

Dated: April 29, 2005.

Hector V. Barreto,
Administrator.

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SMALL BUSINESS ADMINISTRATION

Announcement of 504 Loan Application Streamlining Pilot

AGENCY: U.S. Small Business Administration (SBA).

ACTION: Notice of Pilot.

SUMMARY: In order to develop more consistent and efficient processes, SBA is streamlining the procedures for the submission of 504 loan applications to its Sacramento Loan Processing Center (SLPC) on a Pilot program basis.

The Pilot's modifications to the existing procedures fall into two categories:

(1) Changes in documentation submitted to SLPC that apply to all CDCs; and

(2) Changes in process that apply to CDCs meeting certain requirements.

Any existing procedures not addressed in this document are not affected and will continue with no change.

DATES: The Pilot is effective upon OMB's approval of the modifications to SBA Form 1244 (Application for Section 504 Loan) and will terminate one year from that date. SBA will notify CDCs upon receipt of OMB approval of the Form. The new procedures will apply with respect to loan applications a CDC submits after the effective date. Loans submitted to the SLPC before that date will continue to be processed under current standard procedures.

ADDRESSES: You may submit comments, identified as "Notice of Pilot" by any of the following methods: (1) Rulemaking portal at www.regulations.gov; (2) Agency Web site: <http://www.sba.gov/>; (3) E-mail: andrew.mccconnell@sba.gov; (4) Mail to: Andrew ("Bin") McConnell, Chief 504 Program Branch, Office of Financial Assistance, at 409 3rd St. SW., Washington, DC 20416; and (5) Hand Delivery/Courier: 409 3rd Street, SW., Washington, DC 20416.

FOR FURTHER INFORMATION CONTACT: Bin McConnell, Chief 504 Program Branch, Office of Financial Assistance, 409 3rd Street, SW., Washington, DC 20416, (202) 205-7238, or Richard Taylor, Director, Sacramento Loan Processing Center, at (916) 930-2462.

SUPPLEMENTARY INFORMATION:

Introduction

On September 30, 2004, the Small Business Administration (SBA) completed the process of transferring all 504 loan processing to a centralized facility, the Sacramento Loan Processing Center (SLPC), in Sacramento, California. This was a significant step in allowing the agency to develop more consistent and efficient processes.

Since then, SBA has been considering ways to streamline the process, both for CDCs and SBA staff. As the result of a recently completed analysis of the processing actions currently performed by the SLPC, and after discussions with industry representatives, the agency has determined that several modifications can be made to improve 504 loan processing. The agency will be testing these modifications in a 504 Loan Application Streamlining Pilot ("Pilot").

Purpose of Pilot

As with other streamlining efforts, the goal is to promote efficient use of staff and other valuable resources. In this case, the following are the goals that the agency proposes to meet through the Pilot:

- Enhance SBA's ability to process 504 applications efficiently,
- Reduce the physical size of the 504 application,
- Reduce the cost of shipping and storing files, and
- Reduce the paperwork submission burden on CDCs.

The Pilot has been designed to minimize any increased risk to the agency that might result from streamlined processes.

Discussion of Changes

This Pilot encompasses procedural changes and the waiver of one regulatory provision. Changes to 504 loan procedures fall into two categories:

(1) Changes in documentation submitted to SLPC that apply to all CDCs; and

(2) Changes in process that apply to CDCs meeting certain requirements.

Each of these changes is discussed in more detail below. SBA Form 1244 is being revised to reflect these changes. SBA has submitted a request to OMB, as required under the Paperwork Reduction Act, to approve the modification to SBA Form 1244 to reflect these changes.

I. Changes in documentation submitted to SLPC that apply to all CDCs: During the Pilot, CDCs will not be required to submit certain documents currently required, and will be required to address certain issues as part of the credit memorandum instead of

submitting the information in separate Exhibits. Borrower will also be allowed to provide a single certification instead of having to sign each exhibit individually (other than Exhibits 11 and 12, as further discussed below). Lastly, the timing of the submission of four documents will be changed to accommodate current business practices.

More specifically, the following are changes that apply to *all* 504 loan applications submitted to SLPC by all CDC:

1. The requirements of Exhibit 1—History of business and analysis of management ability, and Exhibit 5—Resumes of principals, will now be met by the CDC addressing these in the credit memorandum.

2. Changes in documents submitted to the SLPC as Exhibits to SBA Form 1244:

- Exhibit 2—The required eligibility analysis will be satisfied by the CDC completing and submitting SBA's Eligibility Checklist (available by calling, faxing, or e-mailing the SLPC) as Exhibit 2.

- Exhibit 4—Only a copy of the income tax return for the last full year will be required instead of the last 3 years of income tax returns.

- Exhibit 6—Only copies of the last 2 full years of income tax returns will be required instead of the last 3 years of income tax returns *except* if the alternate 7(a) size standard is being used. (This does not change the requirements for verification of financial information in the Authorization. The CDC is still required to verify the financial information in the application by obtaining tax information for 3 years using IRS Form 4506-T to IRS and comparing the financials to this information, as required in existing SBA guidance.)

- Exhibit 12—Only copies of the last 2 full years of income tax returns or financial statements for each affiliated or subsidiary business will be required instead of the past 3 years of income tax returns, except if the alternate 7(a) size standard is being used. A current financial statement for each affiliated or subsidiary business is no longer required to be submitted since it is not necessary for the size determination.

3. With the exception of Exhibits 11 and 12, the Borrower will no longer be required to sign and date each separate SBA Form 1244 Exhibit. The Borrower will be required instead to certify that all information in the SBA Form 1244 and Exhibits is true and correct, except that Exhibits 11 (Schedule of previous government financing) and 12 (Names of affiliated or subsidiary businesses) must

each be signed by the applicant/owner on the front page of the document.

4. The CDC must collect and retain all Exhibits to SBA Form 1244. CDC files containing the Exhibits must be available for review by SBA at any time.

5. CDCs should not submit Exhibit 15 (lease agreements), Exhibit 18 (closing costs), Exhibit 20 (resolutions), and Exhibit 23 (SBA Forms 159) to SBA until closing.

II. Changes in process that apply to CDCs meeting certain requirements:

This Pilot establishes a streamlined loan application processing procedure, referred to as Abridged Submission Method (ASM). A CDC that has been designated "ASM eligible" must submit a 504 loan application to SLPC that includes *only* the following:

- Credit memorandum,
- Draft loan authorization,
- SBA Form 1244.
- *Only* the following exhibits to the 1244:
 - eligibility checklist (Exhibit 2),
 - SBA Forms 912 (Exhibit 3),
 - Franchise documentation (Exhibit 13),
 - Collateral appraisals (Exhibit 16)
 - Environmental documentation (Exhibit 17),
 - INS Verification (Exhibit 21).

When SBA has the capability to accept scanned and/or digitized documents electronically, we will notify ASM participants that they may use that option.

CDCs using ASM must *collect and retain all the Exhibits* to SBA Form 1244 including those Exhibits not required to be submitted to the SLPC. The CDC files including the Exhibits must be available for review by SBA at any time. To identify CDCs eligible to participate in ASM, SLPC staff will review each CDC's 504 lending activity and performance.

CDCs will not be required to apply to participate in ASM. At the start of this Pilot (see **DATES** above), the SLPC will provide written notification to CDCs that qualify of its eligibility to participate, as of that date. As a courtesy, at approximately the time of the publication of this Notice, the SLPC will inform each CDC of its prospective status, based on the information available at that date. CDCs should be aware that any loans they submit between the date of the courtesy notification and the official notification may affect their status. Only CDCs that are eligible on or after the effective date of the pilot may use ASM.

There are two criteria a CDC must meet to be eligible for ASM:

1. A CDC must either:
 - a. Be a participant in SBA's Accredited Lenders Program (ALP) or

Premier Certified Lenders Program (PCLP), *or*

b. Have submitted at least twenty-five (25) 504 loans to the SLPC in the last 12 months, *and* have passed three or more of the benchmark measures using SBA's most recent data. (A description of the Benchmarks is available at <http://www.sba.gov/banking/programguide.html>.) (**Note:** SBA will replace the benchmark requirement with SBA's Office of Lender Oversight risk rating system when that system's use is finalized in a subsequent Register Notice.) and

2. A CDC must earn an average "Loan Package Score" (LPS) numeric equivalent rating of no more than "1.9" *AND* have no loans rated "C" or lower among the most recent 10 loans submitted.

Appendix 1 to this Notice describes the LPS in detail. In summary, during processing SLPC staff evaluates and rates each 504 loan application package based on quality and presentation. The rating will range from "A" to "E" with "A" being the highest possible rating. (For purposes of numeric calculation the "A" through "E" designation will be converted as follows: "A" = 1, "B" = 2, "C" = 3, "D" = 4 and "E" = 5.) SLPC computes the rating by assigning equal weights (one-third) to the following three factors:

- CDC submitted all necessary documents and data.
- CDC completely and accurately analyzed the eligibility of the transaction.
- CDC produced a complete and thorough credit analysis.

The quality level of loan packages a CDC presents is the key to the SLPC's ability to expedite processing of approval requests. Consequently, the "cut-off" numeric equivalent average score of "1.9" was selected to ensure that only CDCs with packages of the highest quality are allowed to use the ASM. After receiving ASM status, if the CDC's numeric equivalent average LPS for the most recent 25 loans processed is more than "1.9" or if the CDC's submission of any one loan package rates a "C" or lower, the CDC will lose its ASM status. In the case of a numeric equivalent average LPS that exceeds "1.9" the CDC will again become eligible for ASM once its numeric equivalent average rating for its 25 most recent loans is no more than "1.9". In the case of a single loan package rated "C" or lower, the CDC will again become eligible with the subsequent submission of five (5) sequential non-ASM loan packages that rate a numeric equivalent average of no more than "1.9". These are carefully considered

decisions based on the fact that SBA staff will not be scrutinizing all individual source documents in an ASM application. Establishing a high standard for performance will reduce the risk to the agency in implementing the ASM. A CDC may appeal the rating provided by the SLPC to the Associate Administrator for Financial Assistance.

Monitoring—To monitor the CDC's continued eligibility to use ASM, the SLPC periodically will require the CDC to submit a full 504 loan application for review. The general frequency will be one (1) loan out of ten (10), within the following parameters:

- Each CDC will have at least one (1) loan reviewed during the twelve months of the pilot.
- No CDC will have more than twelve (12) loans reviewed during the pilot.

Upon written notice identifying a specific loan for review, a CDC will have 3 business days to submit the entire file to the SLPC. Should the review of a file result in a "C" or lower rating, the CDC will lose its ASM status. The CDC's ASM status may be regained as described above.

If a CDC fails to continue to meet the required portfolio performance standards or any other criteria for ASM, it is no longer eligible to use ASM, and the SLPC will inform the CDC in writing. Effective immediately upon such notice, a CDC must revert to submitting all of the Exhibits listed on the SBA Form 1244 as modified under "I" above.

Sections 120.840–846 of Title 13 of the Code of Regulations contain requirements for participation in the ALP and PCLP programs, one benefit of which is expedited loan application processing. During the Pilot, using its authority under 13 CFR 120.3, SBA will modify the provision in 13 CFR 120.840(a) under which ALP (and PCLP CDCs submitting applications to the SLPC) receive expedited loan processing. Instead, during the Pilot, ALP (and PCLP CDCs submitting applications to the SLPC) will be able to use ASM, as long as they maintain that status and also achieve and maintain the required LPS. This LPS requirement is necessary to ensure that the agency is sufficiently protected, because during the Pilot SBA will be relying more heavily on the actions of CDCs and consequently is exposed to additional risk. CDCs with ALP and CDC status are reminded that one consideration in maintaining that status is continued acceptable portfolio performance as currently measured by performance benchmarks. The existence of this Pilot has no effect on a CDC's ALP or PCLP status, nor does it change any of the

servicing or other authorities granted to ALP or PCLP CDCs.

The CDC is required to retain a copy of all loan application documents in its file regardless of whether they are submitted to SBA.

Authority: 13 CFR 120.3.

James E. Rivera,

Associate Administrator for Financial Assistance.

Appendix 1—"Loan Package Score" (LPS)

The quality level of loan packages being presented by the CDC is the key to the SLPC's ability to expedite processing of approval requests. During the processing of each 504 loan application, the SBA loan specialist evaluates the quality and presentation of the package and assigns a grade based on the following standards.

On the official start date of the pilot, SLPC will determine the CDC's score based on the 25 most recent loans submitted to the Center. A CDC not eligible for ASM because of its LPS score at the start of the pilot will become eligible for ASM when its most recent 25 loans submitted have a numeric equivalent average LPS of no more than "1.9". The SLPC will notify a CDC when it becomes eligible for ASM. In the case of an ALP or PCLP lender that has submitted fewer than 25 loans, the Center will base the score on all loans submitted. If, at the start of the pilot, a CDC was not ALP or PCLP and did not have 25 loans submitted during the preceding 12 months, it will be notified as soon as it submits its 25th loan if it has an acceptable score.

The SLPC will continue to monitor CDC performance by maintaining a "rolling" average that includes the most recent twenty-five (25) loans submitted. After receiving ASM status, if the CDC's numeric equivalent average LPS exceeds "1.9" or if the CDC's submission of any one loan package rates a "C" or lower, the CDC will lose its ASM status. In the case of a numeric equivalent average LPS that exceeds "1.9" the CDC will again become eligible for ASM once its numeric equivalent average rating is no more than "1.9". In the case of a single loan package rated "C" or lower, the CDC will again become eligible with the subsequent submission of five (5) sequential non-ASM loan packages that rate a numeric equivalent average of no more than "1.9".

SLPC staff rates every 504 loan application processed by SLPC. The rating will range from "A" to "E" with "A" being the highest possible rating. (For purposes of numeric calculation the "A" through "E" designation will be converted as follows: "A" = 1, "B" = 2, "C" = 3, "D" = 4 and "E" = 5.) SLPC computes the rating by evaluating the following three factors to comprise a composite score:

1. CDC submitted all necessary documents and data.
2. CDC completely and accurately analyzed the eligibility of the transaction.
3. CDC produced a complete and thorough credit analysis.

The following describes each rating level:

A—A level "A" application package is complete in all respects. The CDC's credit memo provides a clear representation of the loan proposal, and a complete analysis of the business including management, financial capacity, eligibility, and project costs. The credit memo also explains why the transaction completely satisfies SBA's credit and eligibility standards. Ownership of all entities including potential affiliates is broken down with full analysis completed and true affiliates identified. The 1244 is complete and the information contained matches the credit memo and the financial documents in the file. The package is in exhibit order of the 1244 with all exhibits included and complete. This would also include:

- All required signatures on the 1244 Part C.
- All required 912s are completed
- All required personal, corporate and affiliate tax returns and financial statements.
- Project property is clearly identified with cost documents to support the project cost.
- All required SBA forms are included and completed properly, including appropriate signatures as required.
- The draft authorization is consistent with the CDC's recommendation on the 1244 and the credit memo, is presented in the current version being used, and has all the relevant provisions included.

In summary, a level "A" application package is complete and stands on its own. The SBA loan specialist is able to review the CDC's credit memo and quickly identify all of the entities for which exhibit information is required. At this level, additional contact with the CDC is rarely necessary.

B—A level "B" application package is well prepared however it is not complete. The SBA loan specialist must contact the CDC to obtain further information to clarify the proposal or to obtain a missing document. The information usually will not change the structure of the proposal but is required for the package to be complete and eligibility to be established. Common items missed that would create a level "B" assessment are missing signatures/dates on the 1244; missing 912s; incomplete or missing financial information; misidentified or unidentified affiliates; missing INS verification; missing costs documents; stale dated documents.

At this level, the CDC's credit memo is well prepared, making the identification of the missing documents relatively easy. Usually, only one or two items are needed to complete the file. The missing information can usually be faxed or overnight mailed with minimal delay in processing.

C—A level "C" application package is missing substantially more information than a level "B". The SBA loan specialist will provide a list of missing items and/or those needing clarification via e-mail to the CDC. The CDC's credit memo is lacking in one or more key areas making the identification of the scope of the project difficult. The information contained in the 1244 and exhibits often do not match the credit memo and/or the draft authorization. The information requested may result in additional questions/issues being identified.

Very often this results in a change to the structure and dollar amount of the project. Areas of concern, in addition to those identified in level "B" are: ineligible project costs; ineligible structure due to new business or single purpose property; miscalculated equity injection; existing SBA loan that limits project participation.

The volume of missing information or the incorrect structure of the project can cause extended delays in the processing of the request.

D—Level "D" application packages are seriously incomplete and often contain an ineligible structure. The CDC's credit memo, if included, does not provide adequate information to establish that the file meets SBA credit and eligibility standards. Many of the exhibits are missing or incomplete. It is difficult for the SBA loan specialist to determine, based on the contents of the file, what the actual project involves. These files usually require repeated requests to the CDC for information in order for the SBA loan specialist to construct a file that is complete enough to make a decision.

E—Level "E" application packages are missing many critical documents which make it difficult to determine the scope of the proposed project or the principals or companies involved. Packages graded at this level are rare and are likely to come from new CDCs that are just beginning to learn the process.

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SOCIAL SECURITY ADMINISTRATION

Agency Information Collection Activities: Proposed Request and Comment Request

The Social Security Administration (SSA) publishes a list of information collection packages that will require clearance by the Office of Management and Budget (OMB) in compliance with Pub. L. 104-13, the Paperwork Reduction Act of 1995, effective October 1, 1995. The information collection packages that may be included in this notice are for revisions to OMB-approved information collections and extensions (no change) of OMB-approved information collections.

SSA is soliciting comments on the accuracy of the agency's burden estimate; the need for the information; its practical utility; ways to enhance its quality, utility, and clarity; and on ways to minimize burden on respondents, including the use of automated collection techniques or other forms of information technology. Written comments and recommendations regarding the information collection(s) should be submitted to the OMB Desk Officer and the SSA Reports Clearance Officer. The information can be mailed