

COMMUNITY ADVANTAGE PARTICIPANT GUIDE

I. Introduction

Community Advantage (CA) is a new pilot loan program introduced by the Small Business Administration (SBA) in 2011 to meet the credit and management and technical assistance needs of small businesses in underserved markets. The CA Pilot Loan Program (CA Pilot Program) is designed to provide mission-oriented lenders, primarily non-profit financial intermediaries that are focused on economic development in underserved markets, access to 7(a) loan guaranties for loans of \$250,000 or less. The CA Pilot Program leverages the streamlined Small/Rural Lender Advantage (S/RLA) processing approach currently available to SBA's rural and small-volume lenders. For purposes of CA, the underserved markets are:

- Low-to-Moderate Income (LMI) communities (while not a specific requirement CA Lenders are encouraged to serve low and very-low income communities);
- Empowerment Zones and Enterprise Communities;
- HUBZones;
- New businesses, e.g., firms in business for no more than two years;
- Businesses eligible for Patriot Express including Veteran-owned businesses; and/or
- Firms where more than 50% of their full time workforce is low-income or resides in LMI census tracts.

SBA's goals for the CA Pilot Loan Program are as follows:

- Increase access to credit for small businesses located in underserved areas;
- Expand points of access to the SBA 7(a) loan program by allowing non-traditional, mission-oriented lenders to participate;
- Provide Management and Technical Assistance (M&TA), as needed, to support small businesses; and
- Manage portfolio performance at acceptable risk levels.

Certain mission-oriented lenders may apply to participate in the CA Pilot Program. Their applications will be evaluated to determine if they have the necessary expertise, financial capacity, and infrastructure to participate in SBA's 7(a) loan program through the CA Pilot Program. The CA Pilot Program will be a three year pilot running through March 15, 2014.

II. Becoming a CA Lending Company

A. *Organizations Eligible to Participate in CA Pilot Program*

The CA Pilot Program will only be open to the following organizations:

1. SBA-Authorized Certified Development Companies

Certified Development Companies (CDCs) are non-profit corporations certified and regulated by the SBA to package, process, close, and service 504 loans. 504 project financing is accomplished through a 100 percent SBA guaranteed debenture issued by a CDC, and a non-guaranteed loan issued by a third party lender, and a contribution by the borrower. There are a small number of for-profit CDCs that were grandfathered into the current 504 program in 1986.

2. SBA- Authorized Microloan Intermediaries

Microloan Intermediaries are entities participating in SBA's Microloan program that make and service microloans to eligible small businesses and which provide marketing, management, and technical assistance to their borrowers. A Microloan Intermediary may be:

- a. A private, nonprofit community development corporation or other entity;
- b. A consortium of private, nonprofit community development corporations and other entities;
- c. A quasi-governmental economic development entity, other than a state, county, municipal government or any agency thereof; or
- d. An agency of or a nonprofit entity established by a Native American Tribal Government.

3. Non-Federally Regulated Community Development Financial Institutions

Community Development Financial Institutions (CDFIs) are financial institutions that operate to provide (1) economic development (job creation, business development, and commercial real estate development); (2) affordable housing (housing development and homeownership); and/or (3) community development financial services (provision of basic banking services to underserved communities, financial literacy training, and predatory lending alternatives). Only CDFIs certified by the Department of Treasury that do not have a Federal financial regulator are eligible to participate in the CA Program.

B. *Organizations Not Eligible to Participate in the CA Pilot Program*

Any lender who is already participating in SBA's 7(a) program, as evidenced by an executed Loan Guaranty Agreement (SBA Form 750) is not eligible to participate in the CA Pilot Program, but should continue to use the 7(a) loan program in its current capacity. Other lenders that are not eligible for the CA Pilot Program are encouraged to apply to participate in the 7(a) loan program by contacting their local SBA Field Office. The local SBA Field Office may be found at www.sba.gov/about-offices-list/2.

C. *Application to Participate as a Community Advantage Lending Company*

Eligible organizations may apply to SBA for approval to participate in the CA Pilot Program. The applicant must submit [SBA Form 2301, Part E, Community Advantage Lender Participation Application](#). A lender's application to participate in the CA Pilot Program has a section to indicate whether or not the lender wishes to apply to sell CA loans in SBA's secondary market.

The application will be evaluated and a decision made for participation in the CA Pilot Program. As part of this evaluation, determinations will be made as to the degree to which the CA Lender may be "delegated authority" to make credit decisions on CA loans and whether the lender may participate in the secondary market, if applicable. If an applicant is approved to participate, it will be designated a Community Advantage Lending Company (CA Lender). If approved to participate in the CA Pilot Program, the lenders will not be able to make 7(a) loans other than through the pilot.

The information identified below must be included with the Community Advantage Lender Participation Application, SBA Form 2301, Part E.

1. Required Application Information

- a. **Tax Exempt Certification.** A copy of applicant's IRS Tax Exempt certification, if applicable.
- b. **Good Standing.** A copy of a Certificate of Good Standing from the Secretary of State from the State where the lender is organized.
- c. **Opinion of Counsel.** An opinion of independent counsel that the lender is in compliance with applicable Federal, State, and local laws in the formation and organization of the company, and with appropriate Federal and/or State security laws; and is chartered to conduct its business in the proposed operating area. "Independent

Counsel” is counsel that is not an “Associate” of the lender as defined in [13 CFR 120.10](#).

Officers and Directors. A list of officers and directors with a resume and “Statement of Personal History,” SBA Form 1081, signed and dated within 90 days of submission to SBA, for each individual listed. Any officer or director who answered “yes” to question numbers 10a, 10b, 10c or 11 on SBA Form 1081 must also submit fingerprint cards. (New SBA Forms 1081 are not required if already submitted to SBA as part of SBA’s 504 or Micro Loan programs. This information will be required of any directors and officers who have not previously provided it. Certification to this effect will be required on SBA Form 2301, Part E.)

- d. **Key Personnel.** A list of key personnel (current and proposed) who will be instrumental in administering the CA Pilot Program requirements with a resume and “Statement of Personal History,” SBA Form 1081, signed and dated within 90 days of submission to SBA, for each individual listed. Any key employee who answered “yes” to question numbers 10a, 10b, 10c or 11 on SBA Form 1081 must also submit fingerprint cards.
- e. **Board Resolution.** Certified copy of a Resolution of the Board of Directors authorizing submission of applicant’s application.
- f. **CDFI Certification.** If a CDFI, a copy of most recent certification from the U.S. Treasury, CDFI Fund.
- g. **Business Plan.** A business plan addressing the applicant’s small business lending activities and proposed operations for the CA Pilot Program. Appendix A to this guide identifies the items that SBA expects to be included in the business plan submitted as part of the CA Lender application.
- h. **Audited Financial Statements.** Copies of the applicant's year-end audited financial statements for the last two years. Audited year-end financial statements are not required as part of the application for CDCs and Micro-Lenders if already submitted to SBA under the existing program requirements for CDCs and Micro-Lenders

however, the application should so indicate. If applicant has not had audited financial statements in the past, they may submit compiled financial statements for consideration. (Approved CA Lenders will be required to submit audited financial statements annually going forward.)

- i. **Interim Financial Statements.** Interim financial statements dated within 90 days of the application covering the period from the last audited statement to the end of the most recent quarter.
- j. **Funding Sources.** Schedule of sources of funding and funds received and available for the two year period covered by the audited financial statements.
- k. **Loan Loss Reserve.** Description of existing loan loss reserve methodology, including any risk assessments or classifications. Schedule of loan loss reserve components with loan loss reserve calculations for the previous eight quarters and description of the loan loss reserve allocations for the loan programs that the applicant currently participates in.
- l. **Lending Policies.** A copy of lending policies and procedures governing business loan origination, servicing and liquidation.
- m. **Other Information.** Any other information the lender considers relevant for SBA to consider in evaluating the application.

If there is a delay in obtaining an applicant's certificate of good standing and board resolutions, the application may be submitted without these documents and conditional approval may be granted pending receipt of these items.

To the degree an applicant has provided equivalent, current information on or as part of an application or for continued participation in the CDC, Microloan or CDFI programs, that information may be substituted provided it meets the intent of the requirement. SBA may follow-up if additional information is needed.

2. Certifications.

As part of SBA Form 2301, Part E, the applicant must provide the following certifications and, if applicable, additional information:

- a. **Organizational.** The applicant must certify that it has filed articles of incorporation and by-laws with either the SBA or the CDFI Fund in connection with its participation in the 504, Microloan and/or CDFI programs and that those organizing documents have not materially changed. If material changes have occurred, a copy of the current articles of incorporation and/or by-laws must be included with the application.
- b. **State Regulation.** The applicant must either certify that it is not subject to regulation by a state financial regulator or, if the applicant is subject to state regulation, the applicant must provide a certification that it is in good standing with the state financial regulator and provide the following information:
 - Copy of the State statute and/or regulations governing the applicant's operations.
 - Copy of the latest report of examination of the applicant by the State financial regulator.
 - Description of State prescribed capital requirements and a certification that the applicant meets the established capital requirements.
- c. **Officers and Directors.** The applicant, if it is an SBA-CDC and/or an SBA-Micro-Lender, must certify that the identification of the applicant's officers and directors previously provided to SBA is current and accurate as well as the name and date of the document containing such information. If any changes have occurred, the applicant must provide, with the application, a list of the current officers and directors. For each new officer and director named, the applicant must provide resumes, SBA Form 1081s, and, as applicable, fingerprint cards.

D. Where to Send the CA Application

The CA application should be sent to the SBA Field Office responsible for the area where the applicant is physically located. For the listing of the SBA Field Offices, please go to www.sba.gov/about-offices-list/2. The SBA Field Office

will assist applicants with completing the application, if necessary, and provide any additional information the Field Office considers important to consider in making a final determination including a recommendation as to disposition of the application. The SBA Field Office will submit the application to the Director, Office of Risk Management (ORM), who will make the final decision.

E. Evaluation Factors

The following factors will be considered in evaluating and making a determination regarding an application to participate in the CA Pilot Program. These criteria will also be used to determine the CA Lender's delegated authority and the ability to participate in the secondary market. Applicants will be evaluated based on their experience, portfolio size, financial viability and other factors described below:

1. Form of organization, compliance with requirements governing organization, and standing with Secretary of State.
2. Knowledge of SBA's 7(a) Loan Program Requirements (as that term is defined in 13 CFR 120.10). (Approval of a CA Lender may be conditioned on the CA Lender completing training on 7(a) loan program requirements (CA Lender Training Plan). If so, such training must be completed prior to making CA Loans.) Prospective CA Lender experience with the 7(a) loan program should be described and quantified, if applicable, e.g., if applicant packages SBA 7(a) loans for other lenders, indicate the number of packages prepared and the number of years performing this activity.
3. Experience with small business lending and the applicant's capacity and capability to make, service and liquidate small business loans.
4. Ability to provide or obtain services to provide management and technical assistance (M&TA).
5. Financial viability, including adequacy of loan loss reserves, to demonstrate the capacity to participate in the 7(a) loan program. If owned by another institution or entity, the Lender must show that it is financially viable in its own right and able to support its own operation (inclusive of grants, fundraising, and in-kind support).

6. Ability to meet the needs of CA underserved markets and an understanding of how participation in the CA Pilot Program will further that reach in terms of geography, products, loan size, volume, and very low income populations.
7. Adequate infrastructure and internal controls to manage the CA Lender's SBA loan program and portfolio.
8. Adequate staffing to manage and service the CA Lender's SBA 7(a) loan portfolio. Key personnel must have requisite skills and abilities to underwrite, approve, service and liquidate small business loans.
9. Other risk characteristics that SBA may identify; e.g., rapid growth, inadequate capital or loan loss reserve, outstanding enforcement actions, adverse action(s) with a state regulator or any supervisory actions issued by SBA or State regulator against applicant and/or its employees.
10. Information from the CDFI Assessment and Rating System (CARS) and CDFI assessments, SBA risk ratings and reviews, and/or other similar types of information, as available.
11. Other factors that may be identified by SBA.

The following additional factors will be considered for SBA-CDCs and SBA-Micro-Lenders applying to participate in the CA Pilot Program as well as delegated authority and, if applicable, secondary market participation:

1. Continued Good Standing with SBA; e.g., acceptable risk rating, satisfactory results of reviews/examinations, satisfactory operational and portfolio performance; satisfactory capacity to make, service and liquidate SBA 7(a) loans among other factors;
2. Compliance with SBA regulations and procedures governing these Programs;
3. Any SBA enforcement actions; and
4. Compliance with reporting requirements; remittance of required guaranty, servicing, and review fees, as applicable; and responsiveness to requests for information from SBA.

In addition to the factors identified above, for all applicants the level and sophistication of an applicant's lending operations, financial capacity and management will also be considered in making decisions on delegated authority and secondary market participation. In addition, for those applicants applying to participate in the secondary market, the following additional factors will be considered:

1. Applicant's approach to reserving for 7(a) loan losses including possible additional reserves for secondary market loans;
2. Ratio of net assets to total assets;
3. Positive net income measured on a 3-yr rolling average;
4. Operating liquidity ratio;
5. Ratio of 90 day delinquent loans to total equity plus loan loss reserves;
6. Knowledge of SBA Loan Program requirements including eligibility requirements; and
7. Other factors identified by SBA.

F. Evaluation Process

SBA's Office of Credit Risk Management (OCRM) will perform the following steps in evaluating the lender's application:

1. For existing SBA-CDC or SBA-Microloan Intermediaries determine compliance with SBA Loan Program Requirements governing the 504 and Microloan programs. For CDFI's determine that the CDFI is certified by the CDFI Fund, U.S. Department of Treasury.
2. Determine whether the applicant has the necessary capacity to make, service and liquidate SBA loans. (Approval of a CA Lender may be conditioned on completion of CA Lender Training Plan. If so, such training must be completed prior to making CA Loans.) Determine whether the applicant has the financial capacity to participate in the CA Pilot Program.
3. Assess the qualifications and ability of the applicant to meet the goals of the CA Pilot Program including the provision of M&TA. (M&TA is not required for each individual CA loan but the CA Lender must have the capacity to provide M&TA – either itself or through outside resources – as part participation in the CA Pilot Program. The applicant's ability to assess the need for M&TA and provide it to small business borrowers (with the lender determining whether and what type of M&TA is

necessary) is considered one of the benefits of allowing mission-oriented lenders to participate in the CA Pilot Program.)

4. Assess the lender's capacity to participate in the secondary market, if applicable.
5. Make a recommendation to the Director, Office of Risk Management (D/ORM) to approve or decline the applicant's participation in the CA Pilot Program, participation as a delegated lender, and, if applicable, participation in the secondary market.

G. Decision

The D/ORM makes the final determination on whether to approve an applicant as a CA Lender, whether to approve delegated authority and, if applicable, participation in the secondary market. Once a final determination is made, the D/ORM will notify the applicant in writing of the decision with a copy to the Director, Office of Financial Assistance (D/OFA) and the appropriate SBA Field Office. If an application is not approved, the applicant will be notified in writing with the reasons the application was not approved.

Each CA Lender will be identified as either a Small Business Lending Company (SBLC) or a Non-Federally Regulated Lender (NFRL), depending on whether the lender is subject to regulation by a state. Accordingly, all CA Lenders will be SBA Supervised Lenders, as that term is defined in 13 CFR 120.10 and will be subject to all regulatory and other provisions applicable to SBA Supervised Lenders unless specifically waived or modified in the Federal Register Notice published on February 18, 2011 [[76 FR 9626](#)].

Approval to participate in the CA Pilot Program will be for the three year period of the pilot. If the CA Pilot Program is not extended, each CA Lender will be required to continue to service and liquidate its CA loans in accordance with the terms of the pilot, but will not be able to make any new CA loans. If the CA Pilot Program is extended or made permanent, each CA Lender's authority to participate will be renewed based on the lender's compliance with the program requirements including the requirement to make 60% of their loan to small businesses in the CA underserved markets.

If the applicant is approved to participate in the CA Pilot Program, it will receive one of the following designations as to the level of delegated authority the CA Lender will have.

- Full Delegation – Tier One
- Conditional Delegation – Tier Two
- Non-Delegation – Tier Three

See Section III, Delegated Authority, for additional information on the three tiers of delegation.

Additionally, if a CA Lender is approved to participate in the secondary market, the CA Lender will be notified in writing along with any restrictions that may be applied. If a lender is not approved to participate in the secondary market, the lender will be notified in writing of the SBA's reasons for not allowing secondary market sales.

While CA Lenders may be approved to sell the guaranteed portion of SBA loans in the secondary market, CA Lenders may not sell the unguaranteed portion of SBA loans including but not limited to loan participations or securitizations.

Once notified of the approval of an applicant, ORM will execute an SBA Form 750CA with the lender and enter information in the SBA's Partner Information Management System "PIMS." The CA Lender is required to return a signed copy of SBA Form 750CA to SBA within 30 days of notification of approval. The CA Lender will be allowed to submit CA loans to the Standard 7(a) Loan Guarantee Processing Center (LGPC) once the D/ORM has received the executed SBA Form 750CA from the CA Lender, and any required training has been completed.

A training and orientation program will be available to approved CA Lenders provided by the local SBA field office with assistance from OCRM, as needed. The training program will typically meet the requirement for a lender's CA Lender Training Plan that may be required as a condition of approval.

Approval or denial decisions will be made within 45 days of the receipt of a complete application package or the applicant will receive a notice as to the reason for the delay and the expected timing.

H. Reconsideration

If ORM denies the application to participate in the CA Pilot Program, the applicant may submit a request for reconsideration within 30 days from the date of the notification letter. The reconsideration request is to be sent to the attention of the Director, Office of Risk Management and should include any substantive facts and documentation in support of its request. The Associate Administrator for Capital Access will reconsider the decision made by the D/ORM and notify the applicant of the decision within 30 days of receipt of the request.

III. Delegated Authority

A. *Initial Determination of Delegation of Authority*

1. Three Possible Determinations on Delegation of Authority.

As noted in Section II above, when a lender is first approved to participate in the CA Pilot Program, a determination is made as to which of the three tiers a lender is placed in relative to delegated authority.

- a. **Full Delegation (Tier One)**. If a CA Lender is designated as Tier One, the lender will be able to make CA loans on a delegated basis after they have satisfactorily submitted at least ten CA loans to the LGPC. Until such time, a Tier One lender must follow the procedures for non-delegated lenders.
- b. **Conditional Delegation (Tier Two)**. If a CA Lender is designated as Tier Two, SBA has identified an operational issue that must be addressed prior to the CA Lender becoming a delegated lender. In addition, the Tier Two CA Lender also must satisfactorily submit at least ten CA loans that are approved by the LGPC prior to becoming a fully delegated CA Lender. Operational issues may include recommendations to enhance a CA Lender's ability to make CA loans. Until a CA Lender meets these requirements, it must follow the procedures for non-delegated lenders.
- c. **Non-Delegation (Tier Three)**. If a CA Lender is designated as Tier Three, it may not make loans on a delegated basis and must submit all loans to the LGPC for approval. (See Section VI for further information on submitting CA loan applications.) Non-delegated lenders may request delegated authority after the CA Lender has participated in the CA Pilot Loan Program for one year and a review has been conducted by SBA's Office of Credit Risk Management (OCRM).

2. **Ten Loan Requirement.**

Tier One and Tier Two CA Lenders must satisfactorily submit at least ten loans to the LGPC for approval prior to receiving approval to use

delegated authority. Satisfactorily submitting a loan includes receiving approval for the 7(a) loan from LGPC.

a. **Full Delegation (Tier One).** In reviewing and approving the ten loans, the LGPC will evaluate the CA Lender's knowledge of SBA program requirements and its ability to adequately underwrite small business loans. The criteria applied to each loan will include the following:

- Size and type of loan, use of proceeds.
- Was loan package complete?
- Was credit underwriting analysis complete or was additional information needed?
- If additional information was needed, was lender responsive and knowledgeable about what was needed?
- Was eligibility assessment adequate?
- Did loan package demonstrate a knowledge and understanding of SBA Loan Program Requirements?
- Did interactions with lender provide confidence about their knowledge of the credit and their ability to adequately close and manage the loan?
- Any reservations about ability to make loans on a delegated basis?
- Other comments or issues with the application or the CA Lender's ability to make CA loans on a delegated basis.

The LGPC will make the information on the individual loans approved available to OCRM. Once at least ten loans have been submitted and approved in a satisfactory manner with no significant concerns or issues identified, OCRM will notify the CA Lender that it is approved to make CA Loans on a delegated basis. An Addendum to the SBA Form 750CA will be provided to the CA Lender at that time. Once the executed Addendum to SBA Form 750CA has been provided to SBA and entered into PIMS, the CA Lender may begin making CA Loans on a delegated basis. (See Section VI for further information on submitting CA loan applications.

b. **Tier Two - Conditional Delegation.** In reviewing and approving the ten loans, the LGPC will evaluate the CA Lender's knowledge of SBA program requirements and its ability to adequately underwrite small business loans using the same criteria as described above. In addition, the CA Lender must provide the

D/ORM with information indicating how any additional operational issues identified during the application evaluation process have been addressed. Once a determination has been made that the operational issues have been adequately addressed to SBA's satisfaction and at least ten CA loans have been submitted and approved in a satisfactory manner with no significant concerns or issues identified, OCRM will notify the CA lender that it is approved to make CA Loans on a delegated basis. An Addendum to the SBA Form 750CA will be provided to the CA Lender at that time. Once the executed Addendum to the SBA Form 750CA has been provided to SBA and entered into PIMS, the CA Lender may begin making CA Loans on a delegated basis.

B. Delegation Period

The initial delegation of authority will be for a period of one year. During that time OCRM will monitor the performance of the CA Lenders and will conduct a review, either on-site or a desk review, to further assess a CA Lender's understanding of the program and its ability to process, close, service and liquidate CA loans.

C. Renewals of Delegated Authority

After the first year of delegated authority, a CA Lender's delegation of authority may be renewed for up to 2 years based on the following factors:

1. Demonstrated achievements in reaching underserved markets with at least 60% of CA loans made to businesses in:
 - Low-to-Moderate Income (LMI) communities (while not a specific requirement CA Lenders are encouraged to serve low and very-low income communities);
 - Empowerment Zones and Enterprise Communities;
 - HUBZones;
 - New businesses, e.g., firms in business for no more than two years;
 - Businesses eligible for Patriot Express including Veteran-owned businesses; and/or
 - Firms where more than 50% of their full time workforce is low-income or resides in LMI census tracts.

2. Continued ability to effectively process, close, service, and liquidate SBA loans; and is in compliance with SBA Loan Program Requirements (as defined in 13 CFR 120.10).
3. If an existing SBA-CDC or SBA-Intermediary, it is in compliance with SBA regulations and procedures governing these programs.
4. Continued good standing with SBA and satisfactory performance of the SBA loan portfolio as determined by SBA in its discretion. The Lender's Risk Rating, among other factors, will be considered in determining satisfactory SBA performance. Other factors may include, but are not limited to, on-site review/examination assessments, historical performance measures (like default rate, purchase rate and loss rate, performance averages are comparable to peer group, such as, delinquent, past due, liquidation and purchase rates), loan volume to the extent that it impacts performance measures, other performance related measurements and information, including the portion of the portfolio in CA underserved markets, and any other risk characteristics that SBA may deem appropriate.
5. In good standing with its State Secretary of State. If the lender has had any adverse action, it is to be disclosed and SBA will determine in its discretion whether those actions or agreements make the lender ineligible for CA delegated status or continued participation in the CA Pilot Program.
6. In good standing with CA Lender's state regulator including compliance with capital requirements as prescribed by the CA Lender's State regulator, as applicable.
7. Financial viability including adequacy of capital and/or loan loss reserve account.
8. No enforcement actions issued by the SBA or State regulatory against the CA Lender and/or employees, officers or directors.
9. Adequate staff to manage and service the CA Lender's portfolio and key personnel has requisite skills and abilities to underwrite, approve, service and liquidate small business loans, particularly the 7(a) loan portfolio.
10. Current in submitting required monthly, quarterly and annual reports including 1502 reports; is responsive to SBA program offices' request for information; and current in remitting required guaranty, servicing and review fees.

11. Changes to the CA Lender's organizational structure, SBA Loan Department, business plan and/or business model.
12. Other relevant factors that may be identified by SBA.

The D/ORM makes the final determination on the renewal of delegated authority and notifies the CA Lender, SBA Field Office, and the D/OFA.

D. Approval of Renewal of Delegated Authority

If the renewal of delegated authority is approved, OCRM executes a new Addendum to SBA Form 750CA with the CA Lender. If the renewal is not approved, the CA Lender must process its CA Loans using non-delegated procedures and may reapply for delegated authority after they have overcome the reasons for decline.

IV. Responsibilities of CA Lenders

In making SBA-guaranteed loans, CA Lenders:

1. Submit applications for guaranty through e-Tran (SBA's electronic loan application system). See Section V below for additional information on how to submit a CA loan for approval.
2. Execute the Authorization (the document that identifies the conditions under which the loan is approved).
3. Close the loan in accordance with the terms of the Authorization, all policies, Agency regulations, SOP 50 10 and other Loan Program Requirements as that term is defined in 13 CFR 120.10) related to loan closing. SBA Micro-Lenders may not use their SBA intermediary loan to fund either the CA loan or the required loan loss reserve account for CA loans.
4. Maintain complete loan files.
5. Service the loan in accordance with Agency regulations, SOP 50 50 and other Loan Program Requirements (as that term is defined in 13 CFR 120.10) related to loan servicing.

6. Liquidate the loan in accordance with Agency regulations, SOP 50 51 and other Loan Program Requirements (as that term is defined in 13 CFR 120.10) related to liquidation.
7. Comply with SBA Loan Program Requirements (13 CFR 120.10) as such requirements are revised from time to time.
8. Ensure that at least 60% of CA loans are made in the CA underserved markets identified on page one of this guide. Applications for individual CA loans will indicate which category of underserved markets it the loan would meet, if applicable. This will be monitored by SBA and reviewed as part of the OCRM review process. CA Lenders also provide an annual report that must demonstrate how the CA Lender is meeting this requirement.
9. Pay the required guaranty fees – upfront and on-going fees – for loans approved.
10. Comply with the same provisions regarding preferences, Ethical Requirements Placed on a Lender, Forward Commitments, and Advertising of Relationship with SBA as all other 7(a) Participating Lenders. (See SOP 50 10 5(C), Subpart A, Chapter 1, Paragraph C.5-8.)
11. Reserve Requirements. CA Lenders are required to create a Loan Loss Reserve Account (LLRA) to cover potential losses arising from defaulted loans. The reserve fund is to cover both losses from the unguaranteed portion of defaulted loans as well as possible repairs and denials associated with SBA's guaranty on the defaulted loan. The LLRA must be maintained separate from other reserve accounts the CA Lender may maintain and it must be deposited in a Federally insured demand, savings or certificate of deposit account in an amount, to the extent practicable, not in excess of the maximum insured amount. The LLRA cannot be commingled with any other loan loss reserve fund of the CA Lender, its parent or related entities. The LLRA must equal 15 percent of the outstanding amount of the unguaranteed portion of a CA Lender's CA loan portfolio including loans sold in the secondary market. The CA Lender must reconcile the LLRA on a monthly basis to ensure the appropriate amount is maintained. The CA Lender's audited financial statements must include an assessment of the lender's compliance with loan loss reserve account requirements for the CA Pilot Program. Failure to maintain the loan loss reserve account as required may result in removal from the CA Loan Program and/or the imposition of additional controls or reserve amounts. SBA in its discretion may require additional amounts to be included in the LLRA based on the risk characteristics and performance of the CA

Lender. SBA microloan intermediaries may not use their SBA intermediary loan to fund the reserve for CA loans (nor may they use it to fund CA loans).

V. Community Advantage Pilot Program Loans

A. Making Community Advantage Loans

1. Basic Terms

The basic terms of CA loans are the same as standard 7(a) loans with the following exceptions:

Maximum Interest Rate	Prime +4%
Maximum Loan Size	\$250,000
Revolving lines	Not allowed
Provision of M&TA	Encouraged when appropriate. The CA loan application contains a section to identify what, if any, management and technical assistance was provided by the CA Lender to the borrower. However, M&TA is not required for each individual CA Loan.

The loan terms and conditions applicable to standard 7(a) loans are set forth in 13 CFR Part 120 and in SOP 50 10 5, Subpart B, Chapter 3. This chapter of SOP 50 10 5 governs maximum guaranty amounts, loan maturities, interest rate policy (fixed or variable, frequency of adjustment period, etc., subject to the maximum identified above for CA loans), SBA guaranty fees, other fees allowed to be charged in connection with an SBA-guaranteed loan, the disclosure of fees and lender expenses, and loan agents. SBA Micro-Lenders may not use their SBA intermediary loan to fund CA loans. CA loans may not be used to refinance loans made by or guaranteed by the Department of Agriculture or loans made by SBA Micro-Lenders using their SBA intermediary loan.

2. Eligibility

The loan eligibility requirements also are the same as for standard 7(a) loans as set forth in 13 CFR Part 120 and SOP 50 10 5, Subpart B, Chapter

3. Credit Underwriting, Collateral and Environmental Requirements

CA Lenders are to follow the credit underwriting procedures for the Small/Rural Lender Advantage (S/RLA) loan program as set forth in SOP 50 10 5, Subpart B, Chapter 4, and in SBA Form 2301, Part B.

CA Lenders are to follow the collateral and environmental requirements applicable to standard 7(a) loans, which also are set forth in SOP 50 10 5, Subpart B, Chapter 4.

4. How to Apply for a CA Loan Guaranty

a. Required documentation:

(i) Complete, signed and dated SBA Form 2301, Part A, Lender Advantage Initiative, including the Addendum for CA applicants only, identifying any management & technical assistance the applicant may have received. Only one principal needs to complete, sign and date the entire form; all other principals and guarantors only need to complete, sign and date Section D.

(ii) Complete, signed and dated SBA Form 2301, Part B, Lender's Application for Guaranty.

(iii) Eligibility Checklist:

(a) Non-Delegated Lenders: Complete, signed and dated SBA Form 2301, Part C, Eligibility Questionnaire, including any additional information SBA requires due to any "false" responses indicated on the form. The lender and applicant must sign this form. (Tier One and Tier Two CA Lenders will use this form until they have been approved to submit loans using their delegated authority.)

(b) Delegated Lenders: Complete, signed and dated SBA Form 2301, Part D, Eligibility Information for Community Advantage (CA) Loans. The lender completes and signs this form.

(iv) Copy of the lender's credit memorandum addressing all of the requirements set forth in SOP 50 10 5, Subpart B, Chapter 4 for S/RLA, as indicated in paragraph 3 immediately above.

- b. Where to submit the application:
- (i) Non-delegated Lenders (Tier One and Tier Two CA Lenders follow this procedure until they have been approved to submit loans using their delegated authority):

CA loan applications are sent to the LGPC via e-Tran. Required forms, documentation and credit analyses are provided as attachments and sent electronically using either of the following options with the application number in the subject line.

(a) Email: 7aloanprogram@sba.gov if attachments are under 9 megabytes in size.

(b) Website:
<http://archive.sba.gov/aboutsba/sbaprograms/elending/lgpc/index.html> and click on "Submit 7(a) Documents Here."

- (ii) Delegated Lenders:

All requests for a CA loan number must be sent to the LGPC electronically through e-Tran. E-Tran is a secure web site where CA Lenders can enter loan information for a single loan or send multiple applications simultaneously via an XML (Extensible Markup Language) file transfer. Several software developers have e-Tran functionality built into their SBA loan software. For e-Tran information go to:

<http://archive.sba.gov/aboutsba/sbaprograms/elending/etran/index.html> SBA Field Offices are available to provide training for CA Lenders on e-Tran and e-Tran training will be included as part of the initial training for all CA Lenders. Delegated lenders do not need to submit supporting forms and credit analyses to SBA but must maintain them in their loan files.

5. Loan Authorization, Loan Closing and Disbursement

- a. **Loan Authorization.** The CA Lender sets the terms and conditions for extending credit to the borrower. SBA establishes the terms and

conditions for its loan guaranty. The Authorization is SBA's written agreement between the SBA and the CA Lender providing the terms and conditions under which SBA will guarantee a business loan. For further guidance on the Authorization, see SOP 50 10 5, Subpart B, Chapter 5.

- b. **Loan Closing and Disbursement.** CA Lenders are to follow the loan closing and disbursement requirements set forth in SOP 50 10 5, Subpart B, Chapter 7.

B. Loan Servicing, Liquidation and Guaranty Purchase

1. Loan Servicing

SBA requirements for post disbursement loan servicing are specified in SBA's SOP 50 50, Loan Servicing. This SOP provides detail about the requirements lenders must follow and the guidelines they may follow when servicing loans guaranteed by SBA.

In addition, lenders' responsibilities with regard to servicing are set forth in [13 CFR 120.535](#) and [120.536](#).

2. Loan Liquidation

SBA requirements for loan liquidation are specified in SBA's SOP 50 51 3, Loan Liquidation. This SOP provides detail about the requirements lenders must follow and the recommended rules they may follow when liquidating loans guaranteed by SBA. In addition, lenders' responsibilities with regard to liquidation are set forth in [13 CFR 120.535](#) and [120.536](#).

3. Guaranty Purchase

CA Loans will be subject to the same requirements and procedures governing guaranty purchase as standard 7(a) loans, which are set forth in 13 CFR 120.520 through 120.524 and Chapters 22 & 23 of SOP 50 51 3.

VI. Reporting Requirements

A. Reports.

1. Annual Report

Within 90 days after the end of a CA Lender's fiscal year, CA Lenders will be required to submit annual Reports demonstrating compliance with their business plan and describing M&TA practices to the D/ORM. (M&TA is not required for each individual CA Loan but the CA Lender must have the capacity to provide M&TA – either itself or through outside resources – as part participation in the the CA Pilot Program. The CA Lender's ability to assess the need for M&TA and provide it to small business borrowers (with the lender determining whether and what type of M&TA is necessary) is considered one of the benefits of allowing mission-oriented lenders to participate in the CA Pilot Program.) The Annual Report must and demonstrate that 60% of loans are made to small businesses in the CA underserved markets identified in Section I of this guide. The CA Lender's audited financial statements for the year must be included with the Annual Report. The Annual Report and a CA Lender's compliance with the 60% requirement, along with other program requirements will be reviewed by OCRM.

2. Annual Audited Financial Statements.

CA Lenders must submit annual audited financial statements. The CA Lender's audited financial statements must include an assessment of the lender's compliance with loan loss reserve account requirements for the CA Pilot Program. These statements are due within 90 days of the end of the CA Lender's fiscal year. Audited financial statements should be submitted as part of the CA Lender's Annual Report.

3. Quarterly Reporting

CA Lenders must submit a Quarterly Report to the D/ORM that includes a copy of their balance sheet and income statement and detailed information on the following items:

- Capital Adequacy/Loan Loss Reserve Account
- Delinquencies/ Non-Accruals

- Technical Assistance Provided
- Underserved Market Distributions
- Classified Assets/Loss Allowance

4. 1502 Reporting

Monthly 1502 Reporting- Lenders must provide a monthly report on SBA Form 1502 that includes loan status information for all of their SBA guaranteed loans, regardless of whether the borrower made a payment in the current month. The procedures for reporting can be found at SOP 50 10 5, Subpart B, Chapter 8.

B. Maintenance of Records

Each CA lender shall maintain its records in accordance with the requirements set forth in 13 CFR 120.461.

C. Change of Lender Authority

If a CA Lender makes a major change in its structure or organization, it must notify the SBA field office in writing. Major changes include:

1. Acquisition by another entity;
2. Merge into another legal entity;
3. A change of name;
4. Substantial changes in management and/or SBA lending staff;
5. Substantial changes in how the lender handles SBA loans; or
6. Take over or closure of the lender by a regulatory agency.

If a CA Lender continues as the same legal entity that signed the SBA Forms 750CA and Addendum for Delegated Lenders, and . . .

(1) The CA Lender changes its name.

Then . . .

The Lender Transaction Team (LTT) in OCRM records the name change. The lender's CA authority is not changed. A new SBA Form 750CA or Addendum is not needed.

(2) The CA Lender is acquired by another entity. The CA Lender continues as a separate legal entity.

The LTT records the holding company name. The lender's CA authority is not changed. A new SBA Form 750CA or Addendum is not needed.

If a CA Lender continues as the same legal entity that signed the SBA Form 750CA and Addendum and . . .

Then . . .

(3) The CA Lender acquires another lender. The acquired lender does not continue as a separate legal entity.

The CA Lender may continue to make CA loans under its CA authority unless there is a substantial change in its ability to make CA loans.

(4) The CA Lender acquires another lender. The acquired lender continues as a separate legal entity.

The acquired lender may not make CA loans. The acquired lender may apply to participate in CA.

(5) The lender is closed or taken over by a regulatory authority.

The lender's CA authority to make CA loans automatically terminates and the lender must cooperate with SBA to transfer responsibility for servicing and liquidating its CA loan portfolio. The LTT notifies the lender, SBA field office(s), and the LGPC that the lender may not make any more CA loans.

(6) The lender changes its operations so much that it cannot show that it handles SBA loans appropriately.

SBA will not renew the CA Lender's authority, or will suspend or revoke the lender's CA authority.

If a CA Lender does not continue as the legal entity that executed the SBA Form 750CA and Addendum and . . .

Then . . .

(1) The CA Lender is merged into a non-CA Lender. The original CA Lender's SBA operations are unchanged.

The original CA Lender no longer has the authority to make CA loans. The surviving lender must apply for CA authority and execute a 750CA, or cooperate with SBA to transfer responsibility for servicing and liquidating the original CA Lender's CA loan portfolio.

(2) The CA Lender is merged into another CA Lender.

The original CA Lender no longer has the authority to make CA loans under its agreements with SBA. However, CA loans can be made under the surviving CA Lender's agreements and the surviving CA Lender is responsible for servicing and liquidating the original CA Lender's CA loan portfolio.

(3) The CA Lender is dissolved. It does not merge into another lender.

The CA Lender's authority to make CA loans automatically terminates and the lender must cooperate with SBA to transfer responsibility for servicing and liquidating its CA loan portfolio. The LTT notifies the lender, SBA Field Office(s) and the LGPC that the lender may not make any more CA loans.

D. Additional Requirements for CA Lenders

In addition, CA lenders shall comply with the reporting requirements in the regulations at 13 CFR 12.464.

VII. Community Advantage Lender Oversight

CA Lender oversight procedures shall follow the requirements set forth in 13 CFR 120 – Subpart I and SOPs 50 53 (Lender Supervision and Enforcement) and 51 00 (On-Site Lender Reviews and Examinations). CA Lenders will be monitored both for

performance and other risk characteristics as well as for compliance with the requirements of the CA Pilot Program.

A. *Monitoring*

OCRM off-site monitoring will be conducted using the Loan and Lender Monitoring System (L/LMS). L/LMS details historical, current and projected performance data for each individual lender. CA Lenders may access their individual information via the Lender Portal. As discussed in section VII of this guide, CA Lenders will be required to submit both Quarterly Reports and Annual Reports. Lender review/examination cycles will vary based upon the underlying risk their SBA portfolio poses.

B. *Reviews/Examinations*

Lender reviews/examinations will follow the requirements set forth in 13 CFR 120.1025 through 120.1060 and SOP 51 00 except as modified below. All participating lenders will receive an examination after the first year of operations. Thereafter, examinations and/or reviews will take place as set forth below:

SBA exposure <\$5 million	Typically will receive a desk review every 2-3 years, or more frequently, as appropriate.
SBA exposure \$5 million to \$50 million	Typically will receive a modified on-site examination or review every 2-3 years, or more frequently, as appropriate.
SBA exposure >\$50 million	Typically will receive a full on-site examination or expanded review every 2-3 years, or more frequently, as appropriate
Lenders deemed higher risk due to significant deviations from their approved business plan, performance problems, or other issues identified by OCRM	Will receive a full on-site examination or expanded review every 1-2 years, or more frequently, as appropriate.

The table above presents guidelines for oversight reviews. OCRM will conduct desk reviews, targeted reviews, on-site reviews, expanded on-site reviews and/or examinations based on the lender's level of activity, performance metrics, risk rating and other relevant information and risk characteristics including information from SBA's processing, servicing and liquidation/guaranty purchase centers. CA lenders will pay the costs of such reviews and/or examinations as set forth in 13 CFR 120.1070.

L/LMS provides performance information that allows SBA to monitor and conduct off-site reviews of all lenders. L/LMS contains historical and projected performance data and is used in the following ways:

- For use in planning and conducting on-site reviews or examinations;
- To assist in prioritizing on-site reviews or examinations; and
- As a system to monitor lenders.

Additional information regarding on-site reviews and examinations can be found in 13 CFR 120.1050-1060 and SBA's SOP 51 00.

Additionally, in accordance with 13 CFR 120.1010, a lender 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.

C. Community Advantage Oversight Review Fees

1. Lender Oversight Fees

Lenders are required to pay SBA fees to cover the costs of examinations and reviews as described below and, if assessed by SBA, other lender oversight activities. (13 CFR 120.1070). The schedule in Appendix B provides an estimate of current oversight costs.

- a. The cost of conducting on-site safety and soundness examinations of CA Lenders.

- b. The cost of conducting an on-site review of CA Lenders.
- c. The cost of conducting desk reviews of CA Lenders.
- d. The cost of conducting off-site reviews/monitoring of CA Lenders including the SBA-assessed charge based on the size of the lender's SBA-guaranteed portfolio; and
- e. Any additional expenses that SBA incurs in carrying out lender oversight activities.

2. **Billing**

For the on-site examinations or reviews, SBA will invoice each lender for the amount owed following completion of the examination or review.

For the off-site reviews/monitoring conducted, and other lender oversight expenses incurred, SBA typically invoices each lender on an annual basis. The annual assessment for off-site reviews/monitoring is currently sent to lenders each January based on a lender's outstanding balances as of September 30. The billing and payment process is as follows:

- a. The invoice will state the charges, the date by which payment is due and the approved payment method(s).
- b. The payment due date will be no less than 30 calendar days from the invoice date. SBA may waive the assessment of the fee for those lenders owing less than a threshold amount below which SBA determines that it is not cost effective to collect the fee.
- c. 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. 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, limit or revoke a lender's authority as a participant, including but not limited to, a participant's delegated authority. (13 CFR 120.1070).

D. Community Advantage Supervision & Enforcement

An integral part of overseeing the 7(a) loan program is SBA's authority to supervise and take enforcement actions as necessary. The regulations at 13 CFR 120.1400 through 120.1600 and the provisions of SOP 50 53 apply. If the CA Lender does not comply with the requirements of the CA Pilot program, it may form the basis of a supervisory or enforcement action as described in the regulations or the SOP.

APPENDIX A

Business Plan Components

1. **Organization Chart.** Organization chart with narrative description of organizational units. The organizational chart must also present and describe affiliated entities and the relationship between them.
2. **Lending Operations.** Narrative description of proposed operations including the internal organizational units involved in sourcing, evaluating and underwriting, closing, disbursing, servicing and liquidating small business loans. **Please note that these functions may not be outsourced or contracted outside of the applicant's organization.**
3. **CA Lending Activity.** Volume projections for planned CA loan activity for the first three years of participation.
4. **Pro Forma Financial Statements.** Projected balance sheet, income statement and statements of cash flows for two years, along with the related interest rate, default and prepayment assumptions. The plan projections should be assembled under three different operating scenarios – normalized activity, activity assuming a 30% reduction in projected lending, and activity based on a 50% reduction in projected lending. If applicable, the projections should also address the planned level and type of secondary market activity.
5. **Management and Technical Assistance (M&TA).** Description of available M&TA, or the procedure for referrals to outside assistance; a plan for identifying appropriate assistance for each borrower; a description of how the Lender will track the type of M&TA recommended for each borrower at the time the loan was made; and identification of M&TA services actually provided.
6. **Small Business Lending Expertise.** Description of lending activities particularly in the area of small business lending including data on the applicant's existing small business loan portfolio such as number of loans made, distribution of size and age of loans made, use of proceeds, type of loans made (secured or unsecured, revolving, term, etc.). Small business lending may have been done by a related organizational entity.
7. **Market and Client Information.** Description and data on the applicant's (a) client demographics; and (b) current and/or planned service area including the CA underserved markets in that area, the small business community and its financing needs, and the relevant economic, unemployment and poverty characteristics for the area.

APPENDIX B**Estimated Oversight Costs**

Community Advantage -- SBA Share Dollars Outstanding	Cost of On-site Review*	Cost of Offsite Review
Less than \$5 million	\$0.00 - \$30,000	\$0.00 - \$500
\$5 million to \$50 million	\$30,000 - \$60,000	\$500 - \$5,000
Greater than \$50 million*	\$75,000 or more	\$5,000 - \$10,000**

* Assumes on-site reviews will be conducted every 24 months after first year.

**Off-site review fees are assessed annually and are based on the total dollars outstanding that are guaranteed by SBA (SBA share). The \$10,000 offsite review fee corresponds to a portfolio with \$100M in SBA Share Dollars Outstanding.

Community Advantage -- SBA Share Dollars Outstanding	Annualized Cost of On-site Review*	Cost of Offsite Review	Total Annualized Oversight Costs
Less than \$5 million	\$0.00 - \$15,000	\$0.00 - \$500	\$15,500
\$5 million to \$50 million	\$15,000 - \$30,000	\$500 - \$5,000	\$15,500 - \$35,000
Greater than \$50 million*	\$37,500 or more	\$5,000 - \$10,000*	\$42,500 - \$47,500

*Assumes On-Site Review conducted every 24 months after first year.

** Off-site review fees are assessed annually and are based on the total dollars outstanding that are guaranteed by SBA (SBA share). The \$10,000 offsite review fee corresponds to a portfolio with \$100M in SBA Share Dollars Outstanding