

**Loan Guaranty
Processing Center
(LGPC)**

*32nd Annual Wisconsin
Lenders Conference*

Thursday, May 19, 2022

*7(a) Loan Origination,
Processing, and
Common Screen Outs*

Presenter – Bill Reed



WHO ARE WE?

... AND WHAT DO WE DO?

7(a) LOAN GUARANTY PROCESSING CENTER (LGPC)

LGPC MISSION STATEMENT

The mission of the Center is to efficiently process 7(a) loan guaranty applications and to provide assistance and oversight, as necessary, to lenders before and after submission.

Our primary responsibilities include:

Processing Non-Delegated Guaranty Requests

Processing Loan Modifications (Mods)

Providing Support Via 7aQuestions

7A LGPC LOCATIONS

**6501 Sylvan Road, Suite 122
Citrus Heights, CA 95610**

**48 S. KY Highway 15
Hazard, KY 41701**

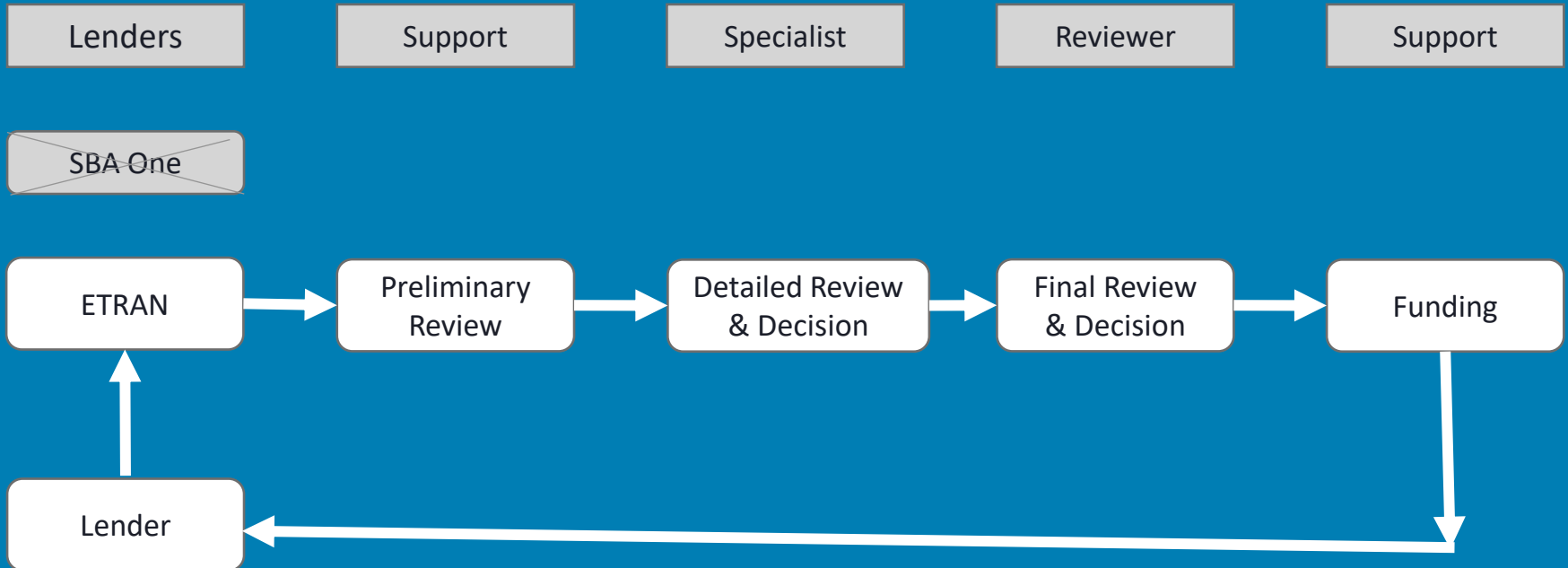
General Questions:

7aQuestions@sba.gov

**Loan Mods (prior to full
disbursement):**

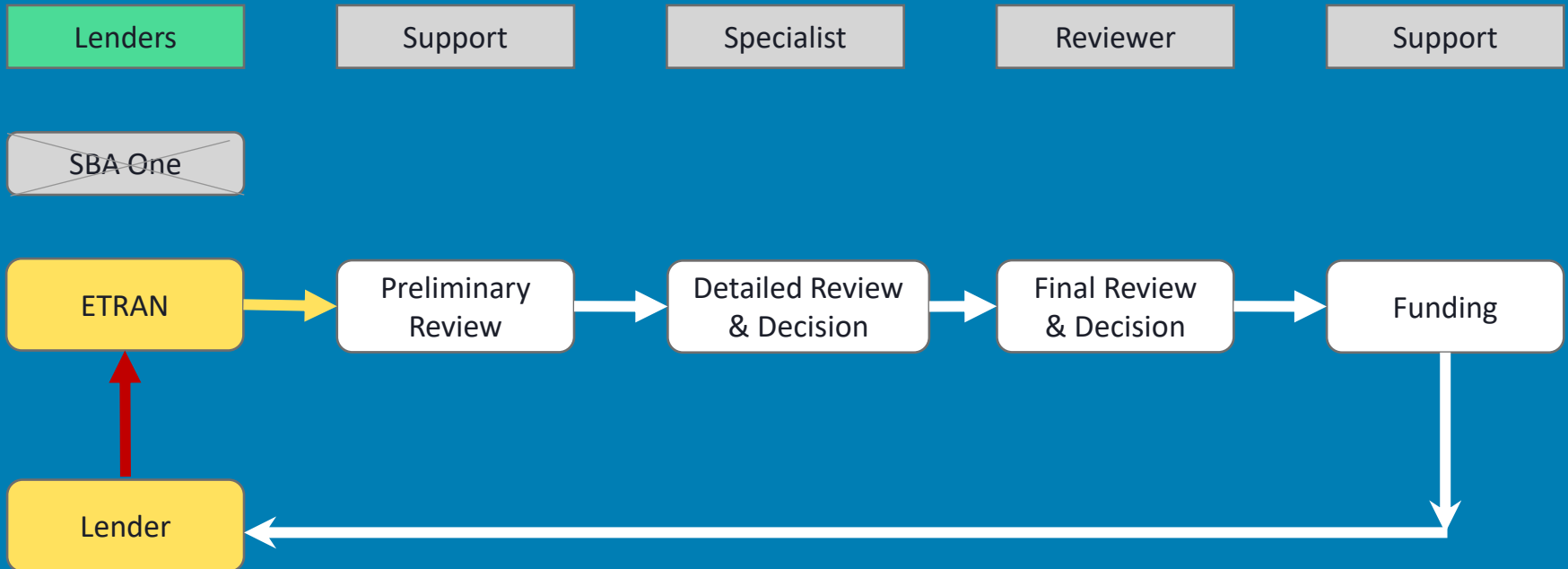
7aLoanMod@sba.gov

NON-DELEGATED PROCESSING



The “**completeness**” of the submission package will impact the efficiency of the processing timeline

NON-DELEGATED PROCESSING



Submission:

- All loan requests are currently submitted via ETRAN. (SBA One is currently not available for loan submission)
- Documents are submitted via ETRAN or SendThisFile
- **7aLoanProgram@sba.gov** is the email used for follow-up document submission, screen-out responses, & reconsideration requests

SUBMISSION METHODS

ETRAN Origination

Status will change from “Application in Process” to “Review Reviewer 1”

If the status is anything other than “Review Reviewer 1” the file will **not** transmit to the LGPC.

Be sure to resolve Validation Errors & Warnings.

Create an application

Answer required questions

Verify data – Validate Button

Attach documents

Submit

- For questions regarding E-TRAN, contact Ryan Gerald at ryan.gerald@sba.gov or Nathan Ginty at nathan.ginty@sba.gov
- For general submission questions contact 7aQuestions@sba.gov

SUBMISSION METHODS

When responding to LGPC questions, we encourage the follow-up document submission to be done in ETRAN.

Upload your documents to ETRAN Origination, just as you might have uploaded your original loan documents.

or

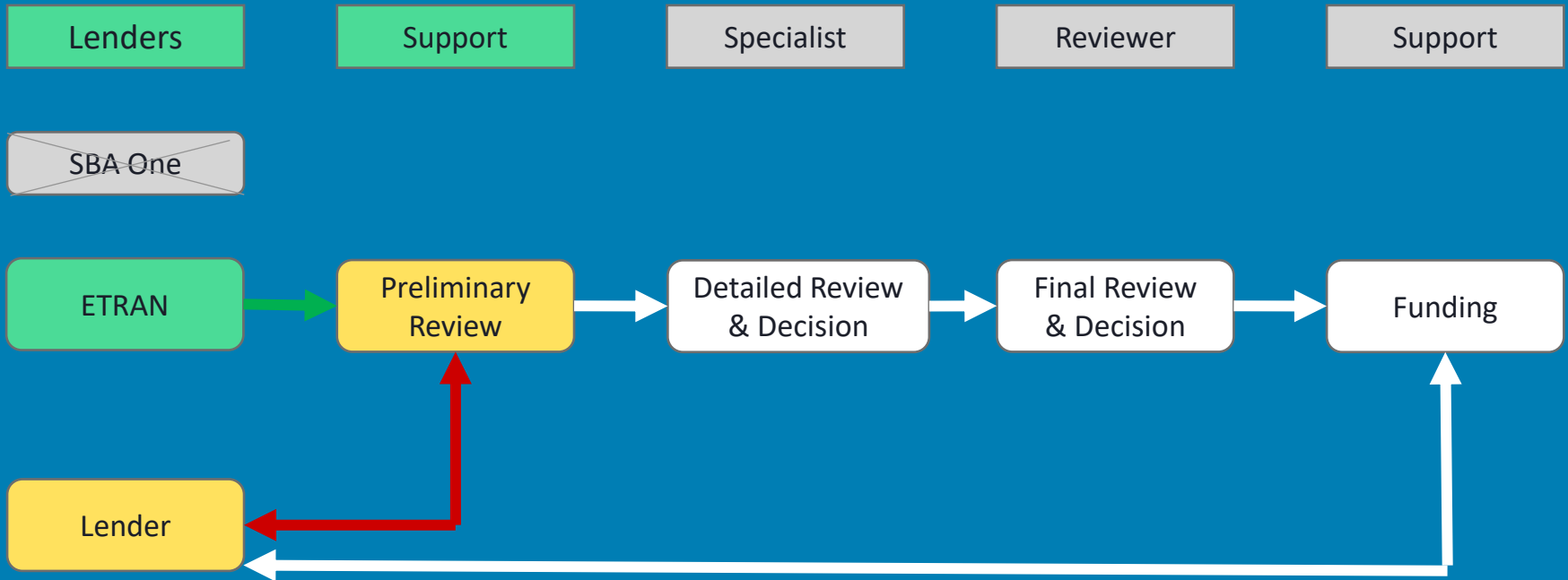
*E-mail: 7aLoanprogram@sba.gov
(limited to file sizes under 10 megabytes)*

or

FTP: For attachments greater than 10 megabytes, upload your documents by going to <https://www.sba.gov/CitrusHeightsLGPC> and clicking on the “Send This File” button in the bottom-right corner of the page.

Please do not resubmit any documentation you have already submitted.

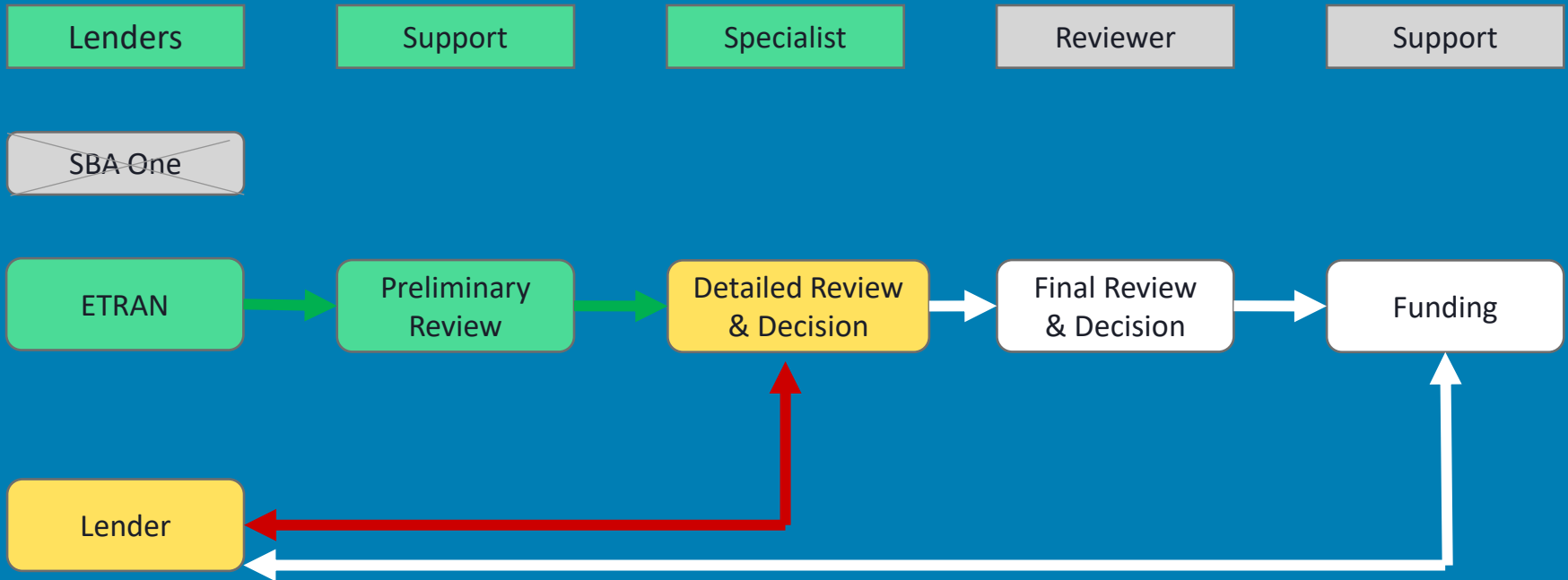
NON-DELEGATED PROCESSING



Preliminary Review:

- **Screening by a Loan Processing Assistance (LPA)** includes SBA Forms 1919, 1920, Lender Credit Memo, PFS (413), Draft Auth. (PLP), and Community Advantage Loans – form 2449, USCIS – Alien Verification

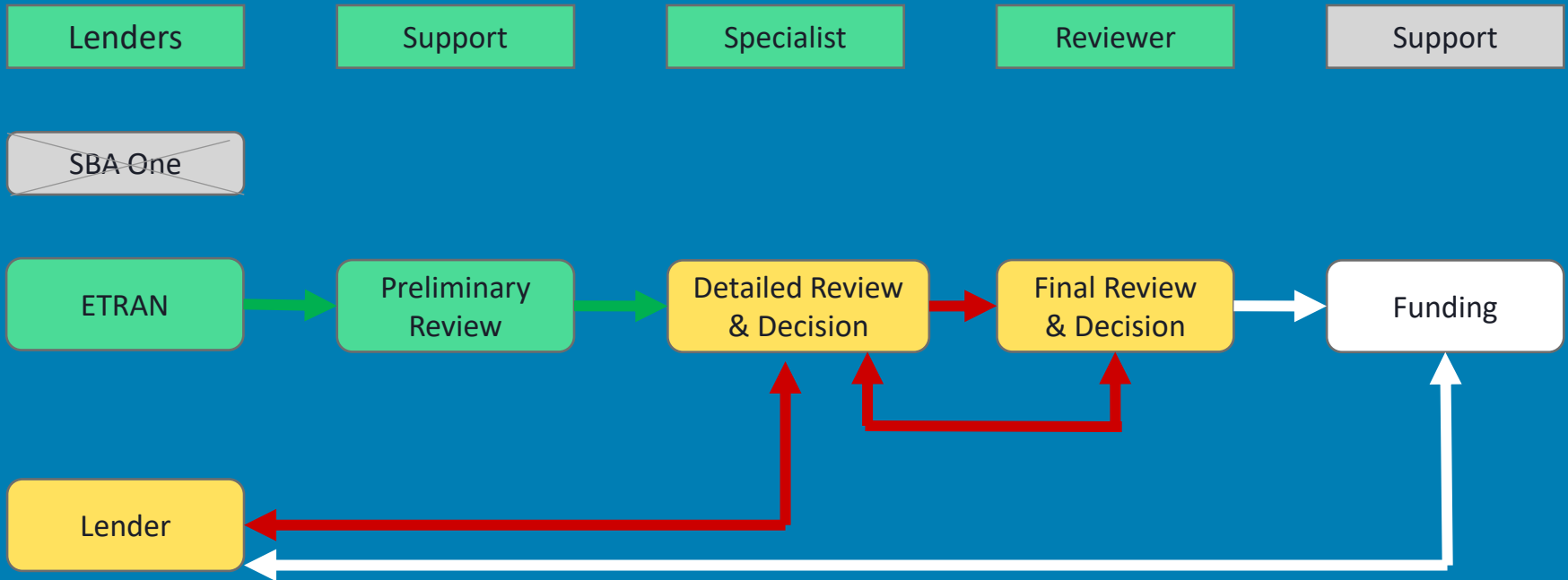
NON-DELEGATED PROCESSING



Detailed Review:

- **Detailed Review by a Loan Specialist** - completion of a loan officer's report including credit memo review, eligibility determination, credit & other government financing, credit elsewhere, source & uses, collateral, repayment analysis, draft loan authorization and decision recommendation.

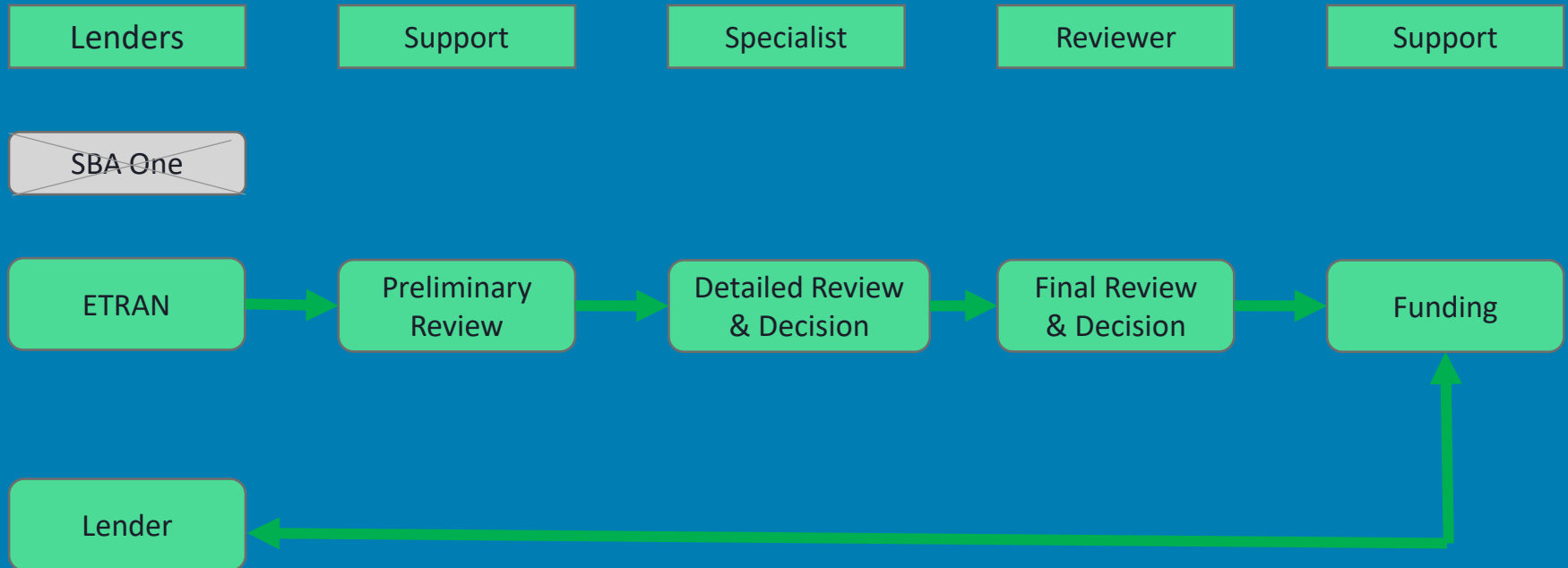
NON-DELEGATED PROCESSING



Final Review:

- Detailed Review by a Loan Reviewer – rule of 2
- May include additional Lender response

NON-DELEGATED PROCESSING



Funding:

- Loan Processing Assistance (LPA) reviews loan authorization, 7a system, LOR & ETRAN prior to funding loan in ETRAN.
- Loan is Funded with Authorization emailed to lender

NON-DELEGATED PROCESSING

➤ Turn Times (Standard & Small/CA)

Turn Times	Small/CA	Std. 7(a)
Workdays to Assignment	1	1
Workdays for LGPC to Process	3	7
Days waiting on Lender Response	2	7
Total Calendar Days	6	15



Loan approval rate is 89% since the beginning of the year

Most Common reasons for decline

Refi of debt (on reasonable terms, original purpose ineligible)

Lack of repayment ability

Ineligible loan structure/business purchase

Credit reasons other than lack of repayment

WHO MUST USE THE LGPC

Non-Delegated Lenders

- *All 7(a) Loans (except SBA Express and Export Express)*

Delegated Lenders (In the following scenarios)

- *Refinance of Same Institution Debt (SID), refinancing a 504 Loan, when using “no longer meets the needs of the business” for refinance, and change in ownership debt refinance within 12 months*
- *Financing of an OREO property*
- *A Delegated Lender that is making a personal loan to the borrower for the required equity injection*
- *Where there is a potential conflict of interest with the lender*
- *Loans to an ESOP or to an eligible small business owned or controlled by an ESOP*

WHO MUST USE THE LGPC

Delegated Lenders (In the following scenarios - continued)

- *Loans to a cooperative or to an eligible small business owned or controlled by a cooperative*
- *Multiple-Employer 401(k) Plan, (i.e., plans that hold in trust the assets of other businesses), including ROBS plans*
- *Single Employer 401(k) Plan, including ROBS plans, **if** the Applicant business is **not** the only investment held by the 401(k)*
- *When there is known environmental contamination or on-going remediation at the property*
- *An owner of 10%, or more, is an SBA employee, former SBA employee, or Member of State or Congress*

WHO MUST USE THE LGPC

Important Note ...

Applications Previously Submitted to LGPC for Processing →

- *Once submitted to LGPC, an application withdrawn by the Lender, screened-out, or declined by LGPC may **not** be approved by any Lender under its Delegated Authority (includes PLP & Express).*

ETRAN will not permit the submission of such an application under any Lender's SBA Delegated authority for a period of **12 months from the date of withdrawal, screen-out, or decline of the application.**



U.S. Small Business
Administration

WHAT SHOULD YOU SUBMIT TO THE LGPC?

... AND HOW DO YOU DO IT?

The “completeness” of the submission package will impact the efficiency of the processing timeline

WHAT NEEDS TO BE INCLUDED?

For submissions to the Center	Small & CA Loans	Regular 7(a)
• <i>Form 1920 (complete Lender Application)</i>	X	X
• <i>Lender Credit Memorandum (see detail page)</i>	X	X
❖ <i>Personal Financial Statements for all principals owning 20% or greater and proposed guarantors</i>		X
• <i>Character Determination (where required) *</i>	X	X
• <i>USCIS Verification (where required) *</i>	X	X
❖ <i>Business Financials (Interim + 3 prior yrs.) including debt schedule</i>		X
❖ <i>2 years Projections with reasonable assumptions for start-ups and change of ownership</i>		X
❖ <i>Affiliate Financials (Interim + 3 prior yrs.)</i>		X

* We suggest submitting the following forms to the appropriate Agencies as early in the application process as possible to avoid any unnecessary delays: Character Determination to OCACD@sba.gov and Form G-845 to Sacramento504Register@sba.gov.

WHAT ELSE SHOULD BE INCLUDED?

For submissions to the Center	Small Loan & CA Loans	Regular 7a
• <i>Copies of notes, security agreements, leases, or other documentation for debt to be refinanced</i>	X	X
• <i>Transcripts for Same Institution Debt (SID)</i>	X	X
• <i>Copy of Business Purchase Agreement</i>	X	X
❖ <i>Seller Financials signed by Seller (Interim + 3 prior yrs.)</i>		X
• <i>Internal or External Business Valuation per SOP</i>	X	X
• <i>Real Estate Purchase Agreement</i>	X	X
• <i>Real Estate Appraisal (OREO properties only)</i>	X	X
• <i>Franchise listed on the SBA Franchise Directory (if applicable)</i>	X	X
• <i>Management Agreements</i>	X	X
• <i>Detailed Listing of Collateral</i>	X	X
❖ <i>Lender's Environmental Questionnaire</i>		X
❖ <i>Draft Loan Authorization (delegated Lenders only)</i>		X

WHO NEEDS TO COMPLETE THE FORM 1919?

For ALL Regular 7(a) Processing including Small & CA Loans

- *Sole proprietorship → Sole proprietor*
- *Partnership → All general partners, all limited partners owning 20% or more of the equity of the firm, or any partner that is involved in management of the applicant business*
- *Applicant is owned by a Trust → Trustor*
- *Corporation → All owners of 20% or more of the corporation and each officer and director*
- *Limited Liability Companies (LLCs) → All members owning 20% or more of the company and each officer, director, and managing member*
- *Each entity owning an equity interest in the Applicant*
- *Any person hired by the business to manage day-to-day operations*

What should be covered in your Credit Memo?

WHAT SHOULD BE COVERED IN YOUR CREDIT MEMO?

Credit Memorandum Musts ...

- *Do the loan terms match the 1920 and your Draft Authorization?*
- *Addressed financial analysis including repayment ability from operations?*
- *Is the request for SBA funds clearly articulated?*
- *Have you addressed Credit Elsewhere?*
- *Have you clearly addressed the eligibility of each Note to be refinanced? (e.g., unreasonable terms, min. 10% cash flow improvement/savings)*
- *Have you addressed the specific collateral that will secure the proposed loan? If so, have you done a liquidation value evaluation to determine whether the loan is fully secured?*
- *Discussed business and management history?*

What should be covered in your Credit Memo?

WHAT SHOULD BE COVERED IN YOUR CREDIT MEMO?

Credit Memorandum Musts ...

- *Discuss the personal history, experience and credit history of the principals?*
- *If repayment is based upon projections, have you addressed why they are reasonable?*
- *Changes of Ownership – Why is it good for the business? Discussed experience of new owner, recent business trends, seller financing standby terms?*
- *Discussed all project costs including sources of funds? If other financing is involved, has it been addressed?*
- *Discussed source and adequacy of equity injection?*
- *Discussed analysis of working capital adequacy for a minimum of 12 months?*

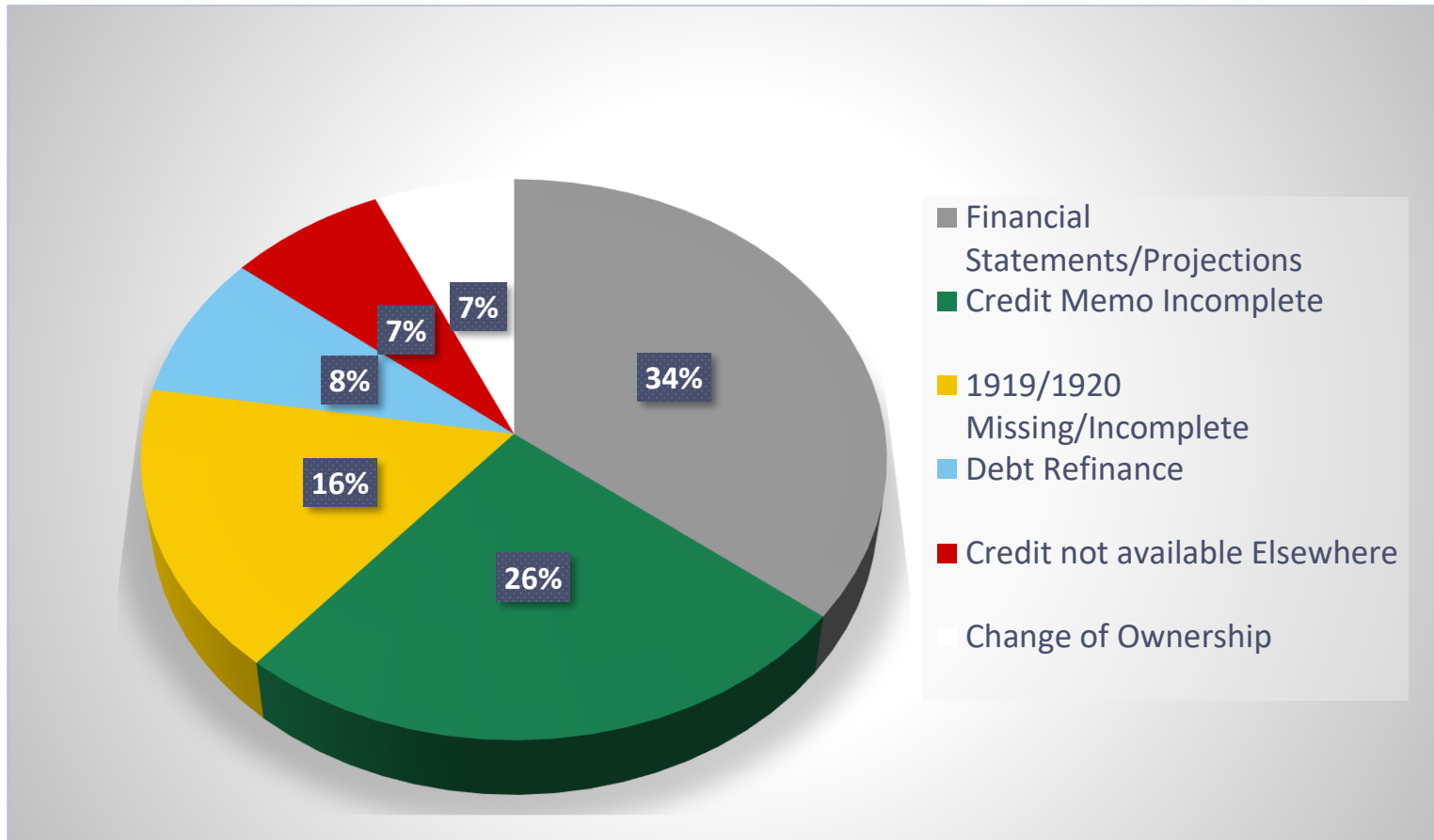


Primary Screen-Out Reasons

... AND HOW TO AVOID THEM

The “completeness” of the submission package will impact the efficiency of the processing timeline

THE TOP SIX CATEGORIES



The Top 6 categories account for over 80% of the Total Screen Outs in last 12 months

NUMBER ONE...

Financial Statements / Projections

- ❑ Affiliate financial statements missing or incomplete
- ❑ Personal Financial Statement incomplete
- ❑ Projections missing or assumptions not included
- ❑ Seller financial statements missing or incomplete
- ❑ Historical financial statements missing or incomplete
- ❑ Pro-forma Balance Sheet missing or incomplete
- ❑ Month-to-Month Projections needed
- ❑ Interim Income Statement and/or Balance Sheet missing
- ❑ Debt schedule missing or incomplete or doesn't match balance sheet debt

Make sure that current YTD Business Financials are no older than 120 days from submission to SBA
Make sure the Personal Financial Statement is no older than 90 days from submission to SBA

2ND ON THE LIST...

Credit Memo Incomplete

- ❑ Collateral Shortfall – Real Estate available
- ❑ Working Capital justification needed
- ❑ Possible Affiliates - Clarification Required
- ❑ Justification for Projections not addressed
- ❑ Derogatory credit not addressed
- ❑ Unclear Use of Proceeds
- ❑ Vehicle Info Needed for Collateral
- ❑ Schedule of collateral incomplete
- ❑ Ineligible Use of Proceeds
- ❑ Shareholder Debts to be Placed on Standby
- ❑ Outside Income Verification Needed
- ❑ EPC/OC Structure Unclear
- ❑ Cash Flow Shortfall - Potential Add Backs not addressed
- ❑ SBA Loan Delinquent/In Default
- ❑ Delinquent Federal Debt - Documentation Needed

3RD ON THE LIST...

Forms 1919 and 1920

- ❑ Forms are missing, incomplete or unsigned
- ❑ Ownership identified does not total 100%
- ❑ Other SBA/Government loans are not disclosed in 1919
- ❑ Use of Proceeds in 1920 is incomplete or doesn't match credit memo
- ❑ Trade Name (dba) left blank when applicable in 1920
- ❑ Payment Amount and Rate Adjustment Frequency missed on 1920

4TH ON THE LIST...

Debt Refinance

- ❑ Benefit to Business Not Stated
- ❑ Copy of Notes to be Refinanced Missing
- ❑ Transcripts for Same Institution Debt Refinance Missing
- ❑ Loan to be Refinanced Not on Reasonable Terms Not Met
- ❑ 10% Improvement to Cash Flow Not Met
- ❑ Same Collateral Position Required When Refinancing
- ❑ Certification that Credit Card was Used for Business Purposes Missing and provide copy of most recent Credit Card statement
- ❑ **The Latest - See SBA Policy Notice [5000-814473](#)**

The Lender must not refinance a short-term obligation that was created with the intent of refinancing it with a 7(a) loan, *unless it meets the requirements to refinance an “interim loan” as detailed in this notice*

SBA POLICY NOTICE 5000-814473

(ELIGIBLE INTERIM LOANS)

- Must demonstrate the necessity for the interim loan;
- Interest rate must not exceed the SBA's max. allowable interest rate;
- Term may include a short-term maturity (12 mos. or less);
- The Lender may only charge the borrower fees and be reimbursed for allowable expenses on the interim loan that comply with the SBA requirements for fees and expenses. The combined total of all fees charged to the Borrower for the interim loan and the SBA-guaranteed loan may not exceed the SBA's max. allowable fees;

SBA POLICY NOTICE 5000-814473

(ELIGIBLE INTERIM LOANS)

- The Lender may NOT charge the borrower any fees in connection with the interim loan that are considered by SBA to be a prohibited fee (e.g., commitment fees, loan origination fees, application fees, and points);
- Any impermissible or excessive fees or expenses charged to Borrower in connection with the interim loan must be rebated back to the Borrower;
- The Lender must document and retain in the borrower's file, subject to SBA review;

SBA POLICY NOTICE 5000-814473

(ELIGIBLE INTERIM LOANS)

- Interim loan must be current → No more than **29 days** late on any required interim loan payments and paying as agreed;
- All collateral and guaranties securing the interim loan must be provided as security for the SBA-guaranteed loan in the same lien position unless the loan is fully secured;
- EWCP refinancing → Refer to SOP 50 10 6, Section B, Chapter 4, Para. B.2.b.

5TH ON THE LIST...

Credit not available Elsewhere

- ❑ The Lender did not certify that the Applicant does not have the ability to obtain requested loan funds elsewhere.
- ❑ Lender did not make the determination regarding personal liquidity of owners of 20% or more, their spouses and minor children, and the Applicant itself; or Conventional lenders or other non-Federal, non-State, or non-local government sources of credit.
- ❑ Lender did not discuss acceptable factors that demonstrate an identifiable weakness in the credit and include the specific reasons why the Applicant does not meet the Lender's conventional loan policy requirements.

6TH ON THE LIST...

Change of Ownership

- ❑ Asset Purchase/Stock Purchase Agreement Missing
- ❑ Equity injection not addressed or adequate – source unclear or unacceptable
- ❑ Third party Independent Business Valuation Missing/Unacceptable
 - ✓ “conclusion of value” is acceptable whereas “calculation of value” is not.
- ❑ Lender’s Internal Business Valuation Missing/Unacceptable
- ❑ Change of Ownership Appears Ineligible
 - Finance amount not supported by business valuation
 - Payment to Associate



7(A) Loan Modification

LOAN MODIFICATIONS

The lender may request modifications to the terms and conditions of the Authorization at any time after approval.

- **Prior to final disbursement, modifications should be submitted to the LGPC via e-mail to 7aloanmod@sba.gov**
 - ✓ See SOP 50 10 6 page 440 for instructions on submitting a modification request
 - ✓ The LGPC processes modifications on a first in first out basis. If a closing date is approaching and the borrower is at risk of a negative financial impact. The lender may request an expedite.

- **After final disbursement, servicing requests must be submitted to the appropriate Commercial Loan Service Center via email to:**
 - ✓ Fresno: fsc.servicing@sba.gov (for larger submissions use Send This File)
 - ✓ Little Rock: lpsc.servicing@sba.gov (for larger submissions use Send This File)

- **For EWCP loans**, submit the request to the appropriate **USEAC**.

LOAN MODIFICATION FORMAT

Submit a written request to the LGPC (via e-mail) that includes the name of the lender, name of the lending officer, phone number, fax number, name of the borrower, SBA Loan Number and the following information:

- **How it is now;**
- **How it needs to be; and**
- **Why (justification for the change and any supporting documentation must be included to process the request).**

See the Servicing and Liquidation Actions 7 (a) Lender Matrix” tool, which can be viewed at www.sba.gov/document/support-object-object-servicing-liquidation-actions-7a-lender-matrix.

Visit us at:

www.sba.gov/CitrusHeightsLGPC

PLP LOAN MODIFICATION PROCESS

For PLP processing, the lender may modify the authorization under its delegated authority. The file must be documented with a written explanation that includes justification for the change and any supporting documentation.

Exceptions: **The following actions require SBA approval:**

- **Change in the guaranty %**
- **Reinstatement of the Cancelled Guaranty**
- **Transfer of participation – the form MUST be signed by both Lenders**
- **Any change in the ownership of the business up to 12 months after final disbursement must be sent to the LGPC for review and processing**
- **Preference issues**

Visit us at:

www.sba.gov/CitrusHeightsLGPC

LGPC UNILATERAL ACTIONS...

No SBA Approval is Required – Changes are made in ETRAN by the Lender

1. Lender can **cancel the SBA Guaranty** in ETRAN.
2. Lender can **extend the Maturity Date** (prior to the stated maturity expiring).
3. Lender can **change the loan from a revolving to a non-revolving in** ETRAN.
4. Lender can change the **Borrower's Name or Address** in ETRAN.
5. Lender can process the Assumption of the loan without releasing an Obligor (**Adding a Borrower**).
6. Lender can **ADD a Guarantor** (All SOP Requirements apply as in original processing).
7. Lender will **Classify the loan in "liquidation"** status.
8. Lender can change the **interest rate prior to the first** disbursement.
9. Lender can **extend the final disbursement date** (48 months is already stated in the Loan Authorization which is the maximum number of months allowed).
10. Lender can **change the name and the title** of the individual signing the Loan Authorization on behalf of the Lender.

LGPC UNILATERAL ACTIONS (CONT.)...

No SBA Approval is Required – Changes are made in ETRAN by the Lender

11. Change “**year end statement to Lender** within _____ days of fiscal year end”
(Not to exceed 120 days of the fiscal year end.)
12. **Performance Bond Waiver** (No modification required.)
SBA has granted a blanket waiver on the requirement of a performance bond when a 3rd party in the business of construction management services controls the disbursement of the loan proceeds.
13. Change the **monthly payment amount** (Loan Authorization states the Lender should amortize at least annually.)
14. Change the **adjustment period**
15. Change from the **Date of the Note to the Date of Initial Disbursement**
16. May **establish the payment due date**

7A QUESTIONS ...

Purpose of 7aQuestions@sba.gov is to assist Lenders and District Offices with their 7(a) loan program questions.

- **7aQuestions cannot provide an eligibility determination** without completing a full file review, which requires you to send your application to the LGPC for approval.

- **7aQuestions does not provide support for the following:**
 - EIDL/PPP loans
 - Fully disbursed loans – these are supported by SBA Servicing Centers
 - Loans currently assigned to a Loan Specialist

- **Volume: 2,300 per month**

- **Turn Time: 90% within 24 hours**

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*32nd Annual Wisconsin
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Thank you!

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Presenter – Bill Reed
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