SBA Procedural Notice

TO: All SBA Employees, 7(a) Lenders, and 504 Certified Development Companies

CONTROL NO.: 5000-875051

PUBLICATION: February 6, 2026

SUBJECT: 7(a) Alternative Base Rate Options

EFFECTIVE: March 1, 2026

The purpose of this Notice is to announce alternative base rate options that 7(a) Lenders may use for variable rate loans made under the 7(a) program, and to amend SBA SOP 50 10 8 to reflect these changes. Per 13 CFR § 120.214(c), SBA has the ability to "permit the use of alternative base rate options that are widely adopted for small business commercial lending and will publish notice of such alternative options in the Federal Register." In accordance with that authority, SBA is permitting the use of three alternative base rates for loans made with a variable interest rate within the SBA 7(a) program: 5-year Treasury Note Rate, 10-year Treasury Note Rate, and the Secured Overnight Funding Rate (SOFR) (collectively, "Alternative Base Rates").

The 7(a) Alternative Base Rates are permanent additions to the program and are available for immediate use by Lenders on the effective date of this Procedural Notice, March 1, 2026.

This Notice supersedes any guidance in the Working Capital Pilot (WCP) Program Guide regarding the use of the Secured Overnight Funding Rate (SOFR) within the WCP Program, modifying how the rate is calculated by removing the addition of 300 basis points to SOFR to make it roughly equivalent to Prime.

SOP 50 10 8 Section B, Ch. 1, Para. B.4.a.v. (pages 124-125) is amended to read as follows:

v. For loans with a variable interest rate, the following terms must be defined in E-Tran and the Note:

a) Base Rate or Alternative Base Rate

b) Spread

i) There are two acceptable Base Rates:

(a) The Prime Rate; or

(b) The SBA Optional Peg Rate.

ii) There are three acceptable Alternative Base Rate options:

(a) Secured Overnight Funding Rate (SOFR); or

(b) 5-year Treasury Note Rate; or

SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete

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(c) 10-year Treasury Note Rate.

iii) The Prime Rate will be that rate which is in effect on the first business day of the month, as identified in a national financial newspaper or website. This rate may be found in the newspaper on the second business day of the month. If a website is used, please ensure whether it is publishing the current day's rate or the previous day's rate as some newspaper websites publish the previous day's rate. The Optional Peg Rate is a weighted average of rates the Federal government pays for loans with maturities similar to the average 7(a) loan. SBA calculates and publishes the Optional Peg Rate quarterly in the Federal Register. Base rates will be rounded to two decimal places with .004 being rounded down to .00 and .005 being rounded up to .01.

iv) The Secured Overnight Funding Rate (SOFR) will be the daily rate which is in effect on the first business day of the month, as identified by the Federal Reserve Bank of New York. SBA recognizes that financial institutions use a range of SOFR products to deliver an equivalent reference rate (e.g., 30-day term SOFR and 30-Day Average SOFR). Lenders may continue to use their established in-house SOFR reference rates of 30 days or less, as these rates closely correlate with the daily SOFR rate.

v) The Treasury Rates included as Alternative Base Rates will be based on the Federal Reserve Select Interest Rates publication for the final business day of the prior month.

c) Frequency of change;

d) Range of fluctuation; and

e) Ceiling and floor (if any).

SOP 50 10 8 Section B, Ch. 1, Para. B.4.b. (page 125) is amended to read as follows:

b. Base Rate, Alternative Base Rate, Allowable Spread, and Frequency (13 CFR § 120.214):

i. A loan may have a variable interest rate. The base rate may be one of the following:

a) The Prime Rate; or

b) The SBA Optional Peg rate.

ii. A loan with a variable interest rate may utilize an Alternative Base Rate. The Alternative Base Rate may be one of the following:

a) Secured Overnight Funding Rate (SOFR); or

b) 5-year Treasury Note Rate; or

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c) 10-year Treasury Note Rate.

iii. The allowable spread when using the base rate (i.e., prime rate or SBA Optional Peg) is determined by the loan amount.

a) Loans of $50,000 and less: Base Rate + 6.5%;

b) Loans of $50,001 up to and including $250,000: Base Rate + 6.0%;

c) Loans of $250,001 up to and including $350,000: Base Rate + 4.5%;

d) Loans of $350,001 and higher: Base Rate + 3.0%.

iv. When using an Alternative Base Rate, the maximum interest rate (Alternative Base Rate plus spread) is determined by the loan amount with a cap based on the Prime interest rate.

a) Loans of $50,000 and less: Prime + 6.5%;

b) Loans of $50,001 up to and including $250,000: Prime + 6.0%;

c) Loans of $250,001 up to and including $350,000: Prime + 4.5%;

d) Loans of $350,001 and higher: Prime + 3.0%.

v. The Lender must designate in its application for guaranty the amount of the percentage spread to be added at each adjustment date. The same spread must be used for all adjustments.

SOP 50 10 8 Section B, Ch. 1, Para. B.4.c. (pages 125-127) are amended to read as follows:

c. Policy on Variable Interest Rates

i. Standard Policy:

SBA's maximum allowable interest rate applies both to the initial Note rate on a variable rate loan and to the combined rate that is obtained by adding the spread to either the base rate or Alternative Base Rate as outlined in Section B, Ch. 1, Para. B.4.b. The spread applied to adjustments must be less than or equal to the maximum allowed by SBA at the time of origination.

ii. Post-Approval Changes to the Interest Rate:

a) Pre-Disbursement Changes: After loan approval and prior to first disbursement, the Lender may change the initial Note rate, including changing the base rate, Alternative Base Rate, the spread over the base rate or Alternative Base Rate, or change from a fixed rate to a variable rate, or from a variable rate to a fixed rate, provided the new interest rate does not exceed the maximum allowable interest rate at the time of the loan application. The Lender must obtain the Borrower's written consent to the change in the interest rate (separate and apart from executing the loan documents) and must either notify the LGPC of the change or make the change through E-Tran Servicing.

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For example, an SBA-guaranteed loan was approved with a variable rate. Since the loan was approved, the Prime rate changed. The Borrower has asked the Lender if the loan can be switched to a fixed rate. If the loan has not been disbursed and the fixed rate selected does not exceed the maximum allowable fixed rate at the time of loan application, the Lender may make this change per the Borrower's request.

b) Post-Disbursement Changes: After the loan is disbursed, on a variable rate loan, the Lender may change the base rate, Alternative Base Rate, or spread as long as the change is based on a method permitted when the loan was approved and is consistent with the interest rate regulations at the time the loan was approved. The Lender must obtain the Borrower's written agreement and must either notify the CLSC of the change or make the change through E-Tran Servicing. For further guidance see SOP 50 57.

iii. Frequency of Interest Rate Adjustment:

a) The first adjustment may occur on the first calendar day of the month following initial disbursement, using the base rate or Alternative Base Rate in effect on the first business day of the month. Lenders may delay the initial adjustment period. For example, Lenders have used periods as long as 5 years in order to provide the Borrower with an interest rate that is set for the first 5 years of the loan. After that time, the interest rate will begin to fluctuate as stated in E-Tran.

b) The Lender must specify in the Note the frequency at which the interest rate adjustment will occur.

i) This adjustment period as identified in the Note may not be changed without the written consent of the Borrower.

ii) Subsequent adjustments may occur no more frequently than monthly. All subsequent adjustments will set the interest rate on the first calendar day of the adjustment period using the base rate or Alternative Base Rate in effect on the first business day of the adjustment period.

iii) The rate of interest will change on the first calendar day of the adjustment period even though the rate may not be known until the second business day of that period.

For example, if the first of the month is a Sunday, the base rate is the Prime rate in effect on Monday. This rate will be reported in the Wall Street Journal on Tuesday, the third calendar day and second business day of the month. Many lenders use the calendar quarter as the adjustment period, especially those that sell the guaranteed portion in the Secondary Market.

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c) After the interest rate begins fluctuating, the loan can be re-amortized. Typically, loans are re-amortized every time the interest rate is adjusted to ensure full amortization by the maturity date.

iv. Interest Rate Requirements for an SBA Note:

a) For fixed rate loans, the Lender must state the specific interest rate in the Note.

b) For variable rate loans, the Lender must include the following information in the Note:

i) Identification of the rate being used as the base rate or Alternative Base Rate;

ii) The publication in which the designated base rate appears regularly (e.g., Wall Street Journal from Prime or Treasury Rates, Federal Reserve Bank of New York for SOFR, or the Federal Register if using the SBA Optional Peg Rate). All allowed interest rates are also published on the SBA's website;

iii) The percentage spread, including any changes to percentage spread if applicable, to be added to the base rate (e.g., in a construction loan);

iv) The initial interest rate of the loan (from disbursement to first adjustment);

v) The date or timing of the first rate adjustment; and

vi) The frequency of rate adjustment.

SOP 50 10 8 Section B, Ch. 1, Para. B.4.e.ii.b) (pages 128-129) are amended to read as follows:

ii. In order to use an interest rate swap in the 7(a) program, the interest rate swap contract must meet the following conditions:

b) The interest rate swap contract does not affect the amount of money owed by the Borrower to SBA in the event SBA purchases the guaranty. In the event of a Borrower default, interest will be calculated using the base rate or Alternative Base Rate and spread in the variable interest rate Note, not the swap contract.

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The "Interest Rates" sections in SOP 50 10 8 will be amended and replaced as necessary to reflect the updates in this Notice:

"See Section B, Ch. 1, Para. B.4."

Section B, Ch. 2, Para. B.5, (7(a) Small & SBA Express), beginning on page 160

Section B, Ch. 3, Para. B.4, (7(a) CAPLines), beginning on page 197

Section B, Ch. 4, Para. A.3.d., (Export Express), beginning on page 237

Section B, Ch. 4, Para. B.4.d., (Export Working Capital Program), beginning on page 260

Section B, Ch. 4, Para. C.3.d., (International Trade), beginning on page 288

SOP 50 10 8 Section B, Ch. 5, Para. D.2.i.iii. (page 318) is amended to read as follows:

i. For loans being sold on the secondary market, in addition to the above:

iii. If Note interest rate fluctuates, full description of Base Rate, e.g., Prime Rate; Alternative Base Rate, e.g. SOFR; publication source, e.g., WSJ; spread over Base Rate as a percent; date of first fluctuation as either an exact date or a description of date, e.g., first calendar quarter following first disbursement; change period, e.g., calendar quarterly.

Lenders should note that loans utilizing an Alternative Base Rate will not be available for secondary market sales at this time. However, SBA will evaluate the secondary market demand for loans utilizing Alternative Base Rates.

Questions:

Lenders can submit questions on the sunset of the SBSS Score to 7aQuestions@sba.gov.

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