

Unlocking the New SBA SOP

WHAT YOU NEED TO KNOW

SPEAKERS



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DISCLAIMER

Please be advised this presentation is based on available information as of today and is our interpretation of that information. It is subject to change, and any subsequent developments may affect the accuracy of the information presented. This presentation is for informational purposes only and should not be considered definitive or binding.

We are not speaking on behalf of the SBA nor are we directly affiliated with the SBA.

SOP 50 10 8



- SOP = Standard Operating Procedures
- 467 pages
 - Core Requirements for All Programs
 - 7(a) Loan Program Specific Requirements
 - 504 Loan Program Specific Requirements
 - Appendices
- Effective June 1st
- For loans approved with an SBA loan number on or after this date

SOP 50 10 8

- SBA is eliminating the “do what you do” philosophy
- Reimplementing prudent lending guardrails
- Reinstating the SBA Franchise Directory
 - Know the important dates and needed actions

SBA FRANCHISE DIRECTORY

- **NO FEE/COST** and accessible to public
- Franchisors must be on the Directory, effective August 1st
- Franchise, license, jobber dealer or similar agreements are reviewed since included under FTC definition of a “franchise”
- Reviewed in order received
- Located and maintained on SBA website
- Will indicate:
 - Whether a brand meets the FTC definition of a franchise
 - Whether the business model for the brand is SBA eligible
 - The SBA Franchise Identifier Code if it meets the FTC definition
 - Any additional instructions to lenders for the brand incl if only eligible for PPP and EIDL
- Will no longer require SBA Franchise Addendums

SBA FRANCHISE DIRECTORY

Brands previously on the SBA Directory

- Must sign the SBA Franchisor Certification by **July 31st** and send to franchise@sba.gov
- If miss deadline, removed from Directory *until signed*



Franchisor Certification

The Franchisor Certification (Certification) is to be used in connection with listing _____
 (Franchisor's legal name & brand name as it appears on the Franchise Agreement) on the U.S. Small Business Administration (SBA) Franchise Directory. This Certification replaces any SBA Franchise Addendum or other similar documentation previously required by SBA and applies to SBA loans approved after the date of this Certification.

SBA FRANCHISE DIRECTORY

New Brands never on the Directory

- Franchisors should send documents to franchise@sba.gov
 - SBA Franchisor Certification
 - Current FDD
 - Current Franchise Agreement
 - Any other documents that require a franchisee's signature
- SBA may require additional documentation (ex: Operations Manual)

INELIGIBLE BUSINESSES

- Added clarification- either fully eligible or fully ineligible
- Office suites, salon suites, ghost kitchens only qualify if **all** apply:
 - Do not earn rent revenue
 - Customers do not have an assigned space (ex: is personalized or lockable door)
 - Business responsible for upkeep/maintenance
 - Business supplies necessary equipment
- Beauty salons can be eligible regardless whether their employees are W2 or 1099
- Third party Management Agreement must not result in passive ownership
- Businesses engaged in illegal activity under federal, state or local law = ineligible

7(a) SMALL LOAN

- Loan amounts- \leq \$350k
- Minimum allowed SBSS score increased to 165
- Applications with lower score- treated as Standard 7(a) loan
- Lender must take a first lien on assets financed by loan proceeds (some exceptions)
- If 50% or more of loan proceeds= working capital, lien on all fixed business assets

7(a) STANDARD

- Loan amounts >\$350k to \$5MM
- Potential increase to \$10MM for manufacturing only
- Lenders are not required to pull SBSS
- Personal Collateral required if available
- Life Insurance required if loan not fully secured

NEW CORE REQUIREMENTS (7a/504 PROGRAMS)

- Applicants with delinquent SBA loan = ineligible
- 10% minimum equity injection for start-up and 100% change of ownership loans
- Credit Not Elsewhere reinstated
 - Personal Resource Test is NOT
- Guarantors and Owners must be US citizens, LPRS, and/or US Nationals
 - LPR- no conditions allowed
 - Exception is Limited Guarantors located in the US
 - New Technical Change coming:
 - Primary residence must be in US
 - Applicant entity must be formed in US state
- MCA and factoring agreements ineligible for SBA debt refinancing

CHANGES OF OWNERSHIP



- Requires sellers in a partial change of ownership to provide a limited guaranty of the full loan amount for a minimum of 2 years, regardless of the amount of ownership retained
- Seller debt may only be counted as equity injection if on standby for the full term of the loan and does not exceed 50% of the required equity injection
- Multi- step partial changes of ownership no longer allowed

PART 2: Deep Dive into the Return of the Franchise Directory

Friday, May 30th

Presented by Steve O'Lear, SR Franchise Counsel for SBA

LINKS

- New SOP - <https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs>
- All SOPs, Policy & Procedural Notices: <https://www.sba.gov/about-sba/open-government/sba-guidance>
- SBA Franchisor Certification - <https://www.sba.gov/document/support-franchisor-certification>
- SBA Distributor Certification - <https://www.sba.gov/document/support-distributor-certification>
- SBA Franchise Directory - <https://www.sba.gov/document/support-sba-franchise-directory>
- SBA Email Address to submit docs for Franchise Directory: franchise@sba.gov
- For the 7(a) Loan Program, direct questions to 7aQuestions@sba.gov.
- For the 504 Loan Program, direct questions to 504Questions@sba.gov.
- Questions about SOP, SBA Notices, Other: GuidanceDocuments@sba.gov



