SBA Information Notice

TO: All SBA Employees and 7(a) Community Advantage Small Business Lending Companies

CONTROL NO.: 5000-860909

EFFECTIVE: December 17, 2024

SUBJECT: CA SBLC requests for increases in 7(a) loan size or geographic lending territory

The purpose of this Notice is to announce that SBA's Office of Credit Risk Management (OCRM) is initiating a process to enable qualifying Community Advantage Small Business Lending Companies (CA SBLCs) to: (1) make 7(a) loans of up to $500,000, and (2) to apply to SBA for expansion of their 7(a) loan lending territory.

On April 12, 2023, SBA published a final rule at 88 FR 21890 on *Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization*. Through that rule, SBA created a new type of SBLC called a CA SBLC and provided for a grandfathering of CA Pilot Lenders that were participating in the CA Pilot Program (in accordance with 13 C.F.R. § 120.420(e)) to be licensed as CA SBLCs.

SBA Information Notice 5000-846918, effective May 1, 2023, states that SBA would be holding all CA SBLCs to the same requirements that had existed for the CA Pilot Program, as outlined in the Community Advantage Participant Guide (Version 7, effective May 31, 2022), except for the loan loss requirement and the fidelity insurance requirement.

SBA set the maximum aggregate loan amount available for CA Pilot Lenders at $350,000 (gross), and that limit remained in place when these Lenders transitioned to CA SBLCs. CA SBLCs are 7(a) Lenders making 7(a) loans and are subject to the Loan Program Requirements stated in statute, regulation, and Standard Operating Procedures (SOPs) 50 56.1, 50 10 7.1, and 50 57.3. The CA Pilot Program has been sunset, and the CA Pilot Program Guide has been retired.

Expansion of 7(a) loan ceiling for CA SBLCs:

Loan ceilings up to $500,000 (no action required by CA SBLC):

Effective on or after January 1, 2025, SBA will increase the CA SBLC loan maximum up to $500,000 for all Active Lenders with Satisfactory SBA Performance that are in Good Standing as determined by the SBA in their sole discretion. No action is required on the CA SBLC's part. OCRM will contact qualifying CA SBLCs directly to confirm the increased loan ceiling. CA

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SBLCs may not begin making loans greater than $350,000 until receiving confirmation of the higher ceiling from OCRM.

- **Active Lenders** are those CA SBLCs that have received at least four 7(a) loan or Community Advantage loan approvals in the past two years.
- **Satisfactory SBA Performance** is defined in 13 CFR § 120.410(a)(2) and states that a Lender must have a continuing ability to evaluate, process, close, disburse, service, liquidate and litigate small business loans including, but not limited to… (2) maintaining satisfactory SBA performance, as determined by SBA in its sole discretion. The 7(a) Lender's Risk Rating, among other factors, will be considered in determining satisfactory SBA performance. Other factors may include, but are not limited to, review/examination assessments, historical performance measures (like default rate, purchase rate and loss rate), loan volume to the extent that it impacts performance measures, and other performance related measurements and information (such as contribution toward SBA's mission).
- **Good Standing** is defined in 13 CFR § 120.420. In part, the definition states a Lender is in Good Standing with SBA if it is in compliance with all applicable laws and regulations, policies, and procedures, is in good financial condition as determined by SBA, and is not under investigation or indictment for, or has not been convicted of, or had a judgment entered against it for felony or fraud.

Expansion of 7(a) geographic lending areas for CA SBLCs:

SBA permits CA SBLCs to lend only in state(s) and territory(s) specified in the lender's business plan approved when admitted to the program by SBA and in those state(s) and territory(s) subsequently approved by OCRM. SBA is allowing CA SBLCs that are Active Lenders with Satisfactory Performance and in Good Standing (each as defined above and as determined by SBA in its sole discretion) to apply to the Agency for the authority to expand the geographic areas in which they are authorized to make 7(a) loans.

Application process for increased geographic lending areas:

Beginning January 1, 2025, CA SBLCs may apply to SBA requesting authority to make 7(a) loans outside of their current SBA-approved lending territory. Send applications to CAloans@sba.gov.

The CA SBLC's application must include:

1. A listing of new additional states where CA SBLC is seeking authorization to make 7(a) loan.

2. Copy of Board Resolution authorizing the CA SBLC's proposed new territory.

3. Board-approved Business Plan addressing the CA SBLC's proposed operations for lending in this new dollar range or in this new geographic area. The business plan must include the following information:

a. The CA SBLC must provide a narrative addressing the underserved or unmet demand for financial services in the proposed new territories or in the new loan size. The narrative should address how expanded lending will contribute to local economic development, job creation, and improved living standards and what support is available from local communities, businesses, and governments indicating a need for expanded lending services.

b. The CA SBLC's strategy for entering new markets and support its preparedness to scale operations, including staffing, technology infrastructure, and physical locations. The board-approved business plan should address the CA SBLC's staffing in the new lending territories, how loan applications will be sourced in these expanded markets, who will conduct site visits if it is determined that a site visit is appropriate, and whether or not the lender has different legal resources in the expanded lending territory.

c. How the CA SBLC will ensure that the expansion will not negatively affect its existing operations and customer service levels. Are there potential synergies between existing and new operations, enhancing overall efficiency and service quality?

4. Most recent quarterly or annual financial statement if not already supplied to SBA for reporting requirements pursuant to 13 CFR §120.464.

5. Capital Plan: The CA SBLC's board is required to determine the CA SBLC's capital adequacy goals – that is the total amount of capital needed to assure the CA SBLC's continued financial viability and to provide for any necessary growth. The Board of Directors must establish, adopt, and maintain a formal written Capital Plan pursuant to 13 CFR §120.462(c). The plan must include any interim capital targets that are necessary to achieve the CA SBLC's capital adequacy goals. Lender must maintain minimum capital amount as published in Loan Program Requirements. The Capital Plan must address the following: (i) management capability; (ii) quality of operating policies, procedures, and internal controls; iii) quality and quantity of earnings; iv) asset quality and the adequacy of the allowance for loan losses within the loan portfolio; v) sufficiency of liquidity; and vi) any other risk-oriented activities or conditions that warrant additional capital (e.g., portfolio growth rate).

Questions: Questions concerning this Notice may be directed to Nermeen Ghniem, Senior Financial Analyst, Office of Credit Risk Management at CAloans@sba.gov.

Susan Streich, Director
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