



Got Your Authorization, Now What?

**Wisconsin Lenders Conference
May 19, 2022**

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Instructor

**Lisa Preston
President**



Curriculum

❖ Got Your Authorization, Now What?

- ✓ Engineer Your Process
- ✓ Use of Proceeds
- ✓ Collateral
 - Appraisals
 - Environmental Assessments
 - Collateral Valuation



Curriculum

- ✓ **Other Items**
 - **Flood Determination**
 - **SBA Form 159**
 - **Borrower Injection / Contribution**
 - **Guaranty Fee**
 - **Ownership Changes**
- ✓ **Insurances**
 - **Hazard / Flood**
 - **All Other**
 - **Life**

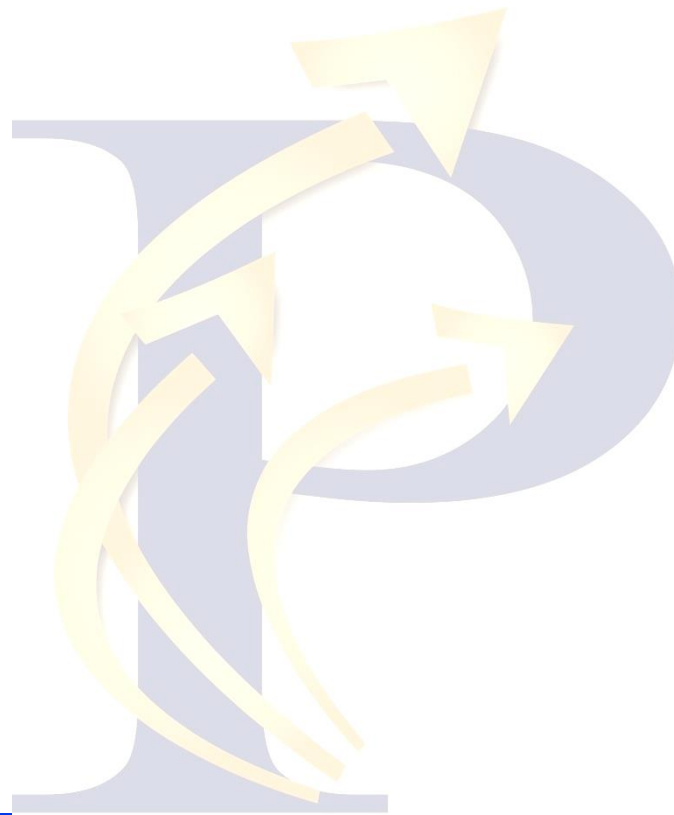


Curriculum

- ✓ **Loan Documentation**
- ✓ **Lien Perfection / Document Storage**
- ✓ **Final Thoughts**



Engineer Your Process



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Communication

- **Transition from underwriting to closing**
- **Determine which method you / customer prefers for introduction:**
 - **Conference call**
 - **Introduction letter / Email**
 - **Text ??? Yes or No???**



Know Your Borrower

- Attend Pipeline meetings and listen
- Thoroughly read Credit Memorandum
- Ask questions
- Communicate with borrower
- Provide good customer service

Preparation is first step to Success!



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Document Collection

- **Needs List (*External*)**
 - **Specific to items needed from borrower**
- **Checklist(s) (*Internal*)**
 - **Comprehensive to loan being originated**



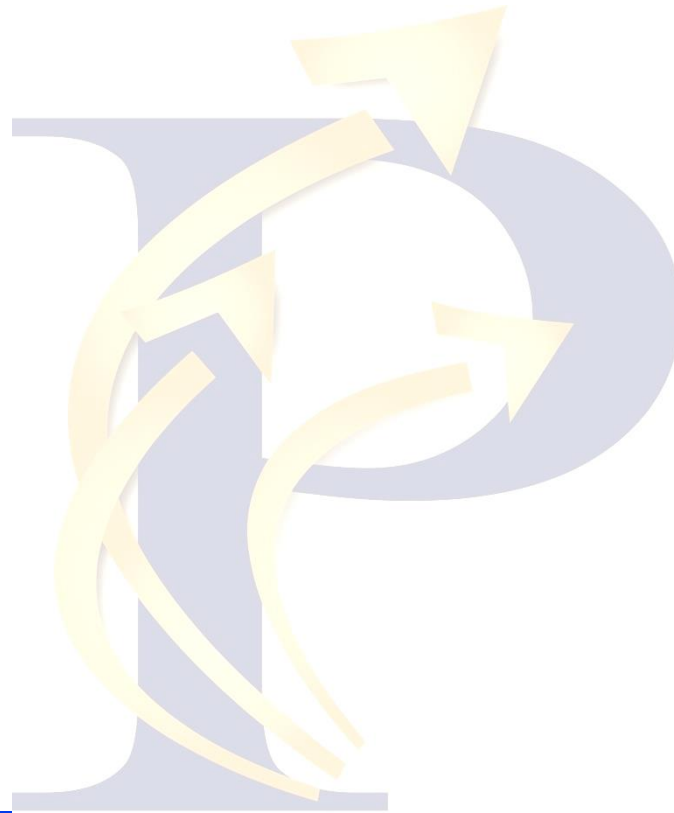
Document Collection

If haven't previously obtained:

- **Organization documents**
 - **Check ownership & percentages**
 - **Changes must be dealt with**
- **Form 4506-C or Form 8821**
 - **Verification & Reconciliation**
- **Purchase & Sale Agreement, if applicable**
 - **Preliminary / Final: Changes to CM required?**



Use of Proceeds



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SBA Loan Authorization

Shows:

- Loan structure
- Use of loan proceeds
- Requirements for guaranty to be obtained
- Complete “DRAFT” for SBA (GP) submission
- Must complete and sign for PLP
- Maintain all formats of document in file



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Use of Proceeds Categories

- **Purchase real estate**
- **Construction / Remodel**
- **Leasehold improvements**
- **Machinery / Equipment**
- **Debt Refinancing**
- **Business Acquisition**
- **Inventory**
- **Working Capital**
- **Guaranty Fee**
- **Closing Costs**
- **Other + + +**



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Logic

- **Determines portion of eligibility**
- **Assists with determination of loan structure**
- **Sets stage for other SBA requirements**
- **Leads supporting documentation required**



Collateral



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Your Action Needed

- **Do not just collect documentation**
- **Must evaluate / assess documentation collected**
- **Document your evaluation in file**
 - **Memo / Email**
 - **Checklist**
 - **Other**



Appraisals

Evaluate & Question:

- **Address / Description of Property**
- **Leased Fee vs Fee Simple**
- **Buyer / Seller / Previous sales**
- **Approaches to value used: Sales / Income / Cost**
- **Are comparables actual sold properties / Same seller?**
- **Insurable value**



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Appraisals

Evaluate & Question:

- **Remaining economic life**
- **Functional obsolescence**
- **Excess Land**
- **Valuation appropriate / Do you have all your answers?**
- **On-going concern, if applicable**
- **Built per plans & specs, if construction**



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Environmental Assessments

Evaluate & Question:

- **Address / Description of Property**
- **Buyer / Seller / Previous sales**
- **Did seller sign environmental questionnaire?**
- **Read introduction to gain additional information about property, seller, borrower, etc.**
- **Look for low risk, no recognized concern**



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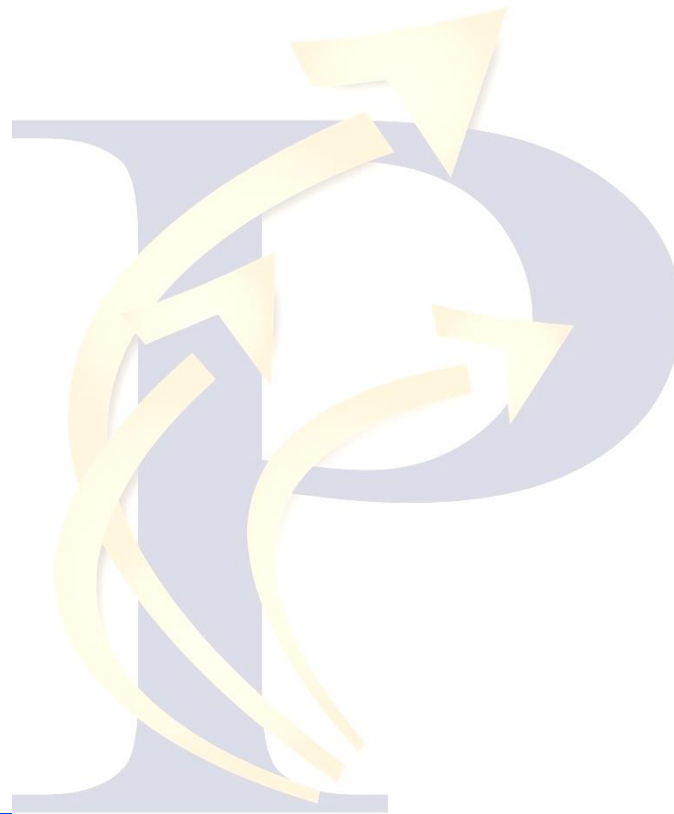
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Collateral Valuation

- **Compare Credit Memorandum to Appraisal / Environmental Assessment**
- **Did information gleaned affect valuation?**
- **Make sure special purpose properties have on-going concern appraisal to provide applicable values for collateral valuation**



Other Items



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Flood Determination

- **Complete for location of collateral**
- **Life of loan**
- **Verify address**
- **Know zones**
- **Dated before loan closing**
- **NFIP vs Private flood insurance**



Form 159

- **Identifies agents and fees / compensation paid to agent on behalf of applicant for purpose of obtaining or expediting loan guaranty application**
- **Fees may be paid on an hourly rate or a percentage of loan amount, both must be itemized**



159 Supporting Documentation

- **Itemization must include:**
 - **Detail of work performed**
 - **Hours expended to complete each activity**
 - **Hourly rate charged for each activity**
- **Submit with 159 in E-Tran when > \$2,500**
- **Retain in loan file when \leq \$2,500**



7(a) Injection Particulars

- Must be injected into business
- Must come from outside business
- May be cash or assets
 - Cash may be borrowed
 - Equity allowed in partner buyout with 9:1



7(a) Injection Sourcing

- **Identification**
- **Verification**
- **2 month look back**
- **Documentation of all above**



Caution . . .

- **W/C needs can skew**
- **W/C analysis is essential to justify need and calculations**
- **Analysis must include a minimum 12-month cash flow**
- **Beware excessive W/C requests**



504 Contribution Particulars

- **May come from business operations**
- **May come from outside source**
- **May be cash or assets**
 - **Cash may be borrowed**
- **Assets have a valuation component**



7(a) vs 504

7(a)

- ***Injection*** – a defined value moved into business operations

504

- ***Contribution*** – a defined value that is borrower share of total project cost



Debunking 7(a) Confusion

“Equity injection” is a misnomer

- **Proposed injection is not equity *until* injected**
- **Premature to use “Equity” word**
- **Eliminate “Equity” word when discussing injection**

Exception:

“Equity” is used in a partner buyout, i.e., 9:1 ratio



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7(a) Use of Proceeds

7(a) Injection

- **Categories dictate circumstances of SBA requirements**
- **Defines total amount financed by SBA loan only**
- **Injection is separate**



504 Use of Funds

504 Contribution

- **Categories dictates project costs of interim, permanent, & contribution**
- **Defines total project costs, not just financing costs**
- **Contribution is included**



504 Components

- **SBA Loan Programs cannot be basis of SBA 504 borrower contribution**
- **Borrower contribution value is only dollar value, net of any other financing**
- **Sourcing is not required, but prudent**



Guaranty Fee

- Lender Fee
- Based on guaranteed portion
- Maturity \leq 12 months, pay within 10 days
- Maturity $>$ 12 months, pay within 90 days
- **Caveat:** pay on or before 1st disbursement date to purchase guaranty
- Timing Issue



. . . Guaranty Fee

- **Use pay.gov for payment of fee**
- **Retain evidence of payment in file**
- **Multiple loans within 90 days**
- **Can charge to borrower after paid by lender**
- **Typically paid in 1st disbursement / cannot be only item in disbursement)**
- **Use of proceeds category**
 - **Guaranty fee**



Last Minute Ownership Changes

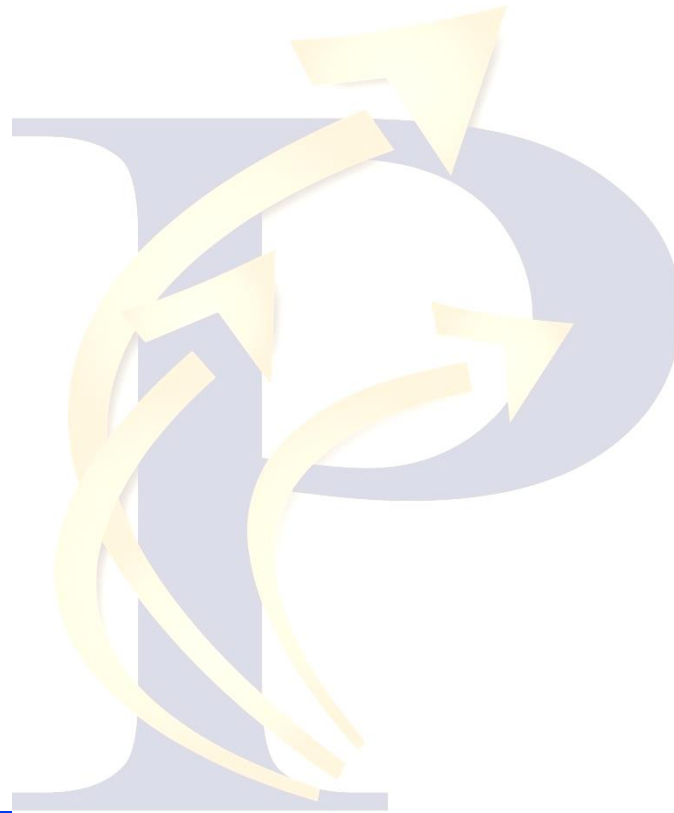
- **Divestiture of owner**
- **Diluting ownership percentage**
- **Timing**
- **Character / Intent**
- **Other issues**

No ownership changes from Loan Authorization through 1 year post last disbursement without SBA prior approval



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Insurances



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Hazard / Flood Insurance

- Real Estate
- Personal Property
- Verify who insured
- Identify coverage term
- Mortgagee / Lender loss payable clauses
- Obtain on / before date of closing
- Make sure premium paid



Other Insurance

- **Liability**
- **Professional / Malpractice**
- **Dram / Host Liquor**
- **Molestation**
- **Vehicle**
- **Etc.**

State Requirement:

- **Worker's Compensation**

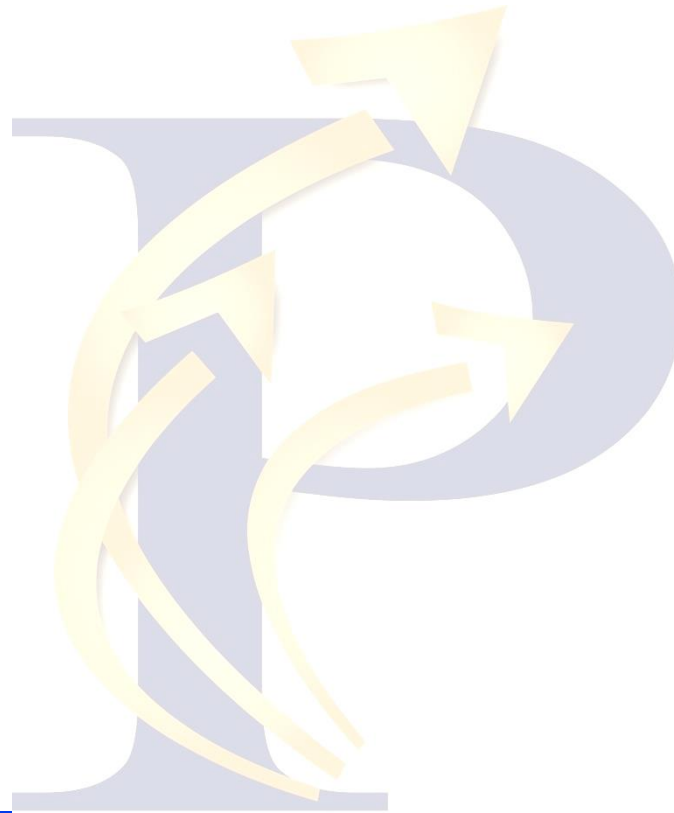


Life Insurance

- **Based upon ownership & LTV**
- **May use internal policy except for:**
 - **Sole proprietorship**
 - **Single member LLC**
 - **Key person**
- **May use collateral coverage to reduce amount**
- **Security to cover transitions**



Loan Documentation



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Loan Documents

- **Note**
- **Guaranty**
- **Security Agreement**
- **Corporate Resolution**
- **SBA Form 722, Equal Opportunity Poster**
- **Other internal lender documents**
- **Etc.**

Recommend using SBA loan documents!



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Lien Documents

- **Mortgage / Deed of Trust**
- **UCC**
- **Titles**
- **Assignment of Rents**
- **Etc.**

***Each loan should stand on its own!
Required specific lien position on collateral!***



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Stand-By Agreements

- **Used when borrower debt placed on stand-by**
- **Supported by Promissory Note**
- **Date of note on or before date of Stand-by Agreement**
- **Needs to match CAM and Loan Authorization or subsequent versions**
- **Fully executed**



L/A Change Actions

- **Must mirror Addendums to Change Actions**
- **GP: Obtain SBA prior approval**
- **PLP: Update in E-Tran**
- **Use 7(a) Servicing & Liquidation Matrix to determine approval authority, etc.**
 - **Approved loans prior to final disbursement**
 - **Loans after final disbursement**
- **Submit SBA Loan Authorization + applicable Change Actions to E-Tran within 15 days of final funding**



Lien Perfection / Document Storage



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Lien Perfection

- **Title Policy**
- **Post closing UCC Lien Search**
- **Post closing Lien Search – non primary collateral**
- **Titles**

Check Recordation for Valid Lien!



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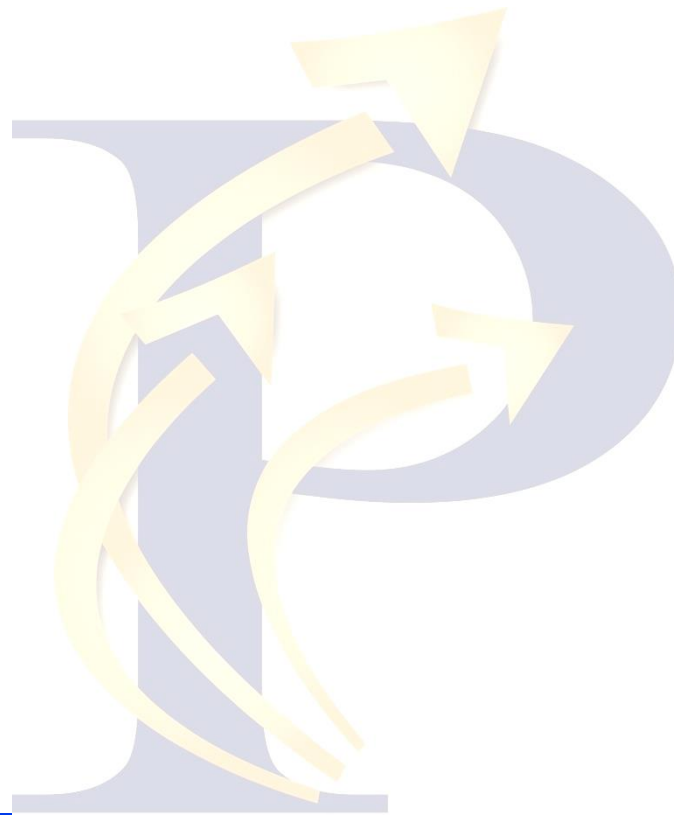
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Document Storage

- **Should be succinct electronic system to house all SBA loan documentation for future reference / review**
- **Documentation must show analysis**
- **Use consistent naming conventions**
- **Validates you obtained a guaranty at closing / funding**
- **Multiple loans to same borrower should have multiple files**



Final Thoughts



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Remember

- **Create a strong consistent process with written procedures**
- **Use system of comprehensive internal checklists for responsibility and enhancement of internal controls**
- **Stay informed of SBA changes**

Recipe for Success with SBA lending!



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Questions



Thank You!

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