



SBA West Virginia District Office
SBA Tennessee District Office

7(a) Loan Underwriting

December 12, 2017

Level: Basic

**For technical assistance, call the AT&T
Helpdesk at 888-796-6118**

Thank you!

SBA West Virginia District Office
11:00 a.m. Eastern



UNDERWRITING BASICS

Presented by: Gary Griffin

President/CEO

Capital Growth Solutions, LLC



Capital Growth Solutions, LLC



SBA West Virginia District Office
SBA Tennessee District Office

We would like to thank Gary Griffin for his time on this webinar and providing information regarding his experience in lending and working on SBA loans from his perspective.

All opinions, conclusions, and/or recommendations expressed herein are those of the presenter(s) and do not necessarily reflect the views of the SBA.

Conversation topics :

- The more dealt with on the front end, the faster the entire process. Obtain the detail upfront to eliminate surprises.
- Difficulty of refinancing existing SBA debt and why this is the case
- Interim loans should be a rarity, realistic timeframes need to be established
- Importance of experienced closing attorney
- Importance of third party reports and ordering them immediately upon receipt of SBA authorization
- Importance of each item of the authorization being adhered to in order to protect guaranty
- Each program: Small loan, Express, 504, FSA and USDA are their own animal. There are different rules, guidelines, etc.

Pre-screen

- ▶ Loan Application (What are we trying to accomplish?)
 - ▶ Synopsis of loan request (preliminary – this often changes during the underwriting process)
 - ▶ Provides details on Sources and Uses of funds

▶ Example:

Purchase of Real Estate:	\$ 760,000 (Need contract)
Real Estate Improvements:	\$ 40,000 (Need contract)
Purchase Equipment:	\$ 50,000 (Need quotes)
Refinancing existing debt:	\$ 50,000 (Need copy of note)
Working Capital:	\$ 60,000 (Anticipated use)
Closing Costs:	<u>\$ 40,000</u>
Total:	\$1,000,000
Less Equity Injection:	<u>(\$ 100,000)</u> (Source?)
Loan Request:	\$ 900,000

Pre-screen

- Personal Financial Statement
 - Current (within 90 days of SUBMISSION)
 - Detailed
- Management resumes
- SBA Form 1919 and corresponding SBA Form 912, if applicable. Clearance must be granted prior to SBA submission

Please fill out the following form. You can save data typed into this form.

Highlight Existing Fields

OMB APPROVAL NO. 3245-0188
 EXPIRATION DATE: 6/31/2011

PERSONAL FINANCIAL STATEMENT

U.S. SMALL BUSINESS ADMINISTRATION As of _____

Complete this form for: (1) each proprietor; or (2) each limited partner who owns 20% or more interest and each general partner; or (3) each stockholder owning 20% or more of voting stock; or (4) any person or entity providing a guaranty on the loan.

Name _____ Business Phone _____

Residence Address _____ Residence Phone _____

City, State, & Zip Code _____

Business Name of Applicant/Borrower _____

ASSETS (Omit Cents)	LIABILITIES (Omit Cents)
Cash on hand & in Banks	Accounts Payable
Savings Accounts	Notes Payable to Banks and Others
IRA or Other Retirement Account	(Describe in Section 2)
Accounts & Notes Receivable	Installment Account (Auto)
Life Insurance-Cash Surrender Value Only, ...	Mo. Payments \$
(Complete Section 8)	Installment Account (Other)
Stocks and Bonds	Mo. Payments \$
(Describe in Section 3)	Loan on Life Insurance
Real Estate	Mortgages on Real Estate
(Describe in Section 4)	(Describe in Section 4)
Automobile-Present Value	Unpaid Taxes
Other Personal Property	(Describe in Section 6)
(Describe in Section 5)	Other Liabilities
Other Assets	(Describe in Section 7)
(Describe in Section 5)	Total Liabilities
Total \$	Net Worth
	Total \$

Section 1. Source of Income

Salary	As Endorser or Co-Maker
Net Investment Income	Legal Claims & Judgments
Real Estate Income	Provision for Federal Income Tax
Other Income (Describe below)	Other Special Debt

Description of Other Income in Section 1:

Alimony or child support payments need not be disclosed in "Other Income" unless it is desired to have such payments counted toward total income.

Section 2. Notes Payable to Banks and Others. (Use attachments if necessary. Each attachment must be identified as a part of this statement and signed.)

Name and Address of Noteholders)	Original Balance	Current Balance	Payment Amount	Frequency (monthly, etc.)	How Secured or Endorsed Type of Collateral

Please fill out the following form. You can save data typed into this form.

Highlight Existing Fields

Section 3. Stocks and Bonds. (Use attachments if necessary. Each attachment must be identified as a part of this statement and signed.)

Number of Shares	Name of Securities	Cost	Market Value Quotation/Exchange	Date of Quotation/Exchange	Total Value

Section 4. Real Estate Owned. (List each parcel separately. Use attachment if necessary. Each attachment must be identified as a part of this statement and signed.)

	Property A	Property B	Property C
Type of Property			
Address			
Date Purchased			
Original Cost			
Present Market Value			
Name & Address of Mortgage Holder			
Mortgage Account Number			
Mortgage Balance			
Amount of Payment per Month/Year			
Status of Mortgage			

Section 5. Other Personal Property and Other Assets. (Describe, and if any is pledged as security, state name and address of lien holder, amount of lien, terms of payment and if delinquent, describe delinquency.)

Section 6. Unpaid Taxes. (Describe in detail, as to type, to whom payable, when due, amount, and to what property, if any, a tax lien attaches.)

Section 7. Other Liabilities. (Describe in detail.)

Section 8. Life Insurance Held. (Give face amount and cash surrender value of policies - name of insurance company and beneficiaries)

I authorize SBA Lender to make inquiries as necessary to verify the accuracy of the statements made and to determine my creditworthiness. I certify the above and the statements contained in the attachments are true and accurate as of the stated date(s). These statements are made for the purpose of either obtaining a loan or guaranteeing a loan. I understand FALSE statements may result in forfeiture of benefits and possible prosecution by the U.S. Attorney General (Reference 18 U.S.C. 1001).

Signature: _____ Date: _____ Social Security Number: _____

Signature: _____ Date: _____ Social Security Number: _____

PLEASE NOTE: The estimated average burden hours for the completion of this form is 1.5 hours per response. If you have questions or comments concerning this estimate or any other aspect of this information, please contact Chief, Administrative Branch, U.S. Small Business Administration, Washington, D.C. 20416, and Clearance Officer, Paper Reduction Project (2045-0198), Office of Management and Budget, Washington, D.C. 20503. PLEASE DO NOT SEND FORMS TO OMB.

Please fill out the following form. You cannot save data typed into this form. Please print your completed form if you would like a copy for your records.

Highlight Existing Fields

Sign In

Export PDF

Create PDF

Adobe PDF Pack

Convert files to PDF and easily combine them with other file types with a paid subscription.

Select File to Convert to PDF:


File selection input field

Select File

Send Files

Store Files

OMB APPROVAL NO. 3245-0178
Expiration Date: 04/30/2016



United States of America
SMALL BUSINESS ADMINISTRATION
STATEMENT OF PERSONAL HISTORY

Please Read Carefully: SBA uses Form 912 as one part of its assessment of program eligibility. Please reference SBA Regulations and Standard Operating Procedures if you have any questions about who must submit this form and where to submit it. For further information, please call SBA's Answer Desk at 1-800-U-ASK-SBA (1-800-827-5722), or check SBA's website at www.sba.gov. **DO NOT SEND COMPLETED FORMS TO OMB as this will delay the processing of your application; send forms to the address provided by your lender or SBA representative.**

Name and Address of Applicant (Firm Name) (Street, City, State, and ZIP Code) _____
SBA District/Cluster Area Office

Amount Applied for (when applicable) _____ File No. (if known) _____

1. Personal Statement of (State name in full, if no middle name, state (NMN), or if initial only, indicate initial.) List all former names used, and dates each name was used. Use separate sheet if necessary.
First _____ Middle _____ Last _____

2. Give the percentage of ownership or stock owned or to be owned in the small business or the development company. Social Security No. _____

3. Date of Birth (Month, day, and year) _____

4. Place of Birth: (City & State or Foreign Country) _____

Name and Address of participating lender or surety co. (when applicable and known) _____

5. U.S. Citizen? YES NO INITIALS: _____
If No, are you a Lawful Permanent resident alien? YES NO
If non-U.S. citizen provide alien registration number: _____

6. Present residence address: From: _____ To: _____ Address: _____
Most recent prior address (omit if over 10 years ago): From: _____ To: _____ Address: _____

Home Telephone No. (include Area Code) _____
Business Telephone No. (include Area Code) _____

PLEASE SEE REVERSE SIDE FOR EXPLANATION REGARDING DISCLOSURE OF INFORMATION AND THE USES OF SUCH INFORMATION. YOU MUST INITIAL YOUR RESPONSES TO QUESTIONS 6, 7, 8 AND 9.

IF YOU ANSWER "YES" TO 7, 8, OR 9, FURNISH DETAILS ON A SEPARATE SHEET. INCLUDE DATES, LOCATION, FINES, SENTENCES, WHETHER MISDEMEANOR OR FELONY, DATES OF PAROLE/PROBATION, UNPAID FINES OR PENALTIES, NAME(S) UNDER WHICH CHARGED, AND ANY OTHER PERTINENT INFORMATION. AN ARREST OR CONVICTION RECORD WILL NOT NECESSARILY DISQUALIFY YOU; HOWEVER, AN UNTRUTHFUL ANSWER WILL CAUSE YOUR APPLICATION TO BE DENIED AND SUBJECT YOU TO OTHER PENALTIES AS NOTED BELOW.

7. Are you presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction?
 Yes No INITIALS: _____

8. Have you been arrested in the past six months for any criminal offense?
 Yes No INITIALS: _____

9. For any criminal offense - other than a minor vehicle violation - have you ever: 1) been convicted; 2) plead guilty; 3) plead nolo contendere; 4) been placed on pretrial diversion; or 5) been placed on any form of parole or probation (including probation before judgment)?
 Yes No INITIALS: _____

10. I authorize the Small Business Administration Office of Inspector General to request criminal record information about me from criminal justice agencies for the purpose of determining my eligibility for programs authorized by the Small Business Act, and the Small Business Investment Act.

CAUTION - PENALTIES FOR FALSE STATEMENTS: Knowingly making a false statement on this form is a violation of Federal law and could result in criminal prosecution, significant civil penalties, and a denial of your loan, surety bond, or other program participation. A false statement is punishable under 18 USC 1001 and 5011 by imprisonment of not more than five years and/or a fine of up to \$250,000, under 15 USC 544 by imprisonment of not more than two years and/or a fine of not more than \$5,000, and, if furnished to a Federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.

Signature _____ Title _____ Date _____

Agency Use Only

11. Fingerprints Waived _____ Date _____ Approving Authority _____
 Fingerprints Required _____ Date _____ Approving Authority _____

12. Cleared for Processing _____ Date _____ Approving Authority _____
13. Request a Character Evaluation _____ Date _____ Approving Authority _____
(Required whenever 7, 8 or 9 are answered "yes" even if cleared for processing.)

PLEASE NOTE: The estimated burden for completing this form is 15 minutes per response. You are not required to respond to any collection of information unless it displays a currently valid OMB approval number. Comments on the burden should be sent to: U.S. Small Business Administration, Chief, AHS, 409 3rd St., S.W., Washington D.C. 20416 and Chief Officer for the Small Business Administration, Office of Management and Budget, New Executive Office Building, Room 10302, Washington, D.C. 20503. OMB Approval 3245-0178. **DO NOT SEND COMPLETED FORMS TO OMB as this will delay the processing of your application; send forms to the address provided by your lender or SBA representative.**

SBA 912 (2-2013) SOP 5010.4 Previous Edition Obsolete

Supporting docs to checklist

- ▶ Debt Schedule(s)
 - ▶ Borrower and affiliates
- ▶ Purchase contracts
- ▶ Business financials
 - ▶ 3 years tax returns
 - ▶ Current Interim profit & loss statement and balance sheet dated within 180 days of SUBMISSION
- ▶ Notes to be refinanced
 - ▶ Must have a current maturity; original use must have been eligible for SBA; collateral must remain; must obtain a copy of the original note.
- ▶ Business Plan
 - ▶ Must have an actual plan to reference and submit if the prospect is a start-up, change of ownership or significant changes will be taking place to improve historical DSC.
- ▶ 4506T – tax transcripts from selling entity or borrower must be obtained and verified PRIOR TO SUBMISSION

The Loan Story

- ▶ Name of borrowing entity including tax ID # & organizational documents
 - ▶ Will this be the only entity utilizing funds?
- ▶ What is the loan request?
 - ▶ What is the purpose of the loan request?
 - ▶ What is the borrower trying to accomplish?
 - ▶ Detailed list of all categories to fully understand uses
 - ▶ Contracts and/or invoices
 - ▶ This must be precise as disbursement MUST follow SBA Authorization
- ▶ Who are the owners?
 - ▶ 20% or more ownership must be full and unlimited guarantor
 - ▶ What are their duties within the business?

The Loan Story continued...

- ▶ What does the company do?
 - ▶ Include industry cycles, competitive nature, unique attributes
 - ▶ Where is the business located
 - ▶ How will this loan benefit the business?

What Makes This an SBA Loan

- It is a good deal with weaknesses
 - Low Liquidity of the owners
 - Less desirable industry
 - Under-collateralized
 - Historical financials struggles, but current financials are showing improvement

Examples: Working capital needs with no hard assets for collateral;
Below breakeven DSC for 2014 and 2015 trending upward in 2016/2017.

- Differs from Conventional Loan Policy
 - A longer amortization would benefit the business
 - Start-up business for experienced owners
 - Less than 20% equity injection

Types of SBA loans

- SBA 7a
 - 75% guarantee for loans over \$150,000 up to \$5,000,000
 - 85% guarantee for loans \$150,000 or less
 - Greater than \$350,000
 - Must take personally owned real estate as collateral to the extent loan is fully secured
 - \$350,000 or less:
 - Follow loan policy regarding personal assets required as collateral, liquidation LTV, etc.

Some Other Types of SBA loans

- ▶ International Trade/Export Working Capital Line of Credit
 - ▶ Must export to foreign countries (directly or indirectly)
 - ▶ 90% guarantee
- ▶ SBA 504
 - ▶ Only for real estate and/or machinery acquisition

Some eligibility issues

- Change of Ownership
 - Applicant acquiring 100% interest in exiting owner(s)
 - Applicant purchasing 100% ownership interest in another business
 - Applicant must be a business
 - Sellers may NOT remain affiliated with business for more than a short transitional period
- Leasing portion of a building
 - For an existing building, must occupy at least 51%
 - New construction, must occupy 60% (May permanently lease 20%; May temporarily lease additional 20% with intent to use some within 3 years and all within 10 years)

Business Viability

- History and nature of business
 - Business plan, website, etc.
 - Future viability (growth; economy)
- Financial condition of the business
- If start-up; need and competition
 - If spouse has outside income they need to be a guarantor for global cash flow
- Experience of owners
 - Personal credit of owners (EVERYTHING must be current)

Financial Analysis

- SBA is a cash flow lender not a collateral lender
- Repayment Ability – Historical and Projected
 - DSC historically including **existing** and proposed debt
 - Explanation for fluctuations/trends
 - Compare gross margin, COGS and material expense trends
 - Projections (if necessary)
 - Reasonableness
 - Justification (supporting assumptions)
 - Determine breakeven point
- Global Debt Service Coverage
 - Personal debt obligations
 - Affiliate performance
 - Outside income sources
 - Continuation of income?

Financial Analysis

- ▶ Start-up
 - ▶ 3 years projections (first two years monthly)
 - ▶ Reasonableness of projections
 - ▶ Justification (supporting assumptions)
 - ▶ Competition
 - ▶ Adequate liquidity
 - ▶ Experience
 - ▶ RMA???
- ▶ Balance Sheet
 - ▶ Industry trends
 - ▶ Proforma
 - ▶ RMA???

NOTE: All loans with amortizations of 15 years or more will carry a three year prepayment penalty (5-3-1)

Equity Injection

- ▶ How much is necessary
 - ▶ Prudent Lending (new rules?)
- ▶ What is the source?
 - ▶ Statements (three months prior to closing and month post closing)
- ▶ Seller financing
 - ▶ Full Standby for LIFE OF LOAN
- ▶ Gifted/Borrowed funds
 - ▶ Gift letter and statement
 - ▶ Payback terms
 - ▶ Only if historical cash flow consistently supports

Equity Injection

- ▶ Always first dollars spent
- ▶ Verification of equity injection must be done prior to closing
 - ▶ Bank statements three months prior and month following closing
 - ▶ Canceled checks/bank statements and/or wire confirmations
- ▶ Working Capital
 - ▶ Follow up post closing (operating account statements)

Collateral

SBA guaranty is not a substitute for available collateral

- Any assets purchased with proceeds must be pledged
- Liquidation value is utilized to determine “fully secured”
 - Lender may not utilize LTV’s any higher than they would non-SBA
- 1. 75% of new equipment
- 2. 80% of “orderly liquidation value” of equipment appraisal
- 3. 50% Net Book Value equipment
- 4. 85% of real estate

- Refinancing debt
 - Existing collateral must stay
 - Fully secured

Personal assets as collateral

- ▶ Personal assets
 - ▶ Owners of 20% or more are subject to pledging personal real estate assets
 - ▶ Fully secured with liquidation value
- ▶ 20% or more ownership
 - ▶ 20% combined with spouse
- ▶ Personal residence or other real estate
- ▶ Even if spouse has NO ownership the lender must consider the individually owned assets of said spouse
 - ▶ Spouse **MUST** be on personal financial statement

Life Insurance

- Assignment of life insurance is not considered collateral
- Lender should adhere to bank policy
 - Weak collateral needs an assignment equal to the loan amount
- Explanation must be given should a life insurance assignment amount less than the full loan amount be accepted
- Assignment must be obtained prior to closing

Site Visit

- Must (in my OPINION) be performed prior to SBA loan submission
- Written documentation in file
- Notation of collateral
 - Pictures are always helpful
- Business history line up with what is on-site?

Guaranties

- ▶ Individuals who own 20% or more of the business
 - ▶ If no one owns at least 20%, must choose at least one to be full and unlimited
- ▶ Must obtain a personal financial statement and SBA Form 1919 for ALL guarantors
- ▶ Reducing ownership interest
 - ▶ Any person holding 20% or more ownership interest within six months prior to loan application would be subject to the requirements as if still 20% owner
 - ▶ Complete divestiture

Appraisals

Commercial Real Estate

- ▶ If loan amount is \$250,000 or more, a real estate appraisal is required
- ▶ If less than \$250,000 lender should follow internal loan policy
- ▶ Loan Amount > \$250,000 and collateralized by commercial real estate:
 - ▶ The appraiser must be independent and have no appearance of conflict of interest
 - ▶ Appraiser must be state-licensed or state-certified
 - ▶ Must be state-certified if estimated value is over \$1,000,000
 - ▶ Appraisal must be requested by and prepared for the lender

Appraisals

➤ Construction Loans

- As completed appraisal must be performed prior to closing
- Monthly construction draws from contractor utilizing AIA documents
- Third-party inspection reports

Other Fixed Assets

- If the valuation is greater than their depreciated book value an appraisal must be obtained

Appraisals

Business Valuations

- If the loan amount being financed less real estate and/or equipment is \$250,000 or less an internal lender valuation may be performed (if internal loan policy allows). Add to Policy and pick a method.
- If the loan amount is \$250,000 or more OR there is a close relationship between buyer and seller and independent business valuation must be obtained
 1. The business valuation must be requested by and prepared for the lender
 2. The business valuation must be completed prior to SBA submission

A going concern appraisal may be acceptable if:

- Special Use Property
- Appraiser is experienced in particular industry
- Separate values are allocated to land, building, equipment, intangible assets

Environmental

SBA requires an Environmental Investigation of all commercial properties.

The type and depth of the investigation varies with the risks of contamination.

- ▶ Does NAICS code fall within an environmentally sensitive industry (do not assume anything)
 - ▶ If yes, must begin with Phase I
- ▶ If loan amount is less than or equal to \$150,000 may begin with environmental questionnaire
- ▶ If loan amount is greater than or equal to \$150,000 must also have records search.
- ▶ Animals!!!

Loan Authorization

The SBA Authorization is SBA's written agreement between the SBA and the lender providing the terms and conditions under which SBA will guarantee a business loan.

The SOP supersedes the SBA Authorization and YOU are responsible.

SBA Submission

Application Requirements

- Borrower information form (Form 1919)
- Statement of Personal History (Form 912), if applicable
- Personal financial statements dated within 90 days
- Three years personal tax returns
- Interim business financial statements dated within 180 days
- Three years business tax returns
- Tax returns and interim financials for affiliates
- History of Business
- Resumes of Principals

SBA Submission

Application Requirements Continued

- Copies of any leases (must match maturity of note)
- Detailed use of proceeds
- Purchase Agreements
- Business valuation, if applicable
- Projections, if applicable
- Detail of equity injection
- Check the franchise registry
- IRS Form 4506-T (prior to submission)

Post-Approval

ALWAYS perform a thorough review of the authorization
(ALMOST always corrections)

Any changes must be submitted for approval by the SBA
via a stamp action request letter (SBA is great right now!).

Loan Disbursement

Entire equity injection *MUST* be utilized prior to first loan disbursement.

The loan must be fully disbursed within 48 months of approval or any remaining undisbursed funds will be canceled.

Loan Disbursement

Funds must be disbursed in accordance with the Authorization.

Each disbursement must be documented (EXCEL). The SBA MUST be able to determine:

- Who was the recipient of the disbursement
- The date and amount of each disbursement
- The purpose of each disbursement

Evidence must be obtained to support disbursements (invoices, etc.)

Working capital

If You Have a Question!

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Please be sure to visit our website at:

www.capgs.com

Capital Growth Solutions, LLC is a full service SBA loan service provider serving lending institutions throughout the country. We provide complete “back-room” functions of an outsourced SBA Department or specific services on an hourly basis, as well as group training on all topics SBA. Please contact me at ggriffin@capgs.com to see what we could do to make YOUR SBA operations more profitable! We WANT your business!!! G²



Contact Info

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