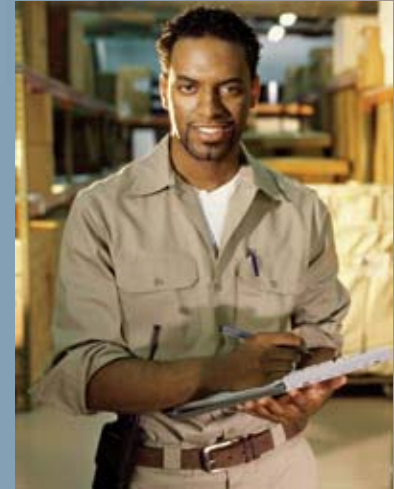


Helping you start, grow and succeed.



Closing Standard 7a SBA Loans



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The Loan Authorization (L/A)

- The Loan Authorization (L/A) is issued after approval
- This is not a commitment, but a contract between the SBA and the Lender
- If you wish, you can prepare a separate Loan Agreement between the Lender and Borrower



The Origin of the Loan Authorization

- SBA Headquarters establishes the wording for all 7(a) and 504 standard authorization conditions.
- The current edition of the National Authorization can be found at **www://sba.gov.banking**.



Origin cont'd.

- The participant sets the terms and conditions for extending their credit.
- SBA establishes the terms and conditions for its loan or debenture guaranty using the using the current edition of the National Authorization



The Importance of the L/A to Closing

- The Loan Authorization sets forth the expectations of the Lender and SBA.
- It becomes a blueprint for closing.



Beginning the Closing Process

Upon Receipt of the L/A

- Review the Loan Authorization and give a copy to the borrower
- Resolve any discrepancies prior to closing
- Tackle Environmental, Franchise and Trust issues early



Modifications to the Loan Authorization

Should modifications become necessary refer to SOP 50-50 (4)

- Some changes are within your unilateral authority
- Some changes require only notification to SBA
- Other changes may require prior approval



Preparing Loan Documents

Some documents must be on SBA forms:

- Note, SBA Form 147
- Settlement Sheet, SBA Form 1050
- Compensation Agreement, SBA Form 159
- EEO Poster, SBA Form 722
- Unconditional Guarantee, SBA For 148
- Unconditional Limited Guarantee, SBA Form 148L



Finding SBA Forms

- <http://www.sba.gov/tools/Forms/SBAPartnerforms/lenderforms/index.html>

Small Business Administration - Lender Forms - Microsoft Internet Explorer provided by SBA

Edit View Favorites Tools Help

Forward Stop Refresh Home Search Favorites History Mail Print Edit Discuss Research Messenger

Address http://www.sba.gov/tools/Forms/SBAPartnerforms/lenderforms/index.html Go Convert Select

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Home > Tools > Forms > SBA Partner Forms > Lender Forms

Lender Forms SBA Program Office

Overview	Overview of 1998 Changes to SBA 7(a) Note, 504 Note, and Guarantees.	> Library & Resources
4-i	Lenders Application for Guaranty or Participation	> Audio/Video
134A	Loan Officer's Report of Reconsideration	> Monthly Web Chat
Form 147 Version 4.1	Note - 7(a) Loans.	> Forms
Inst 147	Instructions for SBA Form 147.	> Small Business Forms
148	Unconditional Guarantee.	> SBA Partner Forms
148L	Unconditional Limited Guarantee.	> Federal Forms
Inst		

E-NEWSLETTERS

FREE ONLINE TRAINING

Examples of Available but Optional Forms

- Standby Creditor's Agreement, SBA Form 155
- Resolution of Board of Directors, SBA Form 160
- Certificate as to Partners, SBA Form 160A



Prior to the Closing Table

Document and Verify:

- Use of proceeds
- Equity injection
- Lien positions
- Transcript of Account
- Legal Entity Status
- Insurance
- Appraisal is in file
- Other L/A requirements



The Importance of Closing

Some of SBA's closing requirements are in addition to a commercial loan closing without a government guarantee.

Some closing missteps could result in “back end” problems with the guaranty.



Top 5 Closing Practice Tips to Protect Your Guaranty

1. Use of Proceeds:

- Settlement Sheet, SBA Form 1050, must be used to report the initial disbursement
- Joint payee checks should be used when possible; if not, lender should provide (1) invoices marked “paid”, (2) copies of cleared checks or (3) bank statements showing that the checks cleared
- Settlement Sheet and supporting documentation should match the “Use of Proceeds” section of the Authorization



Tips (Continued)

2. Equity Injection:

If the required injection is asset based, the lender should provide a list of the assets along with an appraisal. If the injection is monetary, the lender should provide cancelled checks and the borrower's bank statement dated prior to the loan closing date.



Tips (Continued)

3. Collateral Documents:

- Lien positions must match the “Collateral Conditions” section of the Authorization
- The Lender should provide a list of equipment and fixtures with a unit value of \$5,000.00 or more
- Lender should have a “final” title insurance policy and a “final” chattel lien search in the file
- When taking a lien on a motor vehicle, maintain a copy of the title with the proper lien notation in the file



Tips (Continued)

4. Insurance:

- If the Authorization requires an Assignment of Life Insurance as collateral, be sure that the Assignment is filed with the home office of the insurance company
- Have at closing, a copy of the hazard insurance policy or binder with the lender named as mortgagee / loss payee
- At closing you must have evidence that the property is not located in a flood hazard area or a copy of the flood insurance policy with lender named as mortgagee / loss payee



Flood Insurance

- The National Flood Insurance Reform Act of 1994 requires a lender to notify the Director of the FEMA of the identity of the servicer of a loan subject to flood insurance requirements and of the identity of the new servicer if there is a change.
- All SBA borrowers located in special hazard areas [as determined by the Federal Insurance Administration (FIA)] must purchase flood insurance prior to first disbursement.



Environmental Considerations

- SBA requires an investigation and assessment of the environmental risk on all primary collateral offered as security for any loan or debenture that the Agency is asked to guaranty in order that the risks of environmental contamination can be assessed and addressed.
- A lender may require its own environmental investigation of any additional collateral at its discretion.



Environmental Continued...

Stages of Environmental Investigation

- Environmental Questionnaire
- Environmental Records (Desk) Review
- Phase I Audit
- Phase II Audit

See SOP 50-10 4(B) (7) page 115



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Have You Seen Any of These?



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C'mon....maybe in a scrapbook?



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Environmental continued...

- Indemnification Agreements
- No further Action and “Comfort” letters
- Environmental Consultants
 - Statement of credentials
 - E & O Insurance



Impact on Closing

- Lenders must retain all documentation utilized to justify their approvals and disbursement in their file for review or audit by SBA
- No disbursement may be made unless the Environmental Investigation has been performed in accordance with the SOP.

See SOP 50-10(4)(B)(7) beginning at page 115



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Franchises



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Franchises on the “Registry”

- First check www.franchiseregistry.com
- Click on the Registry tab
- Enjoy streamlined processing if the franchise is listed AND the franchise agreement is the same as the one reviewed by the registry.
- If the franchise agreement is not the same then a Certificate of No Change or Non-Material Change may be accepted in lieu of reviewing the contract.
- If there is a material change the franchise agreement will have to be reviewed as if it were not on the registry.



Alert

Many franchisors listed on the Registry have agreed to use addendums that bring the franchise agreement into compliance with SBA Guidelines. **The exclusion of the addendum in the SBA loan package makes the franchise agreement ineligible.** Please request the addendum from the franchisor or log into the [private section](#) of that web site to access the addendum that is necessary for the specific franchise agreement that is part of the loan package you are processing.



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Non-Registry Franchise Considerations

- Franchises have special size criteria. “Affiliation” may arise through common ownership, management or excessive restrictions. Affiliation creates a size issue which affects eligibility.
- Other considerations:
 - The terms of the franchise agreement and the terms of any lease or sublease of the premises of the franchise business from the franchisor (or any of their affiliates) including options to renew exercisable by the franchisee, needs to generally be for the same time period as the term of the loan.
 - The franchisees signature on the agreement must reflect the same borrowing entity as on the L/A

See SOP 50-10(4)(E)(3) beginning at page 101



Closing Deadlines:

- The disbursement of 7(a) loans should occur as close to approval as is prudently possible. As a matter of policy, the initial disbursement must occur within 6 months of approval. The only exception is when the proceeds will provide the permanent financing for an interim construction project that will take more than 6 months from approval of the SBA loan to complete.
- If any loan can not be initially disbursed within 6 months of approval, the initial disbursement period may be extended. SBA must process all requests for extensions of the disbursement periods, except for loans originally processed under delegated authority (e.g., PLP and SBAExpress, PCLP, etc), and SBA must be notified whenever an extension is approved, regardless of the authority of the lender.
- The final disbursement period must never exceed 12 months from approval except when the proceeds are for construction or renovation.

See SOP 50-10 4(e) h page 114



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THANKS!

Thank you for joining us.

We welcome your feed-back.



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