by any method allowed by State law;
				3. Have at least two Loan Committee members with commercial lending experience satisfactory to SBA;
				4. Consist only of Loan Committee members who live or work in the Area of Operations of the State or in an area that meets the definition of Local Economic Area for the CDC, except that, for Projects that are financed under a CDC’s multi-state authority, the CDC must satisfy the requirements described in paragraph f) below;
				5. Not include CDC staff or the CDC manager, and;
				6. For multi-state CDCs, there must be either:

A separate Loan Committee for each State into which the CDC expands that satisfies the requirements in paragraphs a) through d) above ([13 CFR § 120.835(c)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1835)(1)); or

For any Project located in the State into which the CDC has expanded, the CDC’s Board or Loan Committee (if established in the CDC’s State of incorporation) includes at least two members who live or work in that State when voting on that Project (13 CFR § 120.835(c)(2)). The CDC must submit a listing of the additional members of the committee that meets the requirements contained in 13 CFR § 120.823. Each new Loan Committee member must receive a character determination in accordance with paragraph B., [Form 1081 CDC Character Determinations](#_Character_Determinations_-), in this chapter.

* + - 1. The Loan Committee, if established, may be delegated the authority to:
				1. For loans up to $1,000,000 provide credit approval; and
				2. For loans of $1,000,000 to $2,000,000, provide credit approval with the ratification of the Board or Executive Committee prior to Debenture closing.
				3. There must be no actual or appearance of a conflict of interest with respect to any actions of the Loan Committee, including for example, a Loan Committee member participating in deliberations on a 504 loan for which the Third Party Lender is the member’s employer or the member is otherwise associated with the Third Party Lender. [13 CFR § 120.823(d)(4)(ii)(D)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823).
	1. Financial Ability to Operate ([13 CFR § 120.825](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1825)):

A CDC must be able to sustain its operations continuously, with reliable sources of funds (such as income from services rendered and contributions from government or other sponsors). Any funds generated from 504 loan activity by a CDC remaining after payment of staff and overhead expenses must be retained by the CDC as a reserve for future operations or for investment in other local economic development activity in its Area of Operations. SBA will consider the following factors in determining a CDC’s financial ability to operate:

* + 1. Financial statements evidencing:
			1. Positive net cash flow trends.
			2. Sufficient loan loss reserves, if required.
			3. Solvency.
				1. Assets in excess of liabilities.
				2. A CDC must be able to pay its debts when they become due.
		2. A CDC must not have received a going concern opinion from its auditor.
		3. Other factors as determined by SBA.

Note: CDCs should maintain deposit accounts in institutions with adequate FDIC deposit insurance.

* 1. Affiliation:
		1. A CDC must be independent and must not be affiliated (as determined in accordance with [13 CFR § 121.103](https://www.ecfr.gov/cgi-bin/text-idx?SID=cb05c5865100a4b063f4eea102fd7608&mc=true&node=pt13.1.121&rgn=div5#se13.1.121_1103)) with any Person (as defined in [13 CFR § 120.10](https://www.ecfr.gov/cgi-bin/text-idx?SID=564c889d04ed1d07a3e0cb26cbd17118&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_13)), except as authorized under [13 CFR § 120.820](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1820), which provides that:
			1. A CDC may be affiliated with an entity (other than a 7(a) Lender or another CDC) whose function is economic development in the same Area of Operations and that is either a non­profit entity or a State or local government or political subdivision (e.g., council of governments).
			2. A CDC must not be affiliated (as determined in accordance with 13 CFR §121.l03) with or invest, directly or indirectly, in a 7(a) Lender. A CDC that was affiliated with a 7(a) Lender as of November 6, 2003, may continue such affiliation.
			3. A CDC must not be affiliated (in accordance with 13 CFR § 121.103) with another CDC except as otherwise approved by SBA in accordance with 13 CFR § 120.824 and paragraph 18 below. In addition, a CDC must not directly or indirectly invest in or finance another CDC, except with the prior written approval of D/ FA or designee and D/OCRM or designee if they determine in their discretion that such approval is in the best interests of the 504 Loan Program.
			4. A CDC may remain affiliated with a for-profit entity (other than a 7(a) Lender) if such affiliation existed prior to March 21, 2014. A CDC may also be affiliated with a for-profit entity (other than a 7(a) Lender) whose function is economic development in the same Area of Operations with the prior written approval of the D/FA or designee if they determines in their discretion that such approval is in the best interests of the 504 Loan Program.
			5. A CDC must not directly or indirectly invest in a Licensee (as defined in [[13 CFR § 120.820(f)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1820))](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1820) licensed by SBA under the Small Business Investment Company Program. A CDC that has an SBA-approved investment in a Licensee as of November 6, 2003, may retain such investment.
		2. Affiliation is determined in accordance with 13 CFR § [121.103](https://www.ecfr.gov/cgi-bin/text-idx?SID=ad09b820b35305f188b7d077e1f132ef&mc=true&node=pt13.1.121&rgn=div5#se13.1.121_1103). General principles of affiliation under this section include, but are not limited to the following:
			1. Concerns and entities are affiliates of each other when one controls or has the power to control the other, or a third party (or parties) controls or has the power to control both. It does not matter whether control is exercised, so long as the power to control exists.
			2. SBA considers factors such as ownership, management, previous relationships with or ties to another concern, and contractual relationships, in determining whether affiliation exists.
			3. Control may be affirmative or negative. Negative control includes, but is not limited to, instances where a minority shareholder has the ability, under the concern's charter, bylaws, or shareholder's agreement, to prevent a quorum or otherwise block action by the board of directors or shareholders.
			4. Affiliation may be found where an individual, concern, or entity exercises control indirectly through a third party.
			5. In determining whether affiliation exists, SBA will consider the totality of the circumstances, and may find affiliation even though no single factor is sufficient to constitute affiliation.
	2. Minimum Level of Activity and Restrictions on Portfolio Concentrations ([13 CFR § 120.828](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1828)):

A CDC must have at least four different loans approved during the last 2 consecutive fiscal years, and the portfolio must be diversified as to type of business.

* 1. Job Opportunity Average ([13 CFR § 120.829](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1829)):
		1. A CDC must maintain the required average of one Job Opportunity per an amount of 504 loan funding as specified by SBA from time to time in the Federal Register and must indicate in its annual report the Job Opportunities actually or estimated to be created or retained by each Project.
		2. A CDC is permitted 2 years from its certification date to meet this average. If a CDC does not maintain the required average, it may retain its certification if it justifies to SBA's satisfaction its failure to do so in its annual report and shows how it intends to attain the required average.
	2. CDC Place of Business:
		1. Must be accessible and open to the public during regular business hours with an adequate staff (at least one qualified professional staff member available full-time as described in paragraph D.18.a., [CDC Staff](#CDC_Staff) below) to perform normal business transactions;
		2. May be located with a sponsoring organization if it is clearly evident to the public that the CDC is a separate entity; and
		3. Must have a separately listed telephone number.
	3. Internal Control Policies - Each CDC’s Board of Directors must establish and fully implement an internal control policy which provides adequate direction to the institution for effective control over and accountability for operations, programs, and resources. The Board-established internal control policy must, at a minimum, comply with [13 CFR §120.826(b)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1826) and include Board oversight responsibilities under [13 CFR § 120.823(d)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823) such as oversight for CDC operations, financial oversight, annual reports and certifications.
		1. The internal control policy implemented must ensure satisfactory monitoring and management of the SBA Loan portfolio, including but not limited to, providing for a periodic loan review function to be performed at a minimum of every 2 years by a person who is not directly or indirectly responsible for loan making or by outside contractors. OCRM, in its discretion, may require an off-cycle Independent Loan Review. Guidance for Independent Loan Reviews is available on SBA’s website at [Independent Loan Review Guide](https://www.sba.gov/document/support--independent-loan-review-guide).
		2. It must include a list of monthly reports provided by the CDC’s management for Board review to support adequate Board oversight.
		3. It must provide for internal controls for loan making, closing, disbursing, servicing, and liquidation.
		4. It must provide for a risk rating system consistent with standardized classification systems used by Federal Financial Institution Regulators to risk classify SBA Loan assets. The risk rating system must:
			1. Require the risk rating of loans at origination and at least annually thereafter;
			2. Define the risk rating determination process;
			3. Include a risk rating model, which establishes risk classification categories of Acceptable, Special Mention, Substandard, Doubtful, and Loss;
			4. Consider financial and non-financial elements such as management assessment, repayment ability, industry comparisons, collateral, liquidity, leverage, credit quality, SBA defaults, insurance compliance, rejected Automated Clearing House (ACH) payments, tax payments, and covenant compliance;
			5. Define the process for managing exceptions, overrides, upgrades, and downgrades; and
			6. Include alternate methods for loan grading when updated financials are not received.
		5. Internal control policies and procedures must include provisions to ensure compliance with SBA’s Loan Program Requirements on eligibility.
		6. CDCs must provide documentation demonstrating that the internal control policies and procedures are fully implemented and followed.
	4. CDC Loan files:
		1. All loan case files and collateral documents must be either at the principal office of the CDC or maintained in a manner acceptable to SBA that permits their immediate access.
		2. A CDC must retain a copy of SBA’s character determination, if any, in the CDC loan file for the life of the loan.
		3. After closing, the CDC must forward all original loan documents to SBA as required by [SBA Form 2286](https://www.sba.gov/document/sba-form-2286-504-debenture-closing-checklist) and [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs). The Trustee retains the original Debenture.
		4. A CDC must provide, at its own expense, documents or copies when requested by SBA.
		5. Record Retention Guidelines: See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) Appendix 11.
	5. CDC financial and organizational records:
		1. The CDC must maintain its own financial records including books of account and signed minutes of all meetings of members, stockholders, directors, executive committees, and other officials. The CDC financial reports furnished to SBA must contain complete disclosure of matters relevant to the act and regulations. Records and documents which are the basis for or related to its financial statements or loans must be maintained in a manner that permits their immediate availability.
		2. [SBA Form 1081](https://www.sba.gov/document/information-notice-5000-20051-revised-sba-form-1081) and any supporting documents for Loan Committee Members; and
		3. All organizational files must be accessible to SBA.
	6. CDC fiscal year: CDCs choose their own fiscal year. The CDC must notify its Lead District Office of any change.
	7. CDC insurance

The CDC must obtain and maintain Directors’ and Officers’ Liability and Errors and Omissions insurance in form and substance satisfactory to SBA with:

* + 1. An endorsement covering CDC Board members, committees, staff, and contractors engaged in the 504 loan approval, closing, servicing, and liquidation process;
		2. Minimum amounts of Directors’ and Officers’ Liability and Errors and Omissions insurance coverage required by SBA based on the CDC’s annual revenues as reported in the CDC’s Annual Report for their most recent fiscal year, and in accordance with the sliding scale as follows:

Table: Minimum Directors’ and Officers’ Liability and Errors and Omissions Insurance Requirements - [13 CFR § 120.823(e)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823)

| Annual Revenues of CDC | Directors’ and Officers’ Liability Minimum per occurrence and in the aggregate | Errors and Omissions Minimum per occurrence and in the aggregate |
| --- | --- | --- |
| >$8.5 million | $ 5,000,000 | $ 5,000,000 |
| >$4.5M - $8.5 M | $ 3,000,000 | $ 3,000,000 |
| >$2 M - $4.5 M | $ 2,000,000 | $ 2,000,000 |
| $2 M or less | $ 1,000,000 | $ 1,000,000 |

* + 1. At SBA’s discretion, higher levels of Directors’ and Officers’ Liability and Errors and Omissions insurance, but in no event in excess of $5.5 million, or reduced deductible levels may be required if the D/OCRM identifies a CDC as having potentially inadequate coverage to protect the CDC or SBA from financial risk;
		2. A declaration that SBA will receive at least 20 days prior notice of any lapse of coverage, failure to renew, or cancellation; and
		3. The CDC must submit to SBA annually with the CDC’s Annual Report a certificate from its insurance carrier confirming this coverage.
		4. Each CDC must assess its risk factors and may determine that higher levels of insurance coverage and/or lower deductibles are prudent.
	1. Staffing Requirements
		1. CDC Staff ([13 CFR § 120.824](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1824)):
			1. A CDC must directly employ full-time professional management, including an Executive Director (or the equivalent) to manage daily operations. A CDC may request that SBA waive the requirement of the manager being employed directly only if:
				1. The requesting CDC will have full-time professional management that is employed by a non-profit entity (not another CDC) that has the economic development of the CDC’s Area of Operations as one of its principal activities. Such full-time management may also work on and operate the other entity’s economic development programs, but must be available to small businesses interested in the 504 Loan Program and to 504 loan Borrowers during regular business hours; or
				2. The requesting CDC is rural and has insufficient loan volume to justify having management employed directly by the CDC. The rural CDC must contract with another CDC located (i.e., incorporated) in the same general area. The “same general area” means the rural CDC’s SBA Region (Regions I-X) or a State contiguous to the rural CDC’s State. SBA will grant the rural CDC’s request in its sole discretion, considering factors including but not limited to the number of CDCs for which the other CDC is providing the assistance. The management contributed by the CDC may work on and operate both CDCs’ economic development programs but should be available during regular business hours to small businesses interested in the 504 Loan Program and to 504 Borrowers located in the rural CDC’s Area of Operations.
			2. The request for a waiver must be pre-approved by the D/FA (or designee) in consultation with the D/OCRM (or designee). If the request for a waiver is approved, the contract for management services must also be pre-approved by the D/FA (or designee) in consultation with the D/OCRM (or designee).
			3. A CDC must have qualified full-time professional staff to market, package, process, close and service loans and, if authorized by SBA, liquidate the loan portfolio, and sustain a sufficient level of service and activity in the CDC’s Area of Operations.
			4. When any of the functions referred to in this paragraph are not performed by an employee directly employed by the CDC, the CDC must use a written professional services contract.
		2. Professional Services Contracts: See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for more information on professional services contracts.
	2. Voluntary Withdrawal and Loan Portfolio Transfer

SBA regulations at [13 CFR § 120.857](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1857) discuss the circumstances under which a CDC can voluntarily surrender its certification and withdraw from the 504 Loan Program. Upon voluntary withdrawal, SBA will direct the transfer of the surrendering CDC’s loan portfolio at its discretion.

* + 1. CDC Initial Submission Requirements

The CDC must notify the Lead District Office, the Director, Office of Financial Assistance (D/FA), and the Director, Office of Credit Risk Management (D/OCRM) in writing of the intent to withdraw from the program. The letter must be signed by a responsible management official and accompanied by a Board of Directors resolution stating the intent to withdraw from the program. The notification and any required submissions outlined in the below process may be emailed to SBA at 504Requests@sba.gov.

* + 1. Lead District Office Submission Requirements

The Lead District Office may make a recommendation to transfer the files of the withdrawing CDC to one or more CDCs. Generally, the Lead District Office will consider each CDC that reports to its Office or is incorporated in the state of the withdrawing CDC and provide a detailed explanation as to the reasons why or why not, in its opinion, each CDC would/would not be recommended to receive the portfolio in part or in its entirety. A Multi-state CDC may be considered to receive a portfolio transfer outside of its primary Area of Operations if:

* There are no CDCs in the withdrawing CDC’s primary Area of Operations that have been determined to be capable or do not have the capacity to assume the additional servicing responsibilities; or
* There are no other CDCs authorized to operate in the withdrawing CDC’s primary Area of Operations.

The Lead District Office may prepare a recommendation memo on behalf of the recipient CDC(s) that should include, but is not limited to, an evaluation of the CDC’s:

* + - 1. Quality and completeness of loan packages, including commentary from the Sacramento Loan Processing Center;
			2. Credit analysis abilities as well as knowledge of SBA’s policies and procedures;
			3. Capability and performance related to loan closing, including commentary from the District Counsel; and
			4. Servicing capability and performance, including commentary from the appropriate loan servicing center(s).

This recommendation should be addressed to D/FA and submitted to the 504 Loan Program Division at 504Requests@sba.gov. The decision regarding the transfer of a withdrawing CDC’s portfolio will be made in SBA’s sole discretion.

* + 1. 504 Loan Program Division Review

The 504 Loan Program Division will review the CDC’s request and the Lead District Office’s recommendation and:

* + - 1. Obtain the withdrawing CDC’s current active portfolio data and float balance.
			2. Obtain comments from OCRM on the CDC(s) nominated to assume the servicing responsibility for the withdrawing CDC’s portfolio.
			3. Obtain comments from Sacramento Loan Processing Center and Fresno/Little Rock Commercial Loan Servicing Center on the capability of the CDC(s) identified to assume the servicing of the withdrawing CDC’s portfolio.
			4. Recommend which CDC(s) should assume the responsibility for servicing the withdrawing CDC’s portfolio.
			5. Obtain a Board of Directors’ Resolution from the CDC(s) nominated to assume the servicing of the withdrawing CDC’s portfolio.
			6. Submit draft Voluntary Withdrawal and Portfolio Transfer Agreements to the Office of General Counsel (OGC) for review.
		1. The Chief, 504 Loan Program Division will forward a recommendation to the D/FA for a final decision, with concurrence from the D/OCRM. For transfers in conjunction with increased supervision or enforcement activity, the D/OCRM will determine the transferee.
		2. A responsible management official and the CDC Board Chair must execute a Voluntary Withdrawal Agreement prepared by SBA. If the Board of Directors is no longer functioning, or if no responsible management official is employed by the CDC, then either the CDC Board Chair or a responsible management official alone may execute the Voluntary Withdrawal Agreement and return it with original signature to SBA. (The “original signature” may be a wet signature or electronic signature. See Appendix 10, Electronic Signatures, of [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) )
		3. SBA will execute the Voluntary Withdrawal Agreement and return a copy to the withdrawing CDC. The transferee CDC(s) will be provided a Portfolio Transfer Agreement prepared by SBA, which must be signed by the manager of the transferee CDC(s) and returned with an original signature to SBA.
		4. Upon submission of the executed Voluntary Withdrawal Agreement to SBA, the CDC must follow the requirements of the Voluntary Withdrawal Agreement, including preparing for review and transfer all active loan files and files subject to the record retention requirements in Appendix 11 in [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs).
		5. The Lead District Office will coordinate the transfer of the files. The withdrawing CDC, the transferee CDC(s), and a representative from the Lead District Office will execute the Physical Inventory Transfer receipt prepared by SBA. The transferee CDC is responsible for:
			1. Reviewing each loan file for completeness; and
			2. Recording any missing required documentation:
				1. On the Physical Inventory transfer receipt; and
				2. In each loan file.

The 504 Loan Program Division will provide copies of the fully executed agreements to the Central Servicing Agent and the Office of Performance and Systems Management (OPSM).

* 1. CDCs must maintain an active registration in SAM, which requires the CDC to review and update information in the SAM database on an annual basis, and ensure the data in SAM is current, accurate, and complete. See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for more information on SAM.

#### Reporting Requirements

CDCs must supply to SBA current and accurate information about all certification and operational requirements, maintain all records and submit all policies, procedures and reports required by SBA. ([13 CFR § 120.826](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1826) and [13 CFR § 120.830](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1830))

* 1. Operational changes the CDC must report to SBA:

The CDC must submit notice of all changes by email to 504Requests@sba.gov.

* + 1. Changes that require prior written approval by OFA:
			1. Changes in CDC legal structure - Any proposed change in the CDC legal structure (e.g., a CDC spins off its 504 operations into a separate non-profit entity) must have prior written approval and may require a new application for CDC certification.
			2. Changes in CDC Management or Staff - Any changes in the CDC manager, compensated officers, or CDC professional staff (including contracted staff and interns paid by the CDC) must have prior written approval. Additionally, new individuals in these positions must receive a character determination in accordance with paragraph B., [Form 1081 CDC Character Determinations](#_Character_Determinations_-) above.
			3. Changes to CDC Name - Requests for CDC name changes must be submitted to OFA for written approval by the D/FA prior to the CDC filing an amended Articles of Incorporation with the CDC’s state of incorporation. Note: the CDC must use its legal name, not a “doing business as” name on all correspondence.
				1. CDC legal name changes must be submitted to the D/FA for prior approval. CDC must submit a letter of request to the 504 Loan Program Division at 504Requests@sba.gov, outlining the reasons for the requested change, a Board Resolution authorizing the change, and a draft of the amended Articles of Incorporation.
				2. 504 Loan Program Division will review the request and, if acceptable to SBA, the CDC will be notified in writing by the D/FA that their request is contingently approved. After notification of contingent approval, the CDC must file the appropriate documents with their state to complete the legal name change and send evidence of the Amendment to the Articles of Incorporation approved by the State acknowledging the legal name change to OFA.
				3. Upon receipt of the state-approved documents, the D/FA will notify the CDC in writing of final approval and send written notification of the name change to the SLPC, appropriate SBA CLSC, and to the CDC’s Lead District Office.
				4. The 504 Loan Program Division at Headquarters will update all SBA systems and notify the Central Servicing Agent (CSA) of the change.
		2. Changes the CDC must report to SBA within 15 business days:
			1. Changes in CDC’s Uncompensated Officers or CDC’s Board of Directors, or Executive Committees – Any changes in a CDC’s uncompensated officers, or any director, board member, and/or executive committee member must be reported to the D/FA no later than 15 business days after the change takes place. Additionally, new individuals in these positions must receive a character determination in accordance with paragraph B., [Form 1081 CDC Character Determinations](#_Character_Determinations_-) above. For each new Board or Executive Committee member, the CDC must identify the area(s) of expertise that they represent on the Board or committee to satisfy the representational requirements of 13 CFR § 120.823(a), including a description of the member’s experience that demonstrates that the member is qualified to represent that area of expertise.
			2. Changes to Loan Committees – Any changes in a CDC’s Loan Committee must be reported to the D/FA no later than 15 business days after the change takes place. Additionally, new Loan Committee members must receive a character determination in accordance with paragraph B., [Form 1081 CDC Character Determinations](#_Character_Determinations_-) above. For each new member, the CDC must identify the area(s) of expertise that they represent on the committee to satisfy the representational requirements of 13 CFR § 120.823(a), including a description of the member’s experience that demonstrates that the member is qualified to represent that area of expertise.
			3. Changes in CDC Governing Documents or fiscal year – Any changes in a CDC’s bylaws, Articles of Incorporation or fiscal year must be reported to the D/OCRM no later than 15 business days after the change takes place. All documents are subject to SBA review and must comply with all Loan Program Requirements.
			4. Changes in CDC Contact Information – Any changes in CDC address, telephone number, or other contact information must be reported to D/FA no later than 15 business days after the change takes place.
		3. Litigation or other Legal Proceedings – Within 10 business days of the date a CDC becomes a party to litigation or other legal proceedings, it must submit a written report, by certified or overnight mail or courier, to its local SBA counsel, the D/FA, and the D/OCRM. The report must 1) include a copy of the complaint or other pleading filed in the matter, and 2) describe the proceedings and identify the parties involved and the CDC’s relationship(s) to the other parties. Once proceedings are terminated by settlement or final judgment, the CDC must promptly advise the same parties listed above of the terms.
	1. Basic Reporting
		1. Financial Statements - This includes timely submission of complete financial statements audited in accordance with Generally Accepted Accounting Principles (GAAP) by an independent CPA for CDCs with 504 loan portfolio balances of $30 million or more. CDCs with 504 loan portfolio balances of less than $30 million must provide, at a minimum, a review by an independent CPA or independent accountant in accordance with GAAP; however, the D/OCRM may require audited financial statements if it is determined that such audit is necessary or appropriate, such as when the CDC is in material non-compliance with Loan Program Requirements.

When the CDC is providing audited financial statements, the auditor’s opinion must state that the financial statements are in conformity with GAAP. See [13 CFR § 120.826(d)](https://www.ecfr.gov/cgi-bin/retrieveECFR?gp&amp;SID=44d6f1106cf4d9a6cb610cfb6ea53913&amp;r=PART&amp;n=13y1.0.1.1.16&amp;13%3A1.0.1.1.16.8.250.76#se13.1.120_1826) for further guidance on auditor qualifications.

The CDC must also submit a copy of the CDC’s Federal tax return in the Annual Report. ([13 CFR § 120.830(a)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1830))

* + 1. Annual Reports (See [SBA Form 1253](https://www.sba.gov/document/sba-form-1253-certified-development-company-cdc-annual-report-guide), “Certified Development Company (CDC) Annual Report Guide”)
			1. CDCs must prepare Annual Reports according to [13 CFR § 120.830](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1830) and SBA Form 1253. Annual Reports must be electronically submitted to the CDC’s Lead District Office and OCRM within 180 days of the CDC’s fiscal year-end. (If the electronic file is larger than 15MB, CDCs must submit the electronic file in more than one email.) CDCs also have the option of submitting their Annual Reports to their Lead District Office and OCRM through the Corporate Governance Repository located on the Capital Access Financial System ([CAFS](https://caweb.sba.gov/cls/dsp_login.cfm)) under the CDC Online function. Use of the Corporate Governance Repository will avoid email size limitations. A CDC that is certified by SBA within 6 months of its fiscal year-end will not have to submit financial statements or its Annual Report for that year.
			2. Annual Reports must also include board certifications, reports on compensation, and reports on investment in economic development, as outlined below and detailed in SBA Form 1253.
			3. If the Annual Report is incomplete, OCRM must notify the CDC in writing and within 30 days of receipt of SBA’s notice, the CDC must submit a complete Annual Report. Incomplete or unacceptable Annual Reports will not fulfill the submission requirement. If a CDC does not submit a complete, acceptable Annual Report in a timely manner, this non-compliance will be reported to OCRM for potential supervisory or enforcement actions and any request a CDC has submitted will not be processed by OFA or OCRM until such time as the complete, acceptable report is submitted.
			4. Within 60 days of receipt of the CDC Annual Report, the Lead District Office must review the Annual Report and complete a CDC Annual Report Operational Review Memo and forward it to OCRM at CDCAnnualReports@sba.gov.
			5. CDC sending a request for a renewal to the general mailbox should reference the Annual Report as part of the supporting documentation.
		2. Certification of members of the Board - The Annual Report must include a copy of the written annual certification by each Board member that they have read and understand the requirements set forth in [13 CFR § 120.823](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823).
		3. Report on compensation - The Annual Report must provide detailed information on all compensation (including salary, bonuses, and expenses) paid within the CDC’s most recent tax year for:
			1. Current and former officers, directors, and Key Employees (even in cases where compensation for the aforementioned individuals is less than $100,000); and
			2. Current and former employees and independent contractors with total compensation of more than $100,000 during that period.

This report must include details of deferred compensation packages where applicable.

* + 1. Report on investment in economic development - The Annual Report must include a written report on the CDC’s investment in economic development in each State in which the CDC has an outstanding 504 loan, including explanation of each investment by type and amount. See SBA Form 1253 for specific requirements.
		2. CDCs may include, along with the Annual Report, a request for renewal of their Accredited Lenders Program (ALP) status or Premier Certified Lender Program (PCLP) status. If the CDC chooses to do so, the CDC must clearly indicate in its Annual Report that a status renewal request is included. Any status renewal request submitted along with a CDC’s Annual Report must meet SBA’s Loan Program Requirements for the status request. CDCs using the Corporate Governance Repository to submit their Annual Reports will need to submit any ALP or PCLP renewal requests separately.
		3. List of Shareholders – A for-profit CDC must include in its Annual Report a list that identifies all of the shareholders of the CDC’s stock and the percentage of ownership that each shareholder owns. In calculating the percentage of ownership, the CDC’s corporate (or treasury) stock should not be included. No person or entity can own or control more than 25 percent of the voting stock. 13 CFR § [120.818(b)](https://www.ecfr.gov/cgi-bin/text-idx?SID=564c889d04ed1d07a3e0cb26cbd17118&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1818)
		4. List of Members – A non-profit CDC that has a membership that is responsible for electing or appointing voting directors to the CDC’s Board of Directors must include in its Annual Report a list that identifies all of the CDC’s members, the entity, if any, which the member represents on the membership, and the percentage of the CDC’s voting membership that each member controls. No person or entity can control more than 25 percent of the voting membership. 13 CFR § [120.816(d)](https://www.ecfr.gov/cgi-bin/text-idx?SID=564c889d04ed1d07a3e0cb26cbd17118&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1816)
		5. A PCLP CDC must submit the SBA Form 2233, “Quarterly Loan Loss Reserve Report,” to OCRM, either at PCLPQuarterlyReport@sba.gov or via the Corporate Governance Repository, and to the Lead District Office serving the territory where the 504 Borrowers are located no later than 45 days after the end of each quarter.
	1. Notifying SBA of Suspected Fraud or Illegal Activity:

SBA Lenders, Borrowers, and others must notify both D/OCRM and the SBA Office of Inspector General (OIG) of any information that indicates fraud or illegal activity may have occurred in connection with a 7(a) or 504 loan. Notify D/OCRM at OCRM@sba.gov. Notify the OIG either [online](https://sbax.sba.gov/oigcss/) or by mail (preferably by overnight courier) to the Assistant Inspector General for Investigations, Office of Inspector General, U.S. Small Business Administration, 409 3rd Street, SW, Washington, DC 20416. Any substantiating evidence should be included when contacting the Office of the Inspector General and D/OCRM. [13 CFR § 120.197](https://www.ecfr.gov/cgi-bin/text-idx?SID=564c889d04ed1d07a3e0cb26cbd17118&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1197)

#### Expanding Service Area

A CDC’s Area of Operations ([13 CFR § 120.821](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1821)) is the State of the CDC’s incorporation.

There are three ways a CDC may process 504 loans outside its approved area of operation. They are:

* Case-by-case requests based on particular circumstances
* Expanding based on a Local Economic Area (LEA)
* Becoming a Multi-State CDC

##### **Case-by-case**

[13 CFR § 120.839](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1839)

A CDC may apply to make a 504 loan for a Project outside its Area of Operations to the Sacramento Loan Processing Center (SLPC). The CDC must demonstrate that it can adequately fulfill its 504 Loan Program responsibilities for the 504 loan, including proper servicing. The SLPC may approve the application if the CDC has satisfactory SBA performance as determined by SBA in its discretion and any of these three conditions are met:

* + 1. The applicant CDC has previously assisted the business or its affiliates to obtain a 504 loan and provides the loan number of the closed loan; or
		2. The existing CDC or CDCs serving the area agree to permit the applicant CDC to make the 504 loan; or
		3. There is no CDC within the Area of Operations.

##### **Local Economic Area (LEA) Expansion**

[13 CFR § 120.835](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1835)

A Local Economic Area (LEA) ([13 CFR §120.802](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1802)) is an area, as determined by SBA, that:

* Is in a State other than the State in which an existing CDC (or any applicant applying to become a CDC) is incorporated; and
* Is part of a local trade area that is contiguous to the CDC’s State of incorporation.

Examples of a local trade area would include a city that is bisected by a State line or a Metropolitan Statistical Area (MSA), as defined by the Office of Management and Budget (OMB), which is bisected by a State line. If the requested county is not classified as a metropolitan statistical area, the CDC must provide a justification of how the county has shared commerce with the CDC’s state of incorporation in order for SBA to consider the county a local trade area.

* + 1. CDC Application

A CDC that meets all of the requirements to be an Accredited Lender Program (ALP) CDC may apply for an LEA expansion by electronically submitting a complete application package to the CDC’s Lead District Office and to the Office of Financial Assistance (OFA) at 504Requests@sba.gov. The CDC must be able to demonstrate that it can competently fulfill its 504 Loan Program responsibilities in the proposed area. A complete application consists of the following:

* + - 1. A list of the requested area(s) (e.g., a county, parish, incorporated city, or MSA) in the contiguous State and information supporting how those area(s) meet the definition of an LEA. NOTE:If the proposed expansion area has already been approved by the D/FA (for any other CDC) or is part of a Metropolitan Statistical Area, then no supporting information is required.
			2. A copy of the resolution of the Board of Directors approving the proposed expansion.
			3. A copy of any changes to the Articles of Incorporation that are required for the CDC to operate in the LEA (or a statement that no changes were necessary) NOTE: The Articles of Incorporation must specifically identify where the CDC has authority to operate. If the Articles of Incorporation have been amended to include the expansion area, the Board must pass a resolution to approve the amendment. The amendment must be approved by the jurisdiction governing the CDC’s operation, and the CDC must submit evidence of approval by the appropriate authority that governs the CDC’s State of incorporation.
			4. A complete copy of the current bylaws, inclusive of any changes that are required for the expansion. If no bylaws changes are required, include a statement that no changes are necessary.
			5. A listing of the CDC’s Board members that meets the requirements contained in 13 CFR § 120.823.
			6. Evidence that the CDC’s Director’ and Officers’ and Errors and Omission insurance is current, including a Certificate of Insurance reflecting the required minimum coverage of insurance. See paragraph D.17, [CDC Insurance](#CDC_Insurance) above.
			7. If the CDC has an Executive Committee, the CDC must submit a listing of the members of the committee that meets the requirements contained in 13 CFR § 120.823.
			8. If the CDC has established a Loan Committee in its State of incorporation, the CDC must submit a listing of the members of the committee that meets the requirements contained in 13 CFR § 120.823;
			9. A list of the CDC’s members, if applicable, and only if the Membership has any governance authority (i.e., electing Board Directors, approving amendments to the Articles of Incorporation, etc.).
			10. A list of all professional staff, with a summary of the qualifications and experience of those loan officers who will be responsible for marketing, packaging, processing, closing, servicing, and if applicable, liquidating the loans, in the LEA. All new staff must receive a character determination in accordance with paragraph B of this Chapter, [Form 1081 CDC Character Determinations](#_Character_Determinations_-).
			11. If new employees will be provided under contract to serve in the LEA, CDCs must submit a copy of the proposed contract for their services that meets the requirements governing professional service contracts. Professional services contracts must be pre-approved by SBA in accordance with [13 CFR § 120.824](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1824). See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for more information.
			12. A written statement from the CDC’s attorney certifying that the CDC is operating in compliance with its articles and bylaws and is in good standing with its State of incorporation. The CDC’s designated attorney must review the CDC’s corporate documents and minutes of board meetings before providing the certification.
			13. A Certificate of Good Standing (or equivalent) from its State of incorporation.
			14. Identification of the CDC’s Designated 504 Closing Attorney who is licensed to practice in that jurisdiction, including evidence of the attorney’s current professional liability insurance and 504 loan closing training.
		1. Submission Requirements

The Lead District Office will review the request and prepare a recommendation of the request which may include comments on:

* + - 1. Whether the Lead District Office agrees that the area into which the CDC is requesting to expand meets the definition of an LEA. In making its recommendation on the application, the Lead District Office may consider any information presented to it regarding the requesting CDC, the existing CDC, or CDCs that may be affected by the application, and the proposed area(s) of operation.
			2. The Lead District Office’s relationship, experience, and any other pertinent comments regarding the CDC’s application or operations. The Lead District Office will solicit the comments of any other SBA District Office in which the CDC operates or proposes to operate.
			3. From the District Counsel on the CDC’s Designated Attorney’s Loan Closings, if applicable.

The Lead District Office will submit the application, recommendation, and supporting materials within 60 days of receipt of the complete application to the D/FA at 504Requests@sba.gov.

* + 1. 504 Loan Program Division Review

The 504 Loan Program Division will review the CDC’s request and the Lead District Office’s recommendation, and:

* + - 1. Obtain comments from the Office of Credit Risk Management on:
				1. ALP qualifications; and
				2. Compliance with program reviews including [SMART](#SMART) Reviews and Annual Reports.
			2. Solicit the comments from Sacramento Loan Processing Center and the Fresno/Little Rock Commercial Loan Servicing Center.

The 504 Loan Program Division will forward its recommendation to the D/FA.

* + 1. D/FA Review

The D/FA may consider any information submitted or available related to the applicant and the application and will notify the CDC and the CDC’s Lead District Office, the SBA District Office into which the expansion is located, the Office of Credit Risk Management, the Sacramento Loan Processing Center, and the Fresno/Little Rock Commercial Loan Servicing Center of the final decision. If the application is denied, the notification will include the reason(s) for denial.

If the application for LEA expansion is approved, the 504 Loan Program Division will update SBA’s internal systems to reflect that the LEA is included in the CDC’s Area of Operations.

##### **Multi-State Expansion**

[13 CFR § 120.835](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1835)

A CDC can expand by applying to be a Multi-State CDC provided the State the CDC seeks to expand into is contiguous to the State of the CDC’s incorporation, and the CDC has a Loan Committee meeting the requirements of [13 CFR § 120.823](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823).

For states or territories not directly connected to the 48 contiguous states, the following are deemed to be contiguous:

* Alaska and Washington;
* Hawaii, Guam, American Samoa, and the Commonwealth of the Northern Marianas Islands, and California;
* Puerto Rico, the U.S. Virgin Islands, and Florida.

CDCs must be ALP qualified at the time of application. Multi-State CDCs must maintain a separate accounting for each State of all 504 fee income and expenses and provide, upon SBA’s request, evidence that the funds resulting from its Multi-State CDC operations are being invested in economic development activities in each State in which they operate, as required by13 CFR §[120.825](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1825).

* + 1. CDC Submission Requirements

A CDC may apply for a Multi-State expansion by submitting a complete application package to the SBA District Office in the State into which it wishes to expand and to the Office of Financial Assistance (OFA) at 504Requests@sba.gov.

The application should include the following documentation:

* + - 1. A brief description of the geographic location of the State that the CDC seeks to expand into to demonstrate that it is contiguous to the State of the CDC’s incorporation;
			2. A copy of the resolution of the Board of Directors approving the proposed expansion;
			3. A copy of any changes to the Articles of Incorporation that are required for the CDC to operate in the new State (or a statement that no changes were necessary) NOTE: The Articles of Incorporation must specifically identify where the CDC has authority to operate. If the Articles of Incorporation have been amended to include the expansion area, the Board must pass a resolution to approve the amendment. The amendment must be approved by the jurisdiction governing the CDC’s operation, and the CDC must submit evidence of approval by the appropriate authority that governs the CDC’s State of incorporation;
			4. A complete copy of the current bylaws, inclusive of any changes that are required for the expansion. If no bylaws changes are required, include a statement that no changes are necessary;
			5. A listing of the CDC’s Board members that meets the requirements contained in 13 CFR § 120.823;
			6. If the CDC has an Executive Committee, the CDC must submit a listing of the members of the committee that meets the requirements contained in 13 CFR § 120.823.
			7. A listing of the members of the Loan Committee in the CDC’s State of incorporation, if one has been established by the CDC, which must meet the requirements contained in [13 CFR § 120.823](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823);
			8. The CDC has the option of either:
				1. Establishing a Loan Committee in the State into which it is expanding that consists only of members who live or work in that State and who satisfy the other requirements in 13 CFR § 120.823(d)(4)(ii)(E), and submitting a listing of these members; or
				2. For any Project located in the State into which the CDC is expanding, the CDC may add at least two members who live or work in that State to the CDC’s Board or Loan Committee (if established in the CDC’s State of incorporation) when voting on that Project. The CDC must submit a listing of the members to be added to either the Board or the CDC’s Loan Committee, which must meet the requirements contained in [13 CFR § 120.823](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1823);
			9. Evidence of CDC’s Directors’ and Officers’ and Errors and Omission liability insurance to include a current Certificate of Insurance reflecting at least the required minimum coverage of $1,000,000 Liability coverage or the appropriate level of insurance coverage required by SBA. See paragraph D.17, [CDC Insurance](#CDC_Insurance) above.
			10. A list of the CDC’s members, if applicable, and only if the Membership has corporate powers (i.e., elects Board Members or votes on Amendments to Articles of Incorporation).
			11. A list of Professional Staff with a summary of the qualifications and experience of those loan officers who will be responsible for marketing, packaging, processing, closing, servicing, and if applicable, liquidating the loans in the expanded area. All new staff must receive a character determination in accordance with paragraph B., [Form 1081 CDC Character Determinations](#_Character_Determinations_-) above.
			12. If any of the professional staff is or will be obtained under contract from a third party, the CDC must certify that it has already provided a copy of the executed contract to SBA (with the date it was provided and the person to whom the copy was provided) or provide a copy of the executed contract. Professional services contracts must be pre-approved by SBA in accordance with [13 CFR § 120.824](https://www.ecfr.gov/cgi-bin/text-idx?SID=70c6e136e2322899613bcf5b62f5e998&mc=true&node=se13.1.120_1824&rgn=div8). See [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs) for more information;
			13. The address where the CDC’s principal office in the new State or Territory will be located, and a copy of the lease if the space is to be leased (13 CFR [§120.835(c)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_1835));
			14. A written statement by the CDC’s attorney certifying that the CDC is operating in compliance with its articles and bylaws and is in good standing with its State of incorporation. CDC’s designated attorney must review the CDC’s corporate documents and minutes of board meetings before providing the certification;
			15. A Certificate of Good Standing (or equivalent) from the CDC’s State of incorporation;
			16. A copy of its Foreign Corporation Registration (or equivalent) or a statement from the CDC’s attorney that foreign corporation registration is not required in the State into which the CDC seeks to expand;
			17. Identification of the CDC’s Designated 504 Closing Attorney who is licensed to practice in the new State, including evidence of the attorney’s current professional liability insurance and 504 loan closing training, or an application for Designated Attorney status that complies with the requirements in [SOP 50 10](https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs).
		1. SBA District Office Submission Requirements

The SBA District Office for the State or Territory into which the CDC seeks to expand will review the request and prepare an analysis that includes comments:

* + - 1. On any previous experience with the CDC, including information regarding CDCs that may be affected by the application in the proposed area(s) of operation;
			2. From the District Counsel on the CDC’s Designated Attorney’s Loan Closings, if applicable; and
			3. From the CDC’s Lead District Office in the State or Territory in which the CDC currently operates, which may include any information on its relationship and experience with the CDC and any other pertinent information.

If the SBA District Office for the State into which the CDC seeks to expand determines that the CDC is in compliance with SBA’s regulations and policies governing CDCs, the SBA District Office will submit the application, recommendation, and supporting materials within 60 days of receipt of the complete application to the Director, Office of Financial Assistance (D/FA) at 504Requests@sba.gov. If the SBA District Office determines that the CDC is not in compliance with SBA’s regulations and policies governing CDCs, it will return the application to the CDC identifying the outstanding issues to give the CDC an opportunity to come into compliance.

* + 1. 504 Loan Program Division Review

The 504 Loan Program Division will review the CDC’s request and the recommendation from the SBA District Office for the State or Territory into which the CDC seeks to expand, and will:

* + - 1. Obtain comments from the Office of Credit Risk Management (OCRM) on:
				1. ALP qualifications; and
				2. The CDC’s performance, including [SMART Review](#SMART) assessments and compliance with Annual Report requirements;
			2. Solicit comments from Sacramento Loan Processing Center and Fresno/Little Rock Commercial Loan Servicing Center; and
			3. Forward its recommendation to the D/FA.
		1. D/FA Review

The D/FA may consider any information submitted or available related to the applicant and the application and will make the final decision. The D/FA will notify the CDC of their decision as well as the SBA District Office located in the State or Territory into which the CDC requested to expand, the Lead District Office in the CDC’s State of incorporation, OCRM, Sacramento Loan Processing Center, and Fresno/Little Rock Commercial Loan Servicing Center. If the application is denied, the notification will include the reason(s) for denial.

If the application is approved, the 504 Loan Program Division will update SBA’s internal systems to reflect the CDC’s new Area of Operations.

#### Mergers

A CDC with permanent status may merge with another CDC with permanent status that has the same Area of Operations. CDCs may not merge across State lines unless the surviving entity CDC has Multi-State authority to operate in both States. A CDC with a Local Expansion Area (LEA) is not eligible for mergers across State lines. All mergers are subject to the process and requirements outlined below.

CDCs wishing to merge must notify the SBA in writing of their desire to merge prior to any official action or legal filings. A letter signed by a responsible management official accompanied by a Board of Directors’ resolution from each of the CDCs wishing to merge must be sent to the Office of Financial Assistance (OFA) at SBA’s headquarters by overnight mail or courier to 409 3rd Street SW, 8th floor, Washington, DC 20416, or by email to 504Requests@sba.gov.

* 1. CDC Submission Requirements

The following are required to be submitted with the request:

* + 1. The name of the proposed merged entity;
		2. A listing of the proposed Board of Directors of the merged entity, identifying which entity the Directors previously served;
		3. An organizational chart with a listing of proposed merged staff, identifying responsibilities of each staff member and which entity they previously served. SBA reserves the right to deny merger requests if proposed staff does not represent an adequate level of 504 Loan Program experience, as determined by SBA in its sole discretion;
		4. A resume for each of the proposed staff that includes a description of the staff’s 504 lending experience;
		5. Documentation that all staff have received a character determination by SBA in accordance with paragraph B of this Chapter, [Form 1081 CDC Character Determinations](#_Character_Determinations_-);
		6. An explanation of the purpose of the merger;
		7. A Plan of Operations which indicates how the merged entity will provide enhanced service in its Area of Operations;
		8. Copies of the proposed merger documents and any proposed amendments to the Articles of Incorporation and bylaws;
		9. A pro forma balance sheet and income statement for the merged entity;
		10. A letter from a responsible management official accompanied with Board Resolution authorizing the merger from each of the CDCs;
		11. Documentation of approved transfer/withdrawal of SBA and non-SBA programs;
		12. Explanation of the transfer of assets to and the assumption of liabilities by the surviving entity; and
		13. A Certificate of Good Standing or equivalent for the merged entity.
		14. Financial statements and detailed projections with assumptions demonstrating the CDC’s financial ability to operate, and how the CDC can operate in a positive net asset position by the end of its two-year probationary period.
		15. Information regarding any affiliates.
		16. A Board Resolution authorizing the merger from each of the CDCs.
	1. Lead District Office Submission Requirements

The Lead District Office will review the application and provide a recommendation that may include, but not be limited to:

* + 1. Description of the Lead District Office’s relationship with each CDC;
		2. Description of each CDC’s level of experience in the 504 loan program;
		3. Impact of the merger on other CDCs in the area;
		4. Any other pertinent comments regarding the CDC(s) application or operations; and
		5. District Counsel comments on the CDC(s) loan closings.
	1. 504 Loan Program Division review

The 504 Loan Program Division will:

* + 1. Review the CDC’s request and the Lead District Office’s recommendation;
		2. Obtain comments from the Office of Credit Risk Management (OCRM) on compliance with program reviews including SMART Reviews and Annual Reports.
		3. Solicit the comments from Sacramento Loan Processing Center and the Fresno/Little Rock Commercial Loan Servicing Center.
		4. The 504 Loan Program Division Chief will forward the request with a recommendation to the D/FA for a final decision. SBA will notify the CDC and Lead District Office(s) of the final decision.
		5. If SBA supports the merger, the CDCs will be notified of approval, contingent upon the CDCs taking any action required by their State(s) to complete the legal merger and providing SBA with:
			1. Copies of the merger documents filed with the State(s);
			2. Any executed or finalized amendments to the Articles of Incorporation and bylaws (if applicable); and
			3. Finalized list of the Members of the merged CDC (if applicable), staff, Board of Directors, and any committees (if established), along with the corresponding Minutes of the meeting(s) and Board Resolution(s) reflecting the approval of the changes.
	1. D/FA Review

The D/FA may consider any information submitted or available related to the applicant and the application and will notify the CDC and the CDC’s Lead District Office, the SBA District Office into which the expansion is located, OCRM, Sacramento Loan Processing Center, and Fresno/Little Rock Commercial Loan Servicing Center of the final decision. If the application is denied, the notification will include the reason(s) for denial.

* 1. Final Approval:

Upon receipt, review, and acceptance of the merger documents, SBA will notify the CDCs in writing of final approval (with a copy to the appropriate SBA District Office(s)), take the steps necessary to merge the portfolios, and notify the Central Servicing Agent.

If the merger is approved, the 504 Loan Program Division will update SBA’s internal systems to reflect the change.

### Chapter 2: SBA Oversight of CDCs

A CDC must have **satisfactory SBA performance** as determined by SBA in its discretion. Factors may include, but are not limited to review/examination assessments, [SMART](#SMART) metrics, historical performance measures (like default rate, purchase rate and loss rate), the CDC’s Risk Rating, loan volume to the extent that it impacts performance measures, and other performance related measurements and information (such as contribution toward SBA’s mission).

SBA oversees CDCs through:

#### Loan and Lender Monitoring System (L/LMS)

* 1. L/LMS is an internal SBA data system that includes use of historical data and predictive small business credit scoring. All SBA 504 loans with an outstanding balance are credit-scored quarterly. These data are aggregated, analyzed, and evaluated to assess the credit quality of each individual CDC’s portfolio of SBA Loans. SBA uses this information to monitor the performance of individual CDCs, CDC peer groups, and the overall 504 loan portfolio.
	2. Using SBA’s L/LMS system, SBA assigns all CDCs a composite rating. The composite rating reflects SBA’s assessment of the potential risk to the government of that CDC’s SBA portfolio. The specific performance factors which comprise the composite rating are published from time to time by SBA’s Office of Credit Risk Management (OCRM). In general, these factors reflect both historical CDC performance and projected future performance. SBA performs quarterly recalculations on the common factors for each CDC, so CDCs’ composite risk ratings are updated on a quarterly basis.
	3. SBA established peer groups to minimize the differences in loan performance relative to portfolios of different sizes. The peer groups are based upon gross outstanding SBA Loan dollars, and for CDCs they are:
		1. $350,000,000 or more
		2. $100,000,000 to $349,999,999
		3. $30,000,000 to $99,999,999
		4. $10,000,000 to $29,999,999
		5. $5,000,000 to $9,999,999
		6. $0 to $4,999,999
	4. SBA assigns a composite rating of “1” to “5” to each CDC generally based upon its portfolio performance, as reported in L/LMS. A rating of “1” indicates strong portfolio performance, the least risk, and requires the lowest degree of SBA management oversight (relative to other CDCs in its peer group). A “5” rating indicates weak portfolio performance, the highest risk, and requires the highest degree of SBA management oversight. See [13 CFR § 120.10](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_110) (definitions related to Risk Rating), [13 CFR § 120.1015](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11015) (Risk Rating System), and [75 FR 9257, March 1, 2010](https://www.federalregister.gov/documents/2010/03/01/2010-4266/sba-lender-risk-rating-system), [75 FR 13145, March 18, 2010](https://www.federalregister.gov/documents/2010/03/18/2010-5888/sba-lender-risk-rating-system), and [79 FR 24053, April 29, 2014](https://www.federalregister.gov/documents/2014/04/29/2014-09642/sba-lender-risk-rating-system), (Risk Rating Notices). As set forth in the Risk Rating Notices, SBA may take into account rapid growth that may skew metrics and other factors in considering a CDC’s risk.

#### Lender Portal

* 1. SBA communicates CDC performance to individual CDCs through the use of SBA’s Lender Portal (Portal). The Portal allows a CDC to view its own quarterly performance data, including, but not limited to, its current composite risk rating and peer and portfolio metric averages and its SMART score (as discussed below). Portal data includes both summary performance and credit quality data. Summary performance data is largely derived from data that is provided to SBA through the Central Servicing Agent. If a CDC reviews its performance components and finds a discrepancy with its records, the CDC should contact OCRM.
	2. CDCs with at least one outstanding SBA Loan may apply for access to the Portal. Currently SBA issues only one Portal user account per CDC. Submission of initial requests for a Portal user account must be submitted to SBA’s OCRM, and must include the following information:
		1. Request must be made by a senior officer of the CDC with proper authority (Senior Vice President or higher);
		2. Request must be sent via overnight mail or courier to OCRM at 409 Third Street SW, 8th Floor, Washington DC 20416, ATTN: Director, Office of Credit Risk Management;
		3. Request must be made using the CDC’s stationery;
		4. Request must include the user’s business card;
		5. The stationery and business card should include the CDC’s name and address;
		6. The request should include the following data:
			1. SBA FIRS ID Number(s);
			2. Account user’s name and title;
			3. Account user’s mailing address, telephone number and email address at the CDC;
			4. Requesting officer’s name and title; and
			5. Requesting officer’s mailing address, telephone number and email address at the CDC.
		7. Once SBA receives and approves the user’s request, SBA will forward the approval to SBA’s Portal contractor for issuance of a user account name and password. The Portal contractor will email the user their username and password within approximately 2 weeks of account approval. The user can then access its data by logging into the SBA Lender Portal web page. Before accessing the Portal, lenders must agree to the terms of a Confidentiality Agreement, which is found on the SBA Lender Portal web page.
		8. CDCs are responsible for complying with and maintaining the Portal user accounts and passwords as set forth in the Confidentiality Agreement on the Portal web page, and as published by SBA from time to time. CDCs are also responsible for submitting a timely request to SBA to terminate or transfer an account if the person to whom it was issued no longer holds that responsibility for the CDC. CDCs must take full responsibility for protecting the confidentiality of the user password and the CDC risk rating, SMART score, and confidential information and for ensuring the security of the data. See [13 CFR § 120.1060](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11060). Unless it first obtains express written permission from OCRM, a CDC is not permitted to share access to the SBA Lender Portal or its portal information with an individual or entity operating under a professional services contract entered into under 13 CFR § 120.824.

#### Monitoring and reviews

(13 CFR §§ [120.1025](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11025) and [120.1050-1060](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11050)):

L/LMS provides performance information that allows SBA to monitor and conduct reviews of all CDCs. L/LMS-related monitoring/reviews serves as the primary means of reviewing CDCs with less than $30 million in gross outstanding SBA Loan dollars; however, SBA may determine at its discretion to conduct other more in-depth reviews (e.g., Analytical, Targeted, Full, or Delegated Authority Renewal reviews) of these CDCs. SBA may also perform Desk Reviews, Loan-by-Loan Reviews, Other Reviews, and pilot test reviews. (“L/LMS-related” refers to the L/LMS reviews and the Lender Profile Assessment (LPA), including the SMART Score.) SBA will contact the CDC if the review detects performance issues or trends requiring further discussion.

* 1. For CDCs with $30 million or more in gross outstanding SBA Loan dollars L/LMS details historical and projected performance data:
		1. For use in planning and conducting more in-depth reviews;
		2. To assist in prioritizing in-depth reviews, and
		3. As a system to monitor CDCs between in-depth reviews.
	2. SBA’s 504 Loan Program risk-based reviews generally feature a composite risk measurement methodology and scoring guide, “SMART.” SMART is an acronym for the specific risk areas or components that SBA reviews: Solvency and Financial Condition; Management and Board Governance; Asset Quality and Servicing; Regulatory Compliance; and Technical Issues and Mission.
	3. Additionally, in accordance with [13 CFR §120.1010](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11010), a CDC must allow SBA’s authorized representatives access to its SBA files to review, inspect and/or copy all records and documents relating to SBA-guaranteed loans or as requested for SBA oversight. In keeping with the CDC’s responsibility to maintain complete loan files and allow SBA’s authorized representatives access to those files during normal business hours, SBA expects that all loan files and related records will be under the direct control of the CDC (not an Agent or professional services contractor).
	4. SBA may request reports on a case by case basis.
	5. Additional information regarding in-depth reviews can be found in [13 CFR §120.1050-1060](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11050), [SBA Policy Notice 5000-1348](https://www.sba.gov/document/policy-notice-5000-1348-revised-risk-based-review-protocol-certified-development-companies): Revised Risk-Based Review Protocol for Certified Development Companies (August 5, 2015), [SBA Information Notice 5000-1398](https://www.sba.gov/document/information-notice-5000-1398-updated-smart-methodology-oversight-cdcs): Updated SMART Methodology for Oversight of CDCs (November 9, 2016), and SBA’s [SOP 51 00](https://www.sba.gov/document/sop-51-00-site-lender-reviewsexaminations).

#### Supervision and Enforcement

An integral part of overseeing the CDC program is SBA’s authority to supervise and take enforcement actions as necessary. (For further guidance on Lender Supervision and Enforcement, see [SOP 50 53 (2)](https://www.sba.gov/document/sop-50-53-2-supervision-enforcement).)

#### Oversight and Enforcement Actions

([13 CFR §§ 120.1400-1600](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#sg13.1.120_11070.sg66))

* 1. SBA may take enforcement actions against a CDC if the CDC (for example):
		1. Fails to receive approval for at least four loans during last two consecutive fiscal years;
		2. Fails to comply materially with SBA Loan Program Requirements;
		3. Makes a material false statement or fails to disclose a material fact to SBA;
		4. Performs actions with respect to the 504 loans in a commercially imprudent or unreasonable manner;
		5. Fails to correct a deficiency after receiving notice of same from SBA; or
		6. Exercises poor behavior or takes actions undermining SBA’s management of the 504 Loan Program and fails to correct its actions after notice from SBA.
	2. SBA may take enforcement actions against an ALP or PCLP CDC if the CDC (for example):
		1. Does not continue to meet the requirements for eligibility;
		2. Fails to follow SBA Loan Program Requirements; or
		3. Fails to maintain a Loan Loss Reserve Fund (LLRF) as required (PCLP only).
	3. SBA identifies the types of enforcement actions in [13 CFR § 120.1500](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11500). SBA, in its discretion, may undertake (for example):
		1. Immediate suspension, upon written notice, when SBA determines that one or more grounds set forth in [13 CFR § 120.1400(c)(11)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11400) exist and such action is necessary to protect program integrity;
		2. Suspension or termination of the CDC’s authority to:
			1. Participate in the 504 Loan Program or any pilot or other program within the 504 Loan Program; or
			2. Perform any function under the program (processing, closing, servicing, liquidation, or litigation).
		3. Transfer of some or all of the CDC’s portfolio to another CDC or any other entity ([13 CFR § 120.1500(e)(1)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11500)), including all pending 504 loan applications and all rights associated with the foregoing, including any and all processing, closing, servicing and other fees associated with the portfolio due and payable to the CDC going forward;
		4. Instruct the Central Servicing Agent (CSA) to withhold payments to CDC; or
		5. For ALP or PCLP CDCs, suspend or terminate the CDCs authority to participate as an ALP or PCLP CDC.
		6. The term of any suspension will be determined by SBA in its discretion.
	4. Enforcement Procedures ([13 CFR § 120.1600](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11600)):
		1. SBA may suspend the authority of a CDC to conduct 504 program activities, in accordance with [13 CFR §§ 120.1400-1600](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#sg13.1.120_11070.sg66).
		2. Examples of circumstances that may result in suspension or revocation under the above cited regulation include but are not limited to:
			1. Failure to comply materially with any requirement imposed by Loan Program Requirements;
			2. Failure to underwrite SBA Loans in a commercially reasonable and prudent manner;
			3. Failure to maintain CDC eligibility requirements for SBA loan programs or delegated authority;
			4. Engaging in a pattern of uncooperative behavior (after notice);
			5. Any other reason that SBA determines may increase SBA’s financial risk, for example, a Less Than Acceptable examination/review assessment, indictment on felony or fraud charges of an officer, Key Employee or loan agent involved with SBA Loans for CDC, or repeated Less Than Acceptable Risk Rating, the latter generally in conjunction with other grounds.
		3. SBA will consider the severity and frequency of violations among other facts.
		4. SBA will notify the CDC of a proposed suspension or revocation in accordance with [13 CFR § 120.1600](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11600). The CDC will be provided an opportunity to respond prior to final action.
	5. Receiverships in Enforcement Actions Against CDCs.
		1. Upon SBA’s determination that grounds for an enforcement action against a CDC exist under [13 CFR § 120.1400](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11400), SBA may, pursuant to [13 CFR § 120.1500(e)(3)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11500), apply to a Federal court for the appointment of a receiver. Typically, SBA will use its receivership authority as a remedy of last resort. The appointment of a receiver is only one of several types of enforcement actions set forth in [13 CFR § 120.1500](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11500).
		2. SBA will limit the scope of the receivership to the CDC’s assets related to the SBA loan program(s) except where the CDC’s business is almost exclusively SBA-related. Further, SBA will only seek a receivership if either of the following circumstances are present:
			1. The existence of fraud or false statements, or
			2. The CDC has refused to cooperate with SBA enforcement action instructions or orders.
		3. Under [13 CFR § 120.1400(a)(1)](https://www.ecfr.gov/cgi-bin/text-idx?SID=40c56d244eaa72026eaf7b8c125bb7ec&mc=true&node=pt13.1.120&rgn=div5#se13.1.120_11400), a CDC that obtains approval for 504 loans after October 20, 2017, has consented to SBA’s right to seek a receivership in appropriate circumstances. Such consent will be deemed to apply only if the CDC makes 504 loans on or after January 1, 2018. The CDC’s consent does not in any way preclude the CDC from contesting whether or not SBA has established the grounds for seeking the remedy of a receivership. A CDC’s consent to receivership as a remedy does not require SBA to seek the appointment of a receiver in any particular SBA enforcement action.
1. Because Paycheck Protection Program (PPP) Loans are 7(a) loans, this SOP applies to the extent that it is not superseded by or in conflict with PPP-specific requirements. [↑](#footnote-ref-2)
2. In July 2019, SBA issued a revised SBA Form 750 that consolidated the separate agreement for short-term loans (SBA Form 750B) and the Supplemental Guaranty Agreement Export Working Capital Program (SBA Form 750EX) into one agreement that covers a Lender’s authority for processing all 7(a) loans except loans made under the Community Advantage Pilot Program. The SBA Form 750CA for Community Advantage Lenders remains as a separate agreement until September 30, 2023 at which time the pilot program sunsets. While the SBA Form 750B, the SBA Form 750EX, and the prior version of the SBA Form 750 will no longer be used, any such previously-executed agreements will remain in effect. [↑](#footnote-ref-3)
3. For PCLP debentures issued while a PCLP CDC elected to participate in the Alternative Loan Loss Reserve Pilot Program (ALLR) authorized under Section 508(c)(7) of the Small Business Investment Act of 1958, the PLCP CDC must reimburse SBA for 15 percent of any loss sustained by SBA as a result of a default in the payment of principal or interest on those PCLP debentures. The statutory authority for the ALLR lapsed on July 31, 2011. As a result of the statutory lapse, PCLP CDCs that had elected to participate in the ALLR are now required to maintain a Loan Loss Reserve Fund in an amount sufficient to meet the Standard Loan Loss Reserve Requirement set forth in 13 C.F.R. § 120.847(b), which is one percent of the original principal amount of the PCLP Debenture for the life of the loan. [↑](#footnote-ref-4)