



Billing Code: 8025-01

SMALL BUSINESS ADMINISTRATION

Standard 7(a) Loan Guaranty Processing Center (LGPC) Emergency Catch-up Pilot

AGENCY: Small Business Administration.

ACTION: Notice of Regulatory Waiver for Standard 7(a) Loan Guaranty Processing Center (LGPC) Emergency Catch-up Pilot.

SUMMARY: During the first quarter of Fiscal Year 2014, SBA waived an Agency regulation applicable to the 7(a) Business Loan Program for the Standard 7(a) Loan Guaranty Processing Center (LGPC) Emergency Catch-up Pilot (Pilot). Specifically, SBA waived the regulation setting forth SBA's criteria for establishing borrower creditworthiness and assuring repayment through the consideration of nine elements. The Pilot consisted of a streamlined review process for qualified 7(a) loan applications to address the backlog of unprocessed applications at the LGPC created by the government shutdown in October 2013. This Notice explains the actions SBA undertook and the reasons for the Pilot.

DATES: The waiver was effective for qualified applications submitted to the LGPC from October 1, 2013 through December 3, 2013.

FOR FURTHER INFORMATION CONTACT: John A. Miller, Director, Office of Financial Program Operations, U.S. Small Business Administration, 409 Third Street, SW, Washington, DC 20416; (202) 619-0647.

SUPPLEMENTARY INFORMATION: SBA implemented a temporary pilot called the LGPC Emergency Catch-up Pilot that consisted of a streamlined review process to

address the backlog of unprocessed 7(a) loan applications at the LGPC created by the government shutdown in a manner that expedited delivery of capital to small businesses.

1. Background

Due to the lapse in appropriations beginning on October 1, 2013, the LGPC accumulated a backlog of unprocessed 7(a) loan applications that would have taken an estimated 6 to 8 weeks to review under the normal review process. SBA estimated that implementation of the streamlined review process would make it possible for the LGPC to review the unprocessed inventory in 3 to 4 weeks in a manner that did not further delay the delivery of capital to small businesses and did not increase SBA's risk. SBA determined the streamlined review performed under the Pilot would have a negligible effect on potential improper payments and defaults, as it allowed the LGPC to match resources to risk by focusing on higher-risk, high-dollar applications. Any potential increased risk to SBA was mitigated through a robust quality control review process whereby loans chosen by statistically valid, random sampling underwent full quality control reviews.

2. Standard 7(a) Loan Guaranty Processing Center (LGPC) Emergency Catch-up Pilot

Overview

The streamlined review consisted of (1) a review to verify the completeness of the application package to ensure the LGPC had all required forms signed and completed, the lender's credit memorandum, and all other applicable supporting documentation; (2) a full eligibility review; and (3) a minimum threshold credit score. For purposes of the LGPC Emergency Catch-up Pilot, the credit score was used as a decision tool to assess borrower repayment ability in lieu of analyzing each of the required elements set forth in

13 CFR 120.150. The credit score utilized was FICO's LiquidCredit, which is calculated based on a combination of consumer credit bureau data, business bureau data, borrower financial data, and application data, and is used industry-wide in the small business lending industry. The LiquidCredit Score has been in use at the LGPC since 2007 and is the credit scoring model used for SBA's Small Loan Advantage (SLA) Program. The minimum credit score required for an application to qualify for streamlined review was based on the lower end of SBA's current risk profile and was the minimum score currently used for SLA applications.

Standard 7(a), SLA, and Certified Lender Program (CLP) loan applications of \$350,000 or less with LiquidCredit scores equal to or greater than 140 received in the LGPC from October 1, 2013 through December 3, 2013 qualified for the streamlined review process. The following applications did not qualify for the Pilot and underwent the standard review currently followed in the LGPC: (1) CAPLine applications; (2) Community Advantage applications; (3) applications that had credit scores below the minimum threshold score of 140; and (4) applications from lenders with unsatisfactory performance, as determined by the Office of Credit Risk Management (OCRM).

SBA will track and monitor the quality control review results for use in future analysis to measure the effectiveness of the Pilot. SBA also will track and monitor the loans approved under the Pilot for future analysis in comparing default rates of loans approved under the Pilot to similarly sized loans approved under normal review procedures in the same timeframe to determine the effectiveness of the Pilot.

Regulatory Waivers

Pursuant to the authority provided to SBA under 13 CFR 120.3 to suspend, modify or waive certain regulations in establishing and testing pilot loan initiatives for a limited period of time, SBA has waived 13 CFR 120.150, which defines SBA's lending criteria for establishing borrower creditworthiness and assuring repayment through the consideration of nine elements. The waiver of this regulation for loans processed under the Pilot allowed for streamlined reviews of qualifying applications utilizing FICO's LiquidCredit Score as a decision tool to assess borrower repayment ability.

All provisions of the Small Business Act applicable to the 7(a) loan program apply to loans made under this Pilot. Unless waived or modified by this Notice, all regulations applicable to the 7(a) loan program apply to loans made under this Pilot. All standard operating procedures applicable to the 7(a) loan program that are not superseded by any provision of this Notice apply to loans made under this Pilot.

Authority: 15 U.S.C. 636(a)(25) and 13 CFR 120.3.

Dated: February 10, 2014.

Jeanne A. Hult,
Acting Administrator.

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