	RECOMMENDED ACTIONS TO INCREASE CA LENDING TO UNDERSERVED MARKETS AND UNDERBANKED ENTREPRENEURS	CURRENT CA PROGRAM RULES *SOURCE: CA PARTICIPANT GUIDE, JUNE 2020*
ELIGIBLE CA LENDERS	To be considered for certification as an SBA CA lender, an organization must be an SBA certified CDC, Microlender, ILP intermediary, or a Treasury certified CDFI. We recommend retaining the existing eligibility threshold.	To participate as CA Lenders an organization must be a: - SBA Certified Development Company; - SBA Microloan Program Intermediary; - SBA Intermediary Lending Pilot (ILP) Program Intermediaries; or a - Non-federally regulated Community Development Financial Institution (CDFI)
UNDERSERVED TARGET MARKETS	This two-part recommendation is crafted to increase the availability of responsible and affordable financing to underbanked and underserved businesses and communities, and we ask that the SBA consider the two recommendations together. We recommend that CA lenders be required to make at least **<u>75%</u>** of their CA loans in underserved markets and for purposes of CA lending we recommend "underserved markets" include the following with new areas highlighted: **Any qualified business located in a**: - Low-to-Moderate Income (LMI) community; - Empowerment Zone or Enterprise Community; - HUB-Zone; - Promise Zone; - Opportunity Zone; - Rural Area; or - Federally designated disaster areas; **Any qualified business that is a:** - Veteran-owned; - Woman-owned; - Owned by one or more formerly incarcerated individuals; - Owned by one or more socially and economically disadvantaged individuals15 USC 637(a); or - New business (any firm in business two years or less).	CA lenders are required to make at least 60% of their CA loans in underserved markets, defined by SBA to include: - Low-to-Moderate Income (LMI) communities; - Businesses where more than 50% of the full-time workforce is low-income or resides in LMI census tracts; - Empowerment Zones and Enterprise Communities; - HUB-Zones; - Promise Zones; - Opportunity Zones; - Rural Areas; - New businesses (no more than 2-years) - Veteran-owned businesses.

MAXIMUM LOAN SIZE	We recommend $350,000 as the maximum CA loan amount.	The maximum CA loan amount is $250,000
MAXIMUM INTEREST RATE	Based on the cost associated with making and servicing loans and supporting/sustaining businesses in underserved markets we recommend CA lenders be authorized to charge a maximum interest rate of Prime + 6%	The interest rate cap on a CA loan is Prime + 6%
LOAN LOSS RESERVE REQUIREMENTS	We recommend that a minimum of 5% of the unguaranteed portion of a CA lender's CA loan portfolio must be maintained in a Loan Loss Reserve (LLR) Account established by the lender. However, we recommend that SBA drop the requirement that a lender contribute a minimum of 5% of the guaranteed portion of any CA loan sold on the secondary market. CA lenders should not be required to make any additional deposits into a LLR based on the sale of CA loans into the secondary market.	**CA Portfolio LLR**: SBA required that a minimum of 5% of the **unguaranteed** portion of the CA Lender's CA loan portfolio; must be deposited in Loan Loss Reserve Account no later than 45 calendar days after the date of each CA loan disbursement. **Secondary Market LLR**: A minimum of 5% of the **guaranteed** portion of each such CA loan that is sold into the secondary market must be deposited in Loan Loss Reserve Account no later than 10 calendar days after the CA loan has been sold into the secondary market.
SBA GUARANTY FEES	We recommend eliminating all up-front guarantee fees associated with CA loans. We support maintaining the annual fee paid by a CA lender to SBA at the current rate - 0.55% of the guaranteed portion of the CA loan.	SBA's up-front guaranty fees ➢ Maturities of 12 months or less = 0.25% of the guaranteed portion ➢ Maturities over 12 months - loans $150,000 or less = 2.0% of the guaranteed portion - loans $150,001-$250,000 = 3.0% of the guaranteed portion On-going annual fee paid by CA lender = 0.55% of guaranteed portion

PERMITTED CA LENDER FEES	We recommend that a CA Lender be permitted to collect a fee from an applicant that is no more than $3,000.	For purposes of the CA Pilot Program, SBA modified 13 CFR 120.221(a) to limit the total fees an applicant can be charged by a CA Lender for assistance in obtaining a CA loan. CA Lender is permitted to collect a fee from the applicant that is no more than $2,500.
UNDERWRITING	Recognizing the goal of mission lenders and the objective of the SBA CA loan program, we recommend that CA lenders be allowed to utilize their own underwriting criteria and in doing so the SBA would: - **SBSS Score**: Eliminate the use of FICO® Small Business Scoring Service Score (SBSS Score) for CA loans, or at minimum establish 140 as the minimum SBSS score for a CA loan that can be processed using delegated authority. - **Collateral Requirements** Allow CA lenders to make unsecured loans (no collateral requirements) for loans of $50,000 if less. - **Equity Requirements** – Allow CA lenders to utilize and adapt their own underwriting criteria based on their experience as lenders and the needs of borrowers. For this reason, we recommend that SBA not impose a fixed equity injection requirement for CA loans.	- **SBSS Score**: A CA lender cannot process a loan using delegated authority if the entrepreneur/ potential borrower's / SBSS Score is below the minimum threshold established by SBA for CA lenders. That minimum SBSS score is currently 140. - **Collateral Requirements**: A CA lender is not required to take collateral on loans of $25,000 or less. - **Equity Requirements for CA Loans –** A minimum 10% equity injection is required of start-up businesses and other CA loans follow SOP 50-10.
CREDIT ELSEWHERE TEST	We recommend eliminate the 'credit elsewhere' test for CA loans, or at minimum clarify and ease the burden associated with satisfying the test. CA lenders are already required to target underserved markets and underbanked businesses.	The CA Lender's credit memorandum must include the reason(s) why credit is not available elsewhere on reasonable commercial terms from non-federal sources (see SOP 50 10, Subpart B, Chapter 2, Paragraph II.E for further guidance on credit elsewhere);

STREAMLINE LOAN REFINANCING	On the front end, we encourage SBA to streamline a CA lender's ability to refinance an interim, non-SBA guaranteed, same institution loan using CA delegated authority. Interim loans are often made by a CA lender to provide a borrower with immediate relief/escape from a high-cost loan while the lender collects and files necessary documents for a CA loan. If a CA lender has delegated authority, they should be able to exercise it. On the back end, we encourage SBA to permit refinancing a CA loan with a 7a bank loan. CA lenders are encouraged to assist their business borrowers to become bankable and that transition could and should include moving a CA borrower into a conventional 7a loan.	Non-SBA guaranteed, same institution debt must be processed through the LGPC and may not be processed under delegated authority.
CHANGES REQUIRING STATUTORY CHANGE		
Percent of Guarantee	We recommend that SBA provide a 90% guarantee on all CA loans.	Under the CA pilot the SBA provides a 85% guaranty for loans of $150,000 or less; and a 75% guaranty for loans greater than $150,000 and less than $250,000.

OUTSTANDING QUESTIONS FOR SBA

1. How will SBA evaluate SBA lenders?
2. What will SBA deem acceptable in terms of risk vs loss for CA lenders?
3. How will SBA's Office of Credit Risk Management adapt the evaluation and audit protocols to accommodate the CA model and mission?
4. What are SBA's expectations for the scale of CA lending? How will SBA accommodate the important work done by smaller mission lenders or mission lenders serving a rural and/or low population area?
5. Who will oversee the CA program within SBA?
6. If SBA extends CA as a pilot program will the agency issue a revised CA Participant Guide? Will there be an opportunity for public comment before changes are enacted?