

Future Lending Leaders – Module 2

Prudent Lending



Topics for Today's Discussion



- *Why do lenders need to care about the terms “Prudent Lending” and “Commercially Reasonable”?*
- Defining Prudent Lending and Commercially Reasonable Lending Practices
- **Case Studies** – *Is this prudent and commercially reasonable?*
 - Loan origination, portfolio monitoring, and servicing and liquidation
 - Specific SBA loan program challenges[NOTE: solutions use SOP 50 10 8.1 requirements (taking effect 10/1/2026 and still subject to change)]
- **Group Discussion** – How to Implement Prudent and Commercially Reasonable Practices
- Conclusion
- **FLL Writing Project** – Future Lending Leaders 7(a) Review
- What's New and What's Coming ...

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Why do lenders need to care about the terms “Prudent Lending” and “Commercially Reasonable”?

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Why Do These Terms Matter?



- Not **every** issue is addressed in 7(a) Loan Program Requirements (regs, SOPs, etc.) –
 - SBA’s difficult job is to balance its need to provide over-arching guidance that covers all major issues with the need to have reasonably sized guidance documents (every administration wants to brag about reducing length!)
 - This means that SBA simply cannot address every issue and every nuance in an SOP
- Historically SBA has provided both broad parameters and proscriptive requirements but also has charged lenders with **acting prudently and reasonably** while still following their conventional practices if more specific than SBA’s requirements as they fill in any gaps in the guidance
- Simply put, lenders need to consider what is “prudent” when SBA guidance is not proscriptive as to a particular issue

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Why Do These Terms Matter?



- In addition to SBA's guidance, lenders also must consider the impact on lending decisions made by current economic circumstances – fluctuating interest rates, natural disasters, inflation, tariffs, higher costs for material, services and staff, insurance premiums, etc.
 - Prudent lenders may need to adapt their underwriting and servicing policies and procedures to give appropriate consideration to economic shifts
- For example, more in-depth financial analysis may be required, including things like –
 - Considering how the historic business model may be impacted by current economic issues
 - Investigating interest rates from debt schedule – If variable interest rate, what was interest rate in prior years? Could business service existing debt with higher rates? How should you stress test in a changing rate environment? How do interest rate reductions impact cash flow?
 - Investigating average fuel, material, services, insurance and other costs for each year and applying current costs to prior years' expenses to determine if business remains profitable
 - Investigating average labor costs – Has minimum wage increased each year? Could business remain profitable with paying higher wages? Can business obtain/retain minimum staffing to run normal business operations?

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Why Do These Terms Matter?



- In some ways, prudent lending can be problematic because lenders' standards of performance may be more gray than black and white, and can allow a **wide range of interpretation** by SBA
- That's why it is so important for lenders to have a **realistic understanding of what SBA intends** when it talks about prudent lending and commercially reasonable practices

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Defining Prudent Lending and Commercially Reasonable Lending Practices

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Prudent Lending and Commercially Reasonable Lending Practices



- What does SBA mean when they use those two phrases?
 - While SBA hasn't provided regulatory or SOP definition, it has signaled its *intent* through its use of both terms in numerous places in its program requirements and frequent mentions in underwriting discussions
- Based on informal interpretations by the Agency, when SBA uses the term “**prudent lending**” it intends that lenders treat their 7(a) loans with the same care as a “**prudent**”, i.e., cautious lender, **intent on protecting its interests and those of the government**
- Similarly, when SBA uses the term “**commercially reasonable**”, it intends an interpretation similar to that found in Webster's dictionary where 'commercially reasonable' is defined as “**fair, done in good faith, and corresponding to commonly accepted commercial practices**”

AND ...

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Prudent Lending



For additional guidance we also can look to definitions used by the Department of Commerce, Economic Development Administration (EDA), for its Revolving Loan Fund Program – **per 13 CFR 307.8, for EDA purposes** –

- **Prudent lending** means generally accepted underwriting and lending practices for public loan programs, based on sound judgment to protect Federal and lender interests **AND**
- **Prudent lending practices** includes loan processing, documentation, loan approval, collections, servicing, administrative procedures, collateral protection and recovery actions
- But, while these definitions are helpful, it is important to note that SBA has **NOT** adopted them in the Agency's program guidance
- So, we just are using it as a reasonable and common-sense way to think about the conundrum of prudent lending

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Prudent Lending



These general definitions illustrate the **concepts prudent lenders should follow**, including –

- Creating and following **generally accepted underwriting and lending practices** based on sound judgment for an institution
 - Has the institution's Federal (or State) regulator weighed in/approved its practices?
 - Is the lender in compliance with its regulator's policies and procedures?
 - Is lender truly caring for loans from cradle to grave (origination to paid in full/charge-off)?
- Determining what a lender must do to **protect the interests of the lender, its regulator and SBA**
- **Obtaining, perfecting, and maintaining liens on collateral** that are compliant with local laws and filing requirements

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Prudent Lending Standard – Credit Elsewhere Test



- This issue gives us a perfect illustration for when lenders may need to fill in gaps in SBA's written guidance by applying the principles of prudent lending
- **By statute**, SBA is prohibited from guaranteeing a loan if the applicant would be able to access the desired funding without SBA's guaranty
 - The requirements related to this prohibition, colloquially referred to as the *Credit Elsewhere Test*, are further expanded in SBA regulations and SOP
- But under SOPs 50 10 7 and 7.1, SBA removed much of the previous guidance, including the requirement that, in determining whether credit is available, lenders consider the liquidity of 20% or more direct and indirect owners (and their spouses and minor children) as well as the business itself – actually making this a box-checking exercise
 - So, lenders were required to decide what more they needed to do to be prudent AND
 - NAGGL advised that some written analysis always would be prudent

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13 CFR 120.101

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Prudent Lending Standard – Credit Elsewhere Test



- But in SOP 50 10 8, SBA added back additional guidance including the requirement to look at the liquidity of the business and its owners, and again requires a written narrative in the credit memo (as NAGGL always had recommended)
- Per SOP 50 10 8.1, to meet the statutory mandate, SBA requires –
 - Lender to certify that the **applicant does not have the ability to obtain some or all of the requested loan funds on reasonable terms** from non-Federal, non-State, or non-local government sources including the SBA lender with SBA assistance **AND**
 - If applicant's cash flow and collateral, including any third-party guaranty, would allow loan to meet lender's conventional standards, loan is not eligible for SBA guaranty

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Prudent Lending Standard – Credit Elsewhere Test



- Whether financing would be available from a lender takes into consideration **factors associated with conventional lending practices**, including:
 - Business industry of applicant
 - Whether applicant has been in operation two years or less
 - Adequacy of collateral to secure loan
 - Loan term necessary to reasonably assure repayment of loan from business cash flow (actual or projected)
 - Any other fact that cannot be overcome except through obtaining Federal loan guarantee under **prudent lending** standards

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Credit Elsewhere and Liquidity in SOP 50 10 8.1



SBA also requires lenders to examine third parties as part of *Credit Elsewhere Test* –

- *If the Applicant's cash flow and collateral, including the adequacy of any third party guaranty, would cause the Applicant's loan to meet conventional credit standards of the SBA Lender or Third Party Lender, the Project is not eligible for an SBA Loan*
- Reference to a “third party guaranty” includes taking the guaranty of a wealthy individual or an affiliate (may not meet SBA's definition of an affiliate) to strengthen the credit
 - This is a commercial lending practice, but SBA relies on business cash flow to repay a loan, not on collateral or a guarantor

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Credit Elsewhere and Liquidity in SOP 50 10 8.1



Besides examining third parties, lenders must examine liquidity **AND** include a discussion of it in the Credit Elsewhere section of their credit memo –

- *The SBA Lender must include in its credit memorandum ... A determination that some or all of the loan is not available from any of the following sources:*
 - *The liquidity of [direct and indirect] owners of 20% or more of the equity of the Applicant, their spouses and minor children, and the Applicant itself (except that SBA permits owners to have reasonable funds set aside for possible future medical expenses, educational expenses (including for the children of the business owner) and retirement needs; and for the Applicant, SBA permits the Applicant to have reasonable funds for capital expenses for the next 24 months and for working capital);*
- While the personal resources test has been rescinded since 2014, liquidity of owners and the applicant must be examined
 - SBA does allow for reasonable funds for certain expenses to be set aside – lender's decision as to acceptable liquidity part of prudent lending

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Prudent Lending Standard – 13 CFR 120.410, *What ethical requirements apply to participants?*



Prudent Lending requires that all participating lenders must –

- Have continuing ability to evaluate, process, close, disburse, service, liquidate and litigate small business loans
- Have sufficient permanent capital to support SBA lending activities
- Be able to maintain satisfactory SBA performance (includes but is not limited to)
 - Review/examination assessments
 - Historical performance measures (like default rate, purchase rate and loss rate)
 - Loan volume to the extent it impacts performance measures
 - Other performance related measurements and information (i.e., contribution to SBA mission)

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Prudent Lending Standard – 13 CFR 120.410, *What ethical requirements apply to participants?*



- Be open to public for making of such loans (not financing a subsidiary or engaged primarily in financing operations of an affiliate)
- Be supervised and examined by SBA or a Federal or State regulator satisfactory to SBA and be in good standing with their regulator
- Operate in safe and sound condition using **commercially reasonable lending policies, procedures, and standards employed by prudent lenders**

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Prudent Lending



- Some lenders see prudent lending as a fact gathering mission and then an opportunity to take a step back and decide whether approving the loan is prudent
- Delegated lenders that approve a loan when unsure whether an action is prudent or commercially reasonable can be putting the SBA guaranty in jeopardy
- To assure prudence and commercial reasonableness it may be in a lender's best interest to take a step back and spend a little time to review
 - Ask 7a questions (for general policy questions)
 - Ask 7a Delegated Loan Apps (for questions relating to loans processed under delegated authority)
 - Responses clarify how SBA would interpret a policy issue specific to the individual application before they request an SBA loan number [mailbox also used for policy exceptions]

AND/OR ...

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Prudent Lending



- Ask NAGGL
- Ask your lending peers
- Ask attorney who specializes in SBA lending

NOTE: 7aDelegatedLoanApps@sba.gov email address may only be used by lenders with delegated authority to ask loan-specific questions or request exceptions to policy – general policy questions will NOT be answered and still should still be sent to 7aQuestions@sba.gov

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Commercially Reasonable – 13 CFR 120.535 and 120.536



13 CFR 120.535, Standards for Lender and CDC loan servicing, loan liquidation and debt collection litigation

- Lender must service 7(a) portfolio no less diligently than their non-SBA portfolio and in a **commercially reasonable manner**, consistent with **prudent lending standards** and in accordance with loan program requirements

13 CFR 120.536, Servicing and liquidation actions that require the prior written consent of SBA

- For all servicing/liquidation actions not requiring SBA's prior written consent, lenders must –
 - **Document** the justifications for their decisions and **retain** these and supporting documents in their file
 - Know that in future SBA review, SBA will determine if the actions taken by the lender were **prudent, commercially reasonable and complied** with all loan program requirements

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Commercially Reasonable – 13 CFR 120.1400, Grounds for enforcement actions – SBA Lenders



- Why the emphasis on **commercially reasonable** lending practices?
- There are grounds that may trigger an enforcement action against any SBA lender, regardless of its Risk Rating, including...
 - Not performing underwriting, closing, disbursing, servicing, liquidation, litigation or other actions in a **commercially reasonable and prudent manner**
 - Evidence of such performance or actions may include, but is not limited to, the SBA lender having a repeated Less Than Acceptable Risk Rating (generally in conjunction with other evidence) or an on-site review/exam assessment which is Less Than Acceptable
 - Failure within the time period specified to correct deficiency or failure after receiving notice from SBA of a deficiency and the need to take corrective action
- Per 13 CFR 120.1400, by making a 7(a) loan, the lender is agreeing that a **violation of Loan Program Requirements constitutes a default under their agreement with SBA** – may stop lender from making 7(a) loans

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Prudent Lending and Commercially Reasonable – Loan Origination



Case Studies and Group Discussion – *Is this prudent and commercially reasonable?*

NOTE: conclusions in case studies are based on requirements in SOP 50 10 8.1 [more changes may be made before the 10/1/2026 effective date]

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Case Study #1: Affiliation



- Erica Essen wants to start Frau Pizza, a pizza franchise business, and will own 85% of the business with Carl Queso, Jr., owning the other 15%
- Erica and Carl Jr. found the perfect spot for the business – right next to a bar and a train station that is always busy with commuters, but they need tenant improvement funds
- Everything looks great – the lender is almost ready to obtain a PLP loan number when it reviews the lease agreement ... the landlord is Carl Queso, Sr. (15% owner's dad)
- After more investigation, it turns out Carl Sr. owns 3 Frau Pizza franchises in the same town AND the lease agreement gives Carl Sr. first right of refusal to buy the new Frau Pizza location should it ever be sold

QUESTIONS:

- Are Carl Sr. and his Frau Pizza stores affiliates of Erica and Carl's Frau Pizza?
- Is this loan eligible?

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Case Study #1: Affiliation



THE FACTS:

- Carl Queso, Sr., is a close relative of Carl Queso, Jr., the 15% start up business owner
- Carl Sr. owns the same franchise business (3 of them!) that his son and partner are starting with Sr.'s businesses operating in the same town
- Carl Sr. also is the landlord who will end up benefitting from the improvements that will be made with his son's loan proceeds AND he has first right of refusal to buy the new start up Frau Pizza business should it sell
- SBA does not allow payments to an associate
- Does Carl Sr. have excessive control if he has the first right of refusal to buy the franchise?

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Case Study #1: Affiliation



- Let's apply the "is approving this loan prudent and reasonable" test
 - Carl Sr. is the landlord of the applicant business and has a right of first refusal in the event the business is sold – doesn't that seem to be a potential conflict of interest?
[But note that, in other situations, SBA has said that right of first refusal isn't necessarily fatal as long as the price being paid represents fair market value]
 - Would a conventional lender, using prudent lending standards, move forward on a transaction where the landlord has the first right of refusal to purchase a business whose location was improved with another entity's loan proceeds?

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Case Study #1: Affiliation



- Using loan proceeds to improve the property of a relative appears to be a potential conflict of interest, particularly because of the right of first refusal to purchase the business
- Should lender worry that this structure is an attempt to finance the startup of a Frau Pizza that might subsequently default and end up with Carl Sr. exercising his right of first refusal to acquire the business? After all, the 15% owner (his son) is not a required guarantor ... could the son end up walking away with no financial obligation?
- Had a reviewer without an eagle eye looked at the lease, this issue may not have come to the surface ... but if SBA ever reviewed the loan, or if it had defaulted and the lender had requested purchase, there might be a problem
- At a minimum, prudent lending would require that a delegated-authority lender check with SBA regarding whether any of the identified issues could make the loan ineligible (7aDelegatedLoanApps@sba.gov)

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Case Study #2: Co-Borrowers and Guarantors



- Triton Marine, a business that specializes in marine engine service and repair, has been owned 50% by Hal Ocean and 50% by Dana Sea and operated by them for 22 years
- For the last 7 years, Hal Ocean has owned 100% of Dolphin Yachts, a luxury yacht rental business that relies on Triton to service its fleet
- Triton and Dolphin are long-time customers of lender – in fact, all of their senior managers have their boats serviced by Triton and the annual Christmas party is held on Dolphin's largest yacht
- Triton wants to buy a building to house the service and repair business – but its debt service coverage ratio is barely 1.15 for the last two years and interim period
- Dolphin has good cash flow, so the lender's credit administration department wants to add Dolphin as either a co-borrower (preferred) or as a guarantor (second choice)

QUESTION:

- SOP 50 10 8.1 says SBA or the lender may take supplemental guarantors – when is that prudent?

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Case Study #2: Co-Borrowers and Guarantors



- Adding Dolphin as a co-borrower or guarantor to a loan to help overcome the thin debt service coverage may be a conventional lending practice, but is not mandatory in 7(a) lending
- For purposes of determining repayment ability, SBA expects lender to rely on the business cash flow of the applicant (Triton), not an affiliate or guarantor (or the adequacy of the collateral)
- SBA does allow a lender (or SBA) to take a supplemental guaranty from an individual or entity, regardless of percent of ownership or even no ownership, when necessary for credit or other reasons – but Dolphin doesn't have anything to do with Triton's operations and will not be located at Triton's new building
- While Dolphin may be an affiliate of Triton, SBA does not normally require affiliates to guarantee loans, **BUT –**
- SBA leaves it to the discretion of the lender to decide when taking an "extra" guaranty is appropriate, so lender can decide whether taking guaranty of Dolphin is prudent, but making Dolphin a co-borrower may not be appropriate given total circumstances

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Case Study #3: Who Holds the License?



- Joe Plumber is selling 100% of his plumbing business to Mike Golden, a plumbing apprentice
- Mike is not a licensed plumber contractor yet, and the business cannot operate without a plumbing contractor's license
- Mike will be able to obtain his contractor's license in 11 months, so Mike and Joe agree to have Joe stay on with the business, as the license holder, until Mike obtains his contractor's license

QUESTIONS:

- Can Joe stay on as the license holder after he sells the business to Mike?
- If Joe can't stay, can Mike hire a licensed plumbing contractor for 11 months until he gets his own license?
- Is it necessary to have the license holder guarantee the loan until Mike gets his license? If so, how does the guarantor get released once Mike gets his license?
- How would you handle this on a conventional loan?

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Case Study #3: Who Holds the License?



- In a Business Expansion or Initial Acquisition (new change of ownership categories in 8.1), a seller may not remain post-sale as an officer, director, stockholder, or employee (App. 15, Para. A.9)
 - A business may contract with a seller as a consultant during a short transitional period not to exceed 24 months, including any extensions (increased in 8.1 from 12 months)
 - 5010 8.1, Section B, Ch. 6, Para. D.6 requires licenses to be obtained within 90 days of final disbursement, and no secondary market sale until then
 - So, having Joe stay to provide his license to Mike could be a problem
- Holding the license for a business makes the holder a Key Employee (per amended definition in 8.1, Appendix 3)
- Hiring a key employee to hold a license until Mike obtains his own could be done, but prudent lending would dictate a guaranty from the license holder

QUESTION:

- Has a similar scenario come up for you? If so, how did you handle it?

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Case Study #4: License When Seller Remaining Active in Business



- If this was a **partial change of ownership** – Mike purchases 85% and Joe keeps 15% – the loan could be eligible because a seller can stay on as an owner, officer, director, stockholder, Key Employee, or employee (App. 15, Para. B.1.c.ii.e)
 - But a buyer not currently employed by the business may acquire only under 50% and may not become the largest shareholder
 - If Mike is not already an employee, this must be an Initial Acquisition (new category)
 - Allows Joe to stay until Mike gets his license ... but how does Mike remove Joe after that? Multi-step structures are ineligible, so a second purchase cannot be part of the approval
 - A future Owner Buyout needs 10% equity, reducible on liquidity and working capital grounds
- What if the lender had Joe sign a limited guaranty for 24 months (until Mike got his license)?
 - A selling owner who stays on with under 20% post-sale must give a full guaranty for the full loan amount, for at least two years after final disbursement (Para. B.1.c.ii.e)
 - What happens if Mike doesn't get his license in 23 months? Or ever? ...

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Case Study #4: License When Seller Remaining Active in Business



- Remember Joe, the license holder, will continue his ownership even after his guaranty is released
- And, new in 8.1 (p. 20-21) –
 - *Businesses that offer services which require **professional licenses** to operate are **eligible**, provided that the **ownership structure meets all applicable state requirements** in which they are located. If the business is under a franchise agreement, the business must meet all applicable franchise requirements. The Lender must document the eligibility of the business and ownership structure, per state requirements, in the loan file (e.g., medspas).*
- Would a conventional lender, applying prudent lending practices, make a loan to an owner who does not hold the requisite license to operate the business?
 - Should a guaranty from the license holder be considered?

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Case Study #5: Purchase Agreement Allocations



- Hold A Tune, Inc. is being acquired by Soulful Soprano, LLC for \$900,000 as an asset purchase
- Collateral is the business assets of Hold A Tune, Inc. including rare musical instruments, sheet music, customer list, books and intellectual rights to song lyrics
- The rare musical instruments are listed on the seller's balance sheet at a net book value of \$500,000 but the purchase and sale agreement reflects \$50,000 for equipment, inventory, and intellectual property, and \$850,000 to goodwill
- The business valuation matches the balance sheet reflecting \$500,000 in fixed assets and \$400,000 in goodwill

QUESTIONS:

- Why is there a discrepancy between the purchase and sale agreement and the valuation and balance sheet? Is the purchase and sale agreement structured for tax purposes?
- Why does the allocation matter to the collateral analysis?
- Should the lender require the seller to amend the purchase price allocation?
- How does the \$850,000 of intangible assets affect loan maturity?

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Case Study #5: Purchase Agreement Allocations



- The asset allocation in the purchase and sale agreement drives the pro forma balance sheet spread, not collateral value (App. 15, Para. C.2.b.iii)
- Determining if the loan is fully secured is based on Net Book Value of real estate and machinery and equipment only, with used equipment at 50% of NBV or 80% with an Orderly Liquidation Appraisal (App. 15, Para. C.3.d.i)
 - Goodwill, customer lists, and song rights are financeable (App. 15, Para. A.6) but add no fully secured value
- If fixed asset value exceeds Net Book Value, an independent appraisal by a qualified individual is required (App. 19, Para. A.1.d.iv)
- Financing intangible assets caps the maturity at 10 years (App. 17, Para. A.1)
- SBA does not provide guidance on whether the purchase agreement allocations should be adjusted, or authorize a lender to require an amendment
 - Valuation must support the price, any excess must be covered by equity (App. 15, Para. C.1.a.iv); debt capped at the valuation (Para. A.4)
 - Follow institution policy and document the rationale in the credit memo (App. 15, Para. C.3.a)

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Case Study #6: Interim Debt



- Rise and Shine is a 10-room bed and breakfast that is currently listed for sale
- Lender's existing customer, Sunny Ray, owns three other successful B&Bs and would like to purchase Rise and Shine but she needs to close on this sale within 20 days or will lose the property
- Lender provides an interim loan to acquire the property, not for construction
- The 7(a) loan number will be requested within 90 days of the interim loan approval

QUESTIONS:

- Can the lender refinance its interim loan using its PLP (delegated) authority?
- Can the lender consider this to be an interim loan or is it refinancing same lender debt?
- What two conditions keep this from being same institution debt?
- If the carve-out did not apply, what must the lender document?

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Case Study #6: Interim Debt



- A qualifying interim loan is not refinancing of Same Institution Debt (App. 14, Para. A.4.d.i)
 - Made for other than real estate construction purposes, and
 - Approved by the lender within 90 days prior to issuance of the PLP loan number
 - **Both conditions must be met. Sunny Ray's loan clears both**
- Yes, per change in 8.1, the lender may use its PLP authority. Refinancing Same Institution Debt may be processed under PLP authority (App. 14, Para. A.4), and the carve-out removes this loan from that treatment entirely
 - But note – per regulation, delegated authority may not be used to reduce the lender's credit exposure to the applicant (Para. A.4.a)
- If either condition failed, the Same Institution Debt rules apply: a 36-month payment transcript plus a written explanation of any late payments (Para. A.4.c)
- All other Appendix 14 conditions still apply, including no payment to a creditor in a position to sustain a loss, the debt current for the last 12 months, and the written refinancing analysis (Para. A and Para. A.8)

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Case Study #6: Interim Debt



- What is the reason(s) why the interim loan must be refinanced and does the 10% payment improvement test need to be met?
 - A balloon note or a loan payable on demand does not require a 10% payment improvement
 - If lender made an interim loan, what's the reason for now needing an SBA guaranty
- **BEST PRACTICE TIP:** include a brief explanation in the lender's credit memo of why there's a need for an SBA guaranty – especially important because lender was okay with providing the interim loan
 - Helps support Credit Elsewhere reasoning

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Case Study #7: Business Valuation and Equity Injection



- Lender receives an application for an Initial Acquisition via a stock purchase
- Purchase price is \$800,000
- The business valuation provides a value of \$600,000
- Loan request is \$650,000

QUESTIONS:

- Is it a problem that the business valuation is less than both the purchase price and the requested loan amount?
- Since this is an Initial Acquisition, SBA requires a minimum 10% equity injection, how does the business valuation impact the equity injection amount?
- Can the \$200,000 gap be financed, or must it be equity?
- Would it be prudent for a lender to finance 100% of the business valuation?
- Why is the buyer willing to pay \$200,000 more than the business valuation?

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Case Study #7: Business Valuation and Equity Injection



- Total debt supporting the change of ownership, including seller debt not on full standby, is limited to the business valuation amount (App. 15, Para. A.4)
 - Business valuation amount for the stock purchase for this application is \$600,000
 - Total debt is capped at \$600,000, so the \$650,000 request must be reduced
- If the amount paid for the business exceeds the business valuation, the difference must be made up by equity (App. 15, Para. C.1.a.iv)
- For both a Standard 7(a) Loan and 7(a) Small Loan involving a complete change of ownership, SBA requires an equity injection of at least 10% of the **total project costs**
 - The purchase price is \$800,000, therefore the minimum equity injection required is \$80,000
 - Because debt is capped at \$600,000, the applicant must cover the full \$200,000 gap
 - \$600,000 7(a) loan plus \$200,000 equity equals the \$800,000 purchase price
 - Where price exceeds the valuation, additional funds must be on full standby (App. 15, Para. C.2.a.ii.b), so a junior non 7(a) loan or seller note will not fill the gap

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Group Discussion: Collateral



- Lender receives loan application for \$600,000 that appears to be fully secured by machinery and equipment (using SBA's values), but borrower owns a piece of commercial R/E free and clear (or with substantial equity)
- Considering prudent lending and commercially reasonable practices, **should the lender require a lien** on the R/E? Why or why not?

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Group Discussion: Construction



Construction projects are getting harder to control – what do you do?

- Construction costs (including fund control) have escalated and do not seem to be slowing down – how does a lender underwrite a project when costs keep increasing before the loan can be approved and closed?
- How has the construction contingency amount changed? Is it an overall change or specific line items get a larger contingency (i.e., 20% for steel and lumber, 10% for everything else?) Or has your construction contingency practice not changed?
- Are construction project times being lengthened due to lack/cost of materials and backlogged contractors? If so, what calculations are used to figure interest reserve?
- Are change orders coming in faster and earlier than normal? Has the change order approval process changed?
- Are your 7(a) practices at least as prudent as your conventional practices?

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Group Discussion: Lines of Credit



Are working capital needs analyzed and reviewed as part of the overall SBA loan application? How are you handling term and line of credit (LOC) working capital needs?

- SBA Express line of credit is a fast way to provide a line of credit using many of lender's conventional practices – but what is lender's policy for covenants, and does it conflict with SBA requirements?
- CAPLines and Working Capital Pilot (WCP) Program are asset-based lines of credit – but if lenders are not aware of how to properly monitor them, the line can quickly end up over-advanced against the borrowing base
- Are working capital needs handled by term debt only, or a combination of term working capital and revolving LOC?
- If providing lines of credit, how do you determine loan need and line monitoring?
- How do you address prudent lending and commercial reasonableness when using SBA's LOC products?

[NOTE: new requirements apply to W/C financing being provided in connection with a change of ownership]

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Group Discussion: Natural Disasters



Many areas of the United States have been impacted by natural disasters – wildfires, drought, floods, numerous devastating hurricanes, etc.

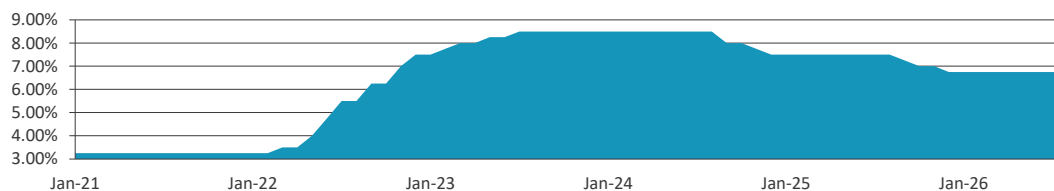
- What impact do these types of events have on business operations, value of collateral, supply chain, projections, and overall profitability?
- How have these natural disasters impacted the applicant's ability to obtain hazard, wind, flood, and other required insurance?
 - For existing borrowers, have premiums increased dramatically, insurance cancelled?
- How can a lender effectively “vet” projections and assumptions a borrower provides?

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Group Discussion: Rate Sensitization



Prime Rate history (6.75% since 12/11/2025)

- When underwriting new loan requests, usually some sort of **interest rate sensitization** occurs, and credit memo must include comments on borrower's ability to service loan with higher interest rate regardless of rate predictions
 - How much does a prudent lender **sensitize the interest rate** when underwriting a new loan?
 - Factors that can influence interest rates are the strength of the job market, worries over inflation, impact of tariffs, etc. and overall economic outlook
- Have internal policies changed to require a higher debt service coverage ratio (DSC) when underwriting a new loan?

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Prudent Lending and Commercially Reasonable – Portfolio Monitoring

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Prudent Lending and Portfolio Monitoring

- It is not enough to be a prudent lender when **originating** a loan ... a lender also must be prudent when **monitoring** loans in its portfolio
- Lender is responsible for monitoring **each** SBA loan in its portfolio and for **mitigating the risk of loss** associated with any change in accordance with Prudent Servicing and Liquidation
- Even when a loan is paying as agreed, “stuff happens” which may have an **adverse impact** on a lender’s ability to collect on a loan
- The sooner a lender knows about a change, the **less** the impact (usually)
- Failing to monitor a loan could put the **SBA guaranty at risk** if lender misses being on top of adverse changes as they occur and does not respond in a timely manner

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Monitoring Changes to Borrower's Creditworthiness



- **Suggested** monitoring tools include –
 - Contact with the borrower via site visits, emails or phone calls
 - Periodic submission of financial statements
 - Review of relevant financial data from other sources such as credit reports, credit scores and tax returns
 - Other incidental ways – driving by, news articles, social media, Yelp reviews, etc.
 - Cross-check business' status related to other products/services within your institution
- Lenders should **NOT** rely on the fact that a loan is paying as agreed as the **sole indicator** when determining the health of a borrower business
- SBA **expects** lenders to –
 - Follow SBA's general guidelines **first**, then ...
 - Apply prudent lending practices appropriate to the individual loan AND
 - Treat their 7(a) loan portfolios with the same care as their conventional portfolios

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Tools for Lender Monitoring



SBA utilizes the following tools for lender monitoring –

- **Loan and Lender Monitoring System (L/LMS)**
 - L/LMS enables SBA to track and analyze lender performance
 - SBA may utilize L/LMS as the primary means of reviewing lower dollar/lower risk lenders
 - For higher dollar/higher risk lenders, SBA may use L/LMS to assist with prioritizing, planning, and conducting more in-depth reviews
 - Monitors lender performance between more in-depth reviews
- **Lender Portal**
 - SBA communicates lender performance to lender using the Lender Portal
 - Provides summary performance and credit quality data
 - Allows lender to view peer group and portfolio averages

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Lenders Access the L/LMS Portal Using Their CAFS Login



- SBA's Capital Access Financial System (CAFS) provides centralized login for SBA applications including E-Tran and others (<https://caweb.sba.gov/>)
- The lender portal and PARRIS scores are now accessed through SBA's CAFS login as well
 - Users should request access to 'LLMS Portal (Beta)'
 - Lenders can assign however many users they choose
 - Once access is received, users can enter the portal by clicking 'LLMS Portal' in the 'Loans' dropdown on the CAFS home screen
- CAFS/E-Tran is being updated to the iCAP (Intelligent Capital Access Platform) – a modern digital infrastructure system designed to streamline loan origination and processing for lenders
- Are any of you currently on the pilot?
 - What is your experience? Any feedback?

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L/LMS Portal – Overview



The L/LMS Portal Overview page provides users summary information including Outstanding Loan Count and Balance, as well as Forecasted Purchase Rate

SBA Lender Information Portal

Sample Lender
City, State

7(a) Overview

As of Current Quarter 6/30/2024 | Lender Report as of 5/31/2024 | Call Report as of 3/31/2024

Recent Updates to Lender Portal
Q3 2024 has been loaded
Current up to 6/30/2024

Performance	Asset Management	Regulatory Compliance	Risk Management	Special Items
5	3	5	5	5

Summary

Outstanding Loans	Gross Outstanding \$	SBA Outstanding \$	Lender Peer Group
12	\$6,182,332.00	\$4,641,792.00	\$4MM to < \$10MM

Forecasted Purchase Rate (FPR)

Forecasted Purchase Rate	Peer Group FPR	Portfolio FPR
0.68%	2.07%	1.96%

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L/LMS Portal – PARRiS Report

- Score for each PARRiS component
- PARRiS is a composite risk model designed to provide a holistic view of risk
- PARRiS components include past performance metrics, portfolio composition metrics, predictive scores, and compliance metrics

PARRiS Benchmarks

		Lender Results	Lender Benchmark	Score	Peer Group	Portfolio
Portfolio Performance	5-Year Cumulative Net Yield	0.44%	Moderate Risk	3	0.23%	0.31%
	12-Month Default Rate	0.00%	Lower Risk	1	2.09%	2.76%
	5-Year Default Rate	0.00%	Lower Risk	1	1.76%	1.71%
Asset Management	High Risk Origination Rate	6.84%	Lower Risk	1	8.66%	5.00%
	Early Problem Loan Rate	0.00%	Lower Risk	1	3.30%	2.68%
	Stressed Loan Rate	0.00%	Lower Risk	1	3.75%	2.40%
Regulatory Compliance	Loans in Default Status over 3 Year Ra...		Lower Risk	1	59.38%	28.95%
	1502 Reporting Rate	100.00%	Lower Risk	1	99.61%	99.93%
	24 Month Repair / Denial Rate		Moderate Risk	3	5.86%	5.39%
Risk Management	Forecasted Purchase Rate	12.74%	Higher Risk	5	2.31%	1.96%
	Leverage Ratio	9.46%	Lower Risk	1	10.83%	10.80%
	Non-performing Asset Ratio	1.00%	Lower Risk	1	4.59%	5.36%
Special Items	Average Redwood Score	33	Higher Risk	5	56.00	59.81
	5-Year Charge Off Rate	0.00%	Lower Risk	1	1.12%	0.53%
	Public Corrective Action or SBA Enforc...	NO	Lower Risk	1	1.15	1.66

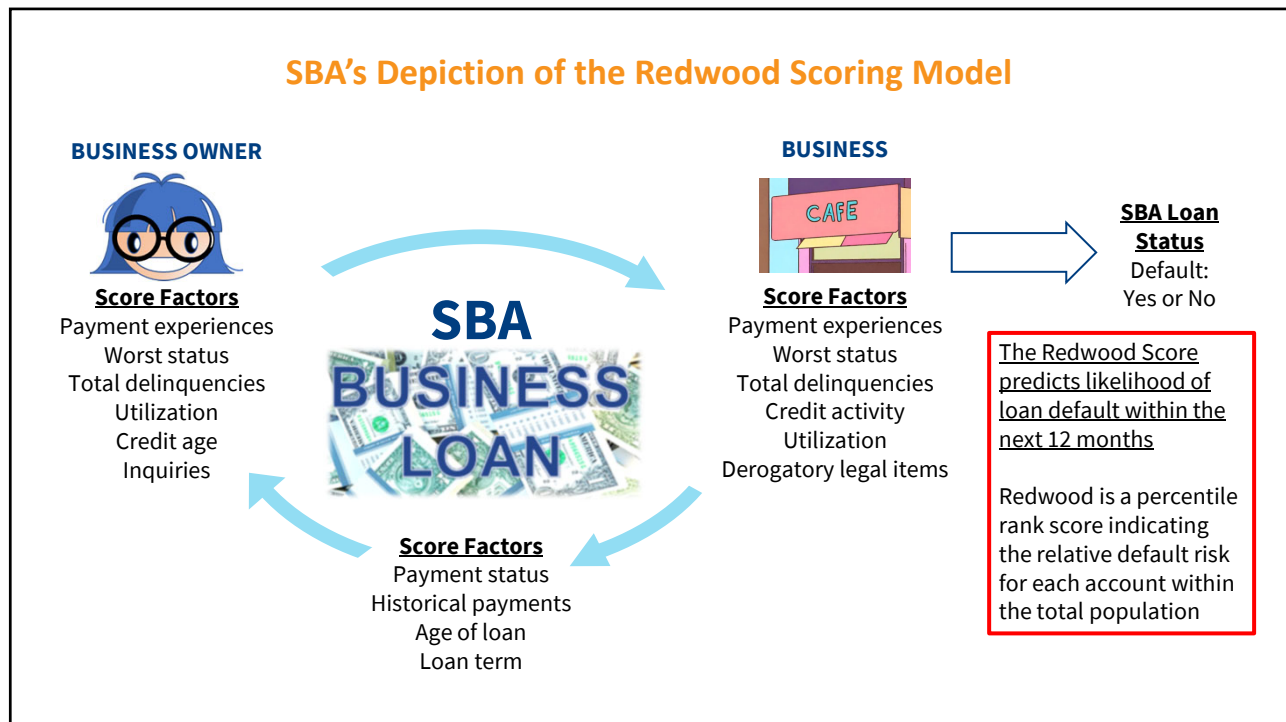
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Redwood Scoring Model

- The model for the Redwood Score uses SBA loan data and credit bureau data to predict future loan default risk
- SBA loan data includes detailed loan and borrower level information from SBA's database
- The credit bureau data includes information on the small business from Experian's credit databases
 - Includes business and business owner credit information
- Development of the Redwood Score utilized the Extreme Gradient Boosted (XGB) machine learned modeling method

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SBA's Depiction of the Redwood Scoring Model



Redwood Machine Learned Modeling Method



- Advantages of the XGB method over traditional regression methods include:
 - Development of hundreds of decision trees
 - Each tree learns from and improves on deficiencies of prior trees
 - Resultant ensemble of trees incorporate hundreds of predictive variables
 - XGB method is better able to identify variable relationships that differ across heterogeneous segments
- Each segment comprises an ensemble of up to 300 decision trees (thus the name Redwood) and utilizes over a hundred data variables

Overall, an ensemble of decision trees works together to generate a more comprehensive and accurate Redwood Score.



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Tools for Lender Monitoring



- **External information sources**

- Call Reports of federally regulated lenders (reviewed for capital sufficiency and other metrics)
- Other publicly available financial information
 - IRS Form 990
 - Financial information services data
- U.S. Securities and Exchange Commission reports (for publicly traded lenders)
- Audited financial statements (when available or required)
- Federal and State regulatory issues
 - Orders
 - Consent Agreements
 - Memorandums of Understanding
 - Lenders that demonstrate weaknesses identified in a public document issued by a Federal or State regulator (i.e., cease and desist order) receive additional monitoring and review scrutiny including but not limited to secondary market activities
- Federal and State regulatory examination results

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SBA Portfolio Monitoring Tool – Utilizing CAFS



Portfolio Monitoring Tools Available in Electronic Lending – Servicing

- Lenders must meet SBA's **Prudent Liquidation Deadline** requirements
 - Lenders must resolve SBA purchased loans within 24 months of guaranty purchase by SBA
- Lenders receive a semi-annual status report by SBA for all loans that the SBA has honored the guaranty and can utilize Electronic Lending – Servicing to monitor all loans in liquidation status
 - Monitoring includes those loans that have been repurchased by the lender and the guaranty purchase has not yet been submitted to SBA
- Loans in liquidation status impact the lender's overall PARRiS rating
 - As a best practice for lenders, a quarterly review of all loans in liquidation status should be conducted to determine if any loan in liquidation status can be returned to regular servicing or can be used as a tickler for submission of the Wrap-Up/Charge Off Tabs

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SBA Portfolio Monitoring Tool (Utilizing CAFS)

“Search” functionality allows you to:

- Find an loan using SBA loan or application number
- Search by date range, processing method, status, etc.
- Enter loan search criteria and select “Submit”

Risk Rating 7(a) Loan Portfolio



- **SOP 51 00, On-Site Lender Reviews/Examinations**, states that among the items that SBA’s Office of Credit Risk Management (OCRM) reviews is whether an SBA lender has and appropriately uses an effective **risk rating system for its SBA loan assets**
- Currently no similar language is found in the SOP 50 57 3.1, **BUT** OCRM is enforcing the requirement for lenders to use an effective risk rating system
 - Even though SBA has no specific risk rating system for 7(a) loans, lenders must risk rate their loans
- Regulated lenders need to follow their regulators’ requirements related to risk rating their portfolios
 - Lenders can risk rate their 7(a) loans by using the same process for similarly sized, non-SBA guaranteed loans

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Prudent Lending and Commercially Reasonable – Portfolio Monitoring

Case Study – Is this prudent and commercially reasonable?

REMINDER: conclusions in case studies are based on current regulations and SOP requirements

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Case Study #8: Waiving Annual Financial Information



- \$650,000 25-year 7(a) loan made to Unicorn LLC, the EPC formed to purchase building 100% occupied by the OC, Unicorn Auto Sales Inc. (EPC/OC are co-borrowers)
- Ownership of the EPC and OC is 50% by Tom Common and 50% by John Common, and both individuals guaranty the loan
- Collateral is the building owned by the EPC as well as a junior lien on the OC's fixed assets (excludes A/R and inventory) – loan balance is now \$498,000
- E-Tran Terms and Conditions requires annual financial information and lender requires the EPC, the OC, and the guarantors (Tom Common and John Common) to submit annual tax returns and financial statements
- Loan has been paying as agreed for several years and is considered seasoned, but no financial information has been received since loan origination

QUESTIONS:

- Does a lender have to keep asking for financial information every year?
- In this scenario, what should the lender do next?

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Case Study #8: Waiving Annual Financial Information



- This may be an example of when SBA requires more than what is usually required in conventional lending
 - A lender **could** use its unilateral authority to waive financial statements (but only for one year at a time) ... but is this a good idea?
 - If a lender is going to even **consider** waiving annual financials, it should know -
 - **Requirement** for submission of periodic F/S **should not be modified**, e.g.,
 - Temporarily or permanently waived **OR**
 - Changed from audited to compiled **OR**
 - Required less frequently
- UNLESS** –
- Loan is seasoned or requirement would cause financial hardship for borrower
 - Waiver is temporary and limited to **one year at a time** **AND**
 - Lender reserves right to reinstate requirement and exercise right in the event of a default

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Case Study #8: Waiving Annual Financial Information



- Lender is **required** to monitor borrower's creditworthiness and **must** use another method if no financial information provided by borrower
 - Contact with the borrower via phone, emails, letters and/or site visits
 - Review of relevant data from sources such as credit reports/credit scores
 - Payment performance on SBA loan and any companion/affiliate loans
 - Status of property taxes, hazard/flood insurance, life insurance
 - Status of any other senior liens
 - Status of any of products/services/deposit accounts with lender, including any PPP or other companion loans
 - Status of any seller carry back loans and standby debt
 - Status of collateral and information on site visits

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Case Study #8: Waiving Annual Financial Information



- Lender must document its good faith efforts to obtain financial information
- Borrower is in technical default if required to provide financial information and fails to do so – **DO NOT** grant a servicing request until technical default is cured!
- Other considerations – is the borrower uncooperative? Or did lender forget to request financials and is not performing any type of loan monitoring?
- What if lender's loan policy does not require any annual financial information to be provided by borrowers or guarantors if the loan balance is under \$500,000?

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Prudent Lending and Commercially Reasonable – Servicing and Liquidation



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So, Just What is Loan Servicing?



Here is where prudent lending and commercial reasonableness really come into play ...

- All lenders have a **huge** amount of **delegated authority** to take servicing actions
 - Does not matter if loan was processed using delegated or non-delegated status – lender still has same delegated authority for servicing actions on fully disbursed loans
 - But ... lenders must remember to not take actions that appear to or do confer a preference on the lender to the detriment of the 7(a) loan
- **Keys to success** in servicing 7(a) loans –
 - Following **commercially reasonable** and **prudent servicing and liquidation practices** – i.e., treating SBA loans in the same way as lender's unguaranteed loans of similar size and type
 - Gathering facts and deciding whether a loan needs a deferment, a workout, or if the borrower cannot turn around its problems and the loan needs to move into liquidation
 - Following SBA requirements in SOP 50 57 4, Matrix, etc. **AND**
 - Fully documenting loan file for every action taken – **DOCUMENT, DOCUMENT, DOCUMENT!!!**
 - This includes updating CAFS/E-Tran Servicing for **all** loan modifications

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Deferment – What is it?



- Deferment is a **temporary solution to a temporary problem**
- **Appropriate use** is when requested by borrower in order to improve cash flow so that it can continue operations with goal of resuming payments on its SBA loan
- **Inappropriate use** is when borrower's problems are permanent
 - Deferment can harm borrower, lender and SBA – e.g., devaluation of collateral or depletion of borrower resources during deferment period
- Deferment options restricted if loan sold in the secondary market – may need SBA to authorize repurchase or lender to buy back loan

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Workout or Deferment?



When more help is needed than just a deferment ...

- Generally, a workout agreement **restructures** material terms and conditions of a delinquent loan to –
 - Avoid foreclosure and bankruptcy
 - Cure default and improve repayment ability **AND**
 - Maximize recovery
- Whenever feasible, lender must make **good faith effort** to negotiate a workout when loan is seriously delinquent or classified as in liquidation
 - Usually alters material terms and conditions of loan – SO repurchase from secondary market generally required before execution of workout agreement

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Projections – Not Just for Loan Origination



How does a lender determine if the business can continue to be viable when borrower may be facing challenges such as fluctuating interest rates, higher fuel and other costs, supply chain issues, and qualified staffing shortages?

- No easy answer, but start with a good template for projections that borrower can use
- What if borrower needs help in completing projections and assumptions?
 - **Lender must not complete projections for the borrower!**
 - Lender could refer borrower back to their CPA or to local WBC, SCORE chapter, SBDC, or other local business assistance entity for help whose missions are to help businesses in need
 - Look at month-by-month past financial statements and compare to projections
 - Thanks to in-house business accounting software, borrower may be able to give month-by-month financials from past years rather than wait for CPA to prepare

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Prudent Lending and Commercially Reasonable – Servicing and Liquidation

Case Studies – Is this prudent and commercially reasonable?

REMINDER: conclusions in case studies are based on current regulations and SOP requirements

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Case Study #9: Workout Request



- Loan is 65 days past due, although until just recently, loan payment performance had been satisfactory since origination
- A timely site visit was performed that reflected that the business was open; however, borrower was not at the business at the time of the site visit
- Lender's efforts at contacting the borrower were unsuccessful and payment demand letters were ignored
- Lender sends an accelerated demand letter, places the loan in liquidation status and prepares to initiate liquidation remedies
- Borrower finally contacts lender and explains he wants to resume making payments and requests a workout

QUESTION:

- What should a prudent lender do?

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Case Study #9: Workout Request – Issues to Consider



- Why was the loan delinquent?
 - *Borrower states decreased sales are due to road construction near the business and borrower's spouse had been seriously ill, necessitating that he work part-time hours*
- Is the borrower current on all required financial statements and other loan conditions?
 - *Yes, borrower provided all information required by the loan authorization and there are no known technical defaults*
- Is the loan fully secured?
 - *No, a collateral shortfall remains even though the borrower's primary residence was taken as additional collateral at loan origination*
- Is current cash flow adequate to resume payments?
 - *Yes, lender has verified that all road construction has now been completed, the spouse has recovered, and the borrower is back full-time at the business*
- Given the facts above, **should a prudent lender allow borrower to reinstate the loan and provide a workout?**

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Case Study #9: Workout Request – Action Items



- Perform an **audit** of the loan file and correct any document deficiencies concurrent with granting the workout/payment modification
- Verify borrower's overall **financial condition** including the status of property taxes, hazard and/or life insurance, payments to other creditors, suppliers, and other loans/deposit accounts with lender
- Determine **reasonable workout plan**, such as –
 - Increase payments by \$750/month for 12 months to catch up, and once workout agreement has been executed, return loan to regular servicing
- Workout agreement requires **consideration from borrower** before or at same time it receives benefit of workout, such as –
 - Waive defenses
 - Release lender liability claims
 - Provide additional collateral, and
 - Consent to a speedy and inexpensive liquidating the loan if the workout fails

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Case Study #10: Business Closure



- Loan to retail hardwood flooring company with two locations fully disbursed 36 months ago
- Loan is current and payment performance had been satisfactory since origination
- Lender becomes aware that borrower is advertising a “going out of business” sale at one of the business locations
- Lender contacts borrower who states they cannot sustain two locations due to present economic conditions
- Borrower believes that by consolidating into one location they can be successful and continue making their full loan payments

QUESTION:

- What issues should a prudent lender consider?

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Case Study #10: Business Closure – Issues to Consider



- Why does borrower need to close one location?
 - *State mandated minimum wage increases adversely impacted cash flow*
 - *Borrower is unable find experienced installers*
 - *Competition has increased, so there are not enough sales to support two locations*
- Is the borrower current on all required financial statements and other loan conditions?
 - Yes
- Is the collateral still in place?
 - *Yes, lender completed a site visit within 2 days of learning of the pending business closure*
 - *Borrower will be moving all inventory and fixtures to the other location*

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Case Study #10: Business Closure – Issues to Consider



- What about the lease liability on the closed location?
 - *Landlord has approved a sublease to a qualified tenant*
- Is it feasible that the business owner can repay the loan with only one location?
 - *Yes, owner has provided a plan that reflects sales at the one location are adequate to provide the necessary cash flow to fully service the debt*
- Business closure is an event of default under the loan documents – can lender approve closure of a business?
 - *Lender can enter into a forbearance agreement with the borrower regarding the technical default*

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Case Study #10: Business Closure – Action Items



- Perform an audit of the loan file and correct any document deficiencies concurrent with executing the forbearance agreement
- Verify borrower's overall financial condition including the status of property taxes, hazard and/or life insurance, payments to other creditors, suppliers, and other loans/deposit accounts with lender
- Verify that landlord has consented to sublease of property
 - Does sublease fully pay existing lease payment and any common area maintenance charges?
 - If not, is shortfall included in projections plan borrower provided?
 - Analyze tenant to determine if they have the ability to make the lease payments
 - Determine impact of contingent liability to borrower if tenant does not make the lease payments
 - Ask borrower if landlord would eliminate sublease and lease the property directly to the new tenant
- Schedule follow up site visit once all collateral has been transferred to the other location

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Group Discussion: How to Implement Prudent and Commercially Reasonable Practices

We've discussed various situations ... how can we put this all into practice?

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Conclusion

Similar to beauty being in the eye of the beholder, **prudent lending** and **commercially reasonable practices** have no universally accepted definitions

- Some institutions do things differently than others, and some regulators have different requirements than others (e.g., Federal vs. State vs. those regulated by SBA)
- Every loan involves risk ... some institutions are more risk adverse than others
- Protecting the SBA guaranty is critically important ... yet loan growth is what most lenders want to achieve – how can a lender do that and not sacrifice quality?
- Careful, thoughtful documentation from eligibility and origination through servicing, liquidation and loan payoff helps lenders retain a valid SBA guaranty
- Know SBA policies and your institution's policies and synchronize the two
- Be one of your institution's experts – keep training and researching ways to improve efficiency

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What Comes Next?

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2026 Schedule*



✓ June 26	Orientation
✓ July 14-16	Leadership Summit
✓ August 6	FLL Monthly Meeting
✓ August 14	Module 1: Introduction to the Program and NAGGL
✓ September 3	FLL Monthly Meeting
✓ September 11	Module 2: Prudent Lending
October 1	FLL Monthly Meeting
October 9	Workshop: Public Speaking
November 3-5	Annual Conference (San Diego, CA)
December 3	FLL Monthly Meeting
December 11	Workshop: Writing Industry Articles

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**Dates are subject to change*

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2027 Schedule*



January 7	FLL Monthly Meeting
February 4	FLL Monthly Meeting
February 12	Module 3: Intersection of Program and Politics
March 4	FLL Monthly Meeting
March 12	Workshop: Expanding Your Leadership
April 1	FLL Monthly Meeting
May 3-5	Spring Conference (Nashville, TN)
May 14	Module 4: Program Innovation
June 3	FLL Monthly Meeting – Wrap Up/Discuss Graduation Details
July 12-14	Leadership Summit (Charleston, SC)

**Dates are subject to change*

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REMINDER: FLL Writing Project



- To showcase our Future Lending Leaders Program and this FLL class, in the Spring of 2027 NAGGL will publish the sixth edition of our annual e-publication, *Future Lending Leaders 7(a) Review*
- Each FLL will submit an article for inclusion in the e-publication which will be shared with the entire NAGGL membership
- FLLs can count on their mentors and NAGGL staff to provide any guidance and assistance needed to assure each FLL's successful completion of this assignment
- To help get ready for article writing, NAGGL will present a workshop that will focus on writing industry articles
 - Save the date – **December 11, 2026**

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Picking Your Topic



Hopefully, you already have been giving thought to the topic for your article, but as a reminder ...

- Topics should be designed to pique your interest and that of your colleagues
- Fair game ... any aspect of SBA or small business lending, e.g.,
 - Impact of changing policies on borrower and/or lenders
 - Best practices/meeting the credit needs of small businesses in underserved markets
 - Using AI to improve efficiency and effectiveness
 - Lending during current economic conditions
 - 7(a) eligibility/credit determinations
 - One aspect of loan disbursement, servicing, liquidation, guaranty purchase
 - Specific 7(a) delivery method – e.g., SBA Express, CAPLines, International Trade, MARC, etc.
 - Secondary market sales
 - Lending to a specific market segment – e.g., franchises, manufacturers, service industry
 - Anything else that you find interesting

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Picking Your Topic



- Article may focus on an issue involving –
 - Recent change in SBA policy or procedure
 - Source of confusion to lenders that may need clarification
 - Topic that has come up in recent SBA presentations/NAGGL conferences, etc.
 - Or anything else that, based on your experience in the industry, you think lenders should know more about

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FLL Article Milestones – 2026-2027



In Process	Discussions between FLL and mentors regarding possible article topics
By December 1	Proposed article topics due to NAGGL (mstutz@naggl.org)
December 11	Workshop: Writing Industry Articles
By December 31	Final topic and summary of article due to NAGGL (mstutz@naggl.org)
By January 14	NAGGL confirmation of article topics
February 15	First draft of article submitted to mentor for review, discussion, edits
March 3	Mentor review of edited first draft of article completed
March 12	Submission of mentor reviewed article to NAGGL for first review (mstutz@naggl.org)

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FLL Article Milestones – 2026-2027



March 13 - April 3	FLLs article revisions made in consultation with mentors and NAGGL team, as necessary
April 2	Final deadline for submission of final draft articles to NAGGL (mstutz@naggl.org)
April 6 - April 30	NAGGL editorial review and finalization of articles in collaboration with FLLs and mentors
May 14	Final deadline for publication ready article
July 2027	NAGGL publication of sixth edition of Future Lending Leaders 7(a) Review

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Recent and Still to Come ...

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Recent and Still to Come ...

- ***The Continuing Appropriations and Extensions Act, 2027*** was signed into law on 9/2/2026 – this extends federal government funding through 12/11/2026, so no worries about a government shutdown on 10/1/2026
- SBA issued Information Notice 5000-881797, ***7(a) Fees Effective October 1, 2026 for Fiscal Year 2027 and 90-Day Rule Clarification*** (published 9/3/2026, effective 10/1/2026)
 - Companion notice published for FY 2027 504 Program Fees – Information Notice 5000-881796, ***504 Fees for Fiscal Year 2027*** (published 9/3/2026, effective 10/1/2026)
- As previously noted, SBA has indicated that it will provide technical updates/technical corrections version of SOP 50 10 8.1 before the new requirements take effect on 10/1/2026

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Recent and Still to Come ...



- Expected are –
 - Some policy adjustments being made in response to questions and comments from lenders and NAGGL AND minor corrections of a few drafting errors
- Continue sharing your thoughts and questions to support this process – SBA is listening
- Also, SOP 50 57 4 and various forms may need to be updated to conform with changes in SOP 50 10 8.1 – watch for possible information

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Recent and Still to Come ...



- Recordings of all NAGGL's SOP 50 10 8.1 webinars – overview, COO, and QoE – available in NAGGL's On Demand Library
 - naggl.org/od-library
- SBA's free training on the new SOP will be available on SBA's lender training website
 - sba.gov/sba-lenders/#training
- Finally, as always watch your email from SBA and NAGGL and monitor naggl.org for information regarding possible changes to SOP 50 10 8.1 and other important program updates

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Thank You

