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**CommunityExpress PROGRAM GUIDE**

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1. WHAT IS COMMUNITY EXPRESS?

The Community Express Pilot Loan Program is a collaborative effort between the SBA and the National Community Reinvestment Coalition (NCRC) and its member organizations. Under the pilot, designated lenders are authorized to implement an SBA Express-like loan program to increase SBA lending to pre-designated geographic areas generally comprising Low and Moderate Income Areas (LMIs) and to women, minorities, and/or veterans. The program also includes a technical assistance component.

The SBA recognizes that many segments of the small business community continue to have difficulty in accessing capital from traditional lending markets. These businesses are generally newer, smaller businesses that need small size loans and equity investments accompanied by technical assistance. They are often comprised of small businesses owned by minorities, women, and veterans and by businesses located or locating in Low and Moderate Income urban and rural areas.

To assist these small concerns, the Agency is continuing to develop, implement, and test new programs and initiatives designed to more efficiently and effectively deliver SBA financing to these markets. The Community Express program represents one of these initiatives and is a cooperative effort between the SBA and the National Community Reinvestment Coalition. It brings SBA’s program experience and lending capability together with the lending and community development expertise of the NCRC and its member organizations.

The NCRC is a non-profit trade association comprised of over 800 dues-paying community development and advocacy groups. Members are involved in and committed to revitalizing distressed and underserved communities. NCRC’s mission is to ensure fair and equal access to credit, capital, and banking services and products to these communities. NCRC seeks to develop and support long-term solutions that provide resources, knowledge, and skills to build community and individual net wealth.

The Community Express Pilot program is similar to the Agency’s SBA Express pilot and conforms generally to its policies and procedures, but there are some important differences, including the requirement that lenders provide technical assistance.

Under the pilot, eligible lenders, which must be PLP lenders in good standing or selected non-PLP lenders in mostly rural districts, are authorized to adopt SBA Express’ streamlined and expedited loan processing and approval procedures to address pre-designated geographic areas, mostly LMI areas and women, veterans, and minorities. Like SBA Express, Community Express participants are allowed to use, to the maximum extent possible, their own loan analyses, loan procedures, and loan documentation. This includes their own application forms, internal credit memoranda, notes, collateral...
documents, servicing documentation, and liquidation documentation. Participants must, however, continue to follow their established and proven internal credit review and analysis procedures for loans of similar size and type.

CommunityExpress also uses the abbreviated SBAExpress loan application, which is submitted to the Agency’s centralized processing facility in Sacramento. The processing center determines the borrower’s eligibility and issues an SBA loan number (usually within 36 hours), but does not perform any additional credit analysis. (More complex loans and loans falling outside CommunityExpress program eligibility will be handled by SBA district offices and regular 7(a) loan processing procedures.)

Also, similar to SBAExpress, CommunityExpress participants must service and liquidate their loan portfolios and use generally accepted commercial banking standards employed by prudent lenders. Routine loan servicing and liquidation issues will be handled by SBA’s Loan Servicing Centers in Little Rock and Fresno, with all purchases handled by the two centers.

However, due to the unique problems and challenges faced by the small businesses targeted under this program, CommunityExpress includes a technical assistance component. Borrowers must receive pre- and post-loan closing technical and management assistance from local non-profit providers and/or from participating lenders, with that assistance coordinated, arranged and, when necessary, paid for by CommunityExpress lenders. CommunityExpress lenders may also consider this technical assistance as a collateral enhancement.

To encourage participating lenders to more aggressively address these targeted markets, and to offset some of the additional cost for the technical assistance component, SBA’s percent of loan guaranty under CommunityExpress conforms to standard 7(a) practice. This contrasts with SBAExpress, which carries a maximum SBA guaranty of 50 percent. In addition, the maximum loan amount under CommunityExpress is $250,000, which exceeds the SBAExpress maximum of $150,000.

2. HOW DOES COMMUNITYEXPRESS RELATE TO OTHER SBA LOAN PROGRAMS?

CommunityExpress is expected to complement SBA’s Microloan program, which is targeted to emerging businesses that require loans of $25,000 or less and that also can benefit from effective technical assistance. CommunityExpress will add to SBA’s continuum of loan products and provide financing to those businesses that fall between the parameters of SBA’s Microloan program and conventional loan programs.

The NCRC and the participating lenders also recognize that CommunityExpress represents a unique opportunity to expand existing partnerships and build new partnerships between participating lenders and community organizations. One way of
cementing those partnerships, while expanding the range of credit services available to businesses in LMI and minority areas, is through strengthening the participating lenders' commitments to the SBA Microloan Program. Where an SBA Microloan intermediary already exists in a pilot site, the participating lenders are encouraged to refer potential borrowers who may be more suited to the Microloan Program to Microloan intermediaries. Similarly, SBA will encourage SBA Microloan intermediaries to refer applicants who perhaps do not require the same level of T/A as the typical micro-borrower to a CommunityExpress lender. As this will likely increase the applicant stream to the SBA Microloan Program, CommunityExpress lenders will consider expansion of their community partnerships by participating in the SBA’s Microloan Guaranty Pilot Program, thus further increasing the pool of capital available in LMI and minority areas. In addition, CommunityExpress lenders will consider funding the Loan Loss Reserves and local T/A match required by the SBA’s Microloan program, thus further increasing the supply of capital in LMI/minority areas.

In initial target markets in which no SBA Microloan intermediary currently exists, CommunityExpress lenders will work the NCRC and the SBA to: (1) Identify and develop appropriately qualified SBA Microloan intermediaries; (2) Assist potential intermediaries in applying to the SBA’s Microloan program; (3) Assist potential intermediaries to develop the necessary financial resources to participate in the Microloan Program; and, (4) Develop the experience and expertise of the community partners. NCRC will facilitate the training and capacity building of the community partners, drawing on its training capacity and the expertise of its more experienced member TA providers.

3. WHAT ARE THE OBJECTIVES OF THE CommunityExpress LOAN PROGRAM?

CommunityExpress program objectives include:
- Increasing and broadening the delivery of loan products to pre-designated geographic areas serving LMI areas and to women, minorities, and veterans.
- Combining technical and financial assistance to maximize the development and success potential of these small businesses.
- Increasing the collaboration among community-based organizations, the SBA, local governments, and lenders.
- Encouraging private sector lenders to take a more aggressive and more effective role in developing distressed markets and communities.
- Complementing the SBA’s Microloan program and enhancing the development of Microlenders.
- Streamlining and expediting the SBA loan approval process for the targeted small businesses.
- Adequate program monitoring and oversight to ensure portfolio quality and subsidy risks are appropriately controlled.
The CommunityExpress program will continue as a pilot program through September 30, 2005.

4. HOW IS COMMUNITY EXPRESS EXPECTED TO IMPACT LENDERS’ PORTFOLIOS?

The SBA recognizes that due to limited business experience, limited equity capital, location in Low or Moderate Income areas or other factors, the target loan applicants often face unique problems, challenges, and risks in starting and developing their businesses. CommunityExpress was therefore designed as a cooperative effort between selected lenders, community development groups and the SBA to assist these small businesses in overcoming some of their challenges and risks. In addition to financial assistance, CommunityExpress was developed to include technical assistance (T/A) with the expectation that T/A would help identify, control, and reduce some of the problems and risks faced by these borrowers.

However, lenders have continued to express concern to the Agency that concentrated lending in these markets remains a relatively new and untested concept and that there may be increased risk. The SBA understands these concerns, and also recognizes that an aggressive and effective implementation of CommunityExpress may require lenders to assume a different level of risk than they may have traditionally accepted in their SBA portfolios.

While the Agency expects participating lenders to remain cognizant of these risks and to closely monitor the performance of their CommunityExpress loans, we also realize that the program was conceived as a pilot to evaluate and assess the portfolio implications of aggressively lending to LMIs and/or minorities, veterans, and women. Thus, while SBA believes that the loans generated as a result of CommunityExpress will have a negligible impact on the lenders’ PLP or total SBA loan portfolios, the Agency is committed to working closely with lenders to identify and address potential CommunityExpress portfolio problems before they can impact the lenders’ participation in any of SBA’s other loan programs. The Agency also will exclude CommunityExpress loans from the calculation of lender currency rates for participation in the PLP and SBAExpress programs.

5. HOW DOES A LENDER BECOME A COMMUNITY EXPRESS LENDER?

The SBA initiated the CommunityExpress program in May of 1999 with about 10 NCRC lenders. In September of 2000, the Agency expanded the program to PLP lenders that had at least a 90 percent currency rate on their SBA 7(a) portfolio for the last 3 fiscal years and to selected non-PLP lenders that met the eligibility requirements for participating in the CommunityExpress program.

The current standards for participation in CommunityExpress are whether the lender:
(1) Can process, close, service, and liquidate SBA loans;
(2) Has a satisfactory performance history with SBA;
(3) Is in compliance with applicable SBA statutes, regulations and policies;
(4) Has received an acceptable rating on its most recent SBA lender review by SBA
    Headquarters or the field;
(5) Is current in filing SBA required 1502 reports;
(6) Is current in remitting required guarantee and servicing fees;
(7) Has at least an 85 percent currency rate on its SBA 7(a) portfolio (excluding
    CommunityExpress loans) for the last 5 complete fiscal years plus the elapsed portion
    of the current fiscal year (lenders achieving at least an 85 percent currency rate may
    be approved for up to a 1 year term, while lenders achieving a 90 percent currency
    rate may be approved for up to a 2 year term);
(8) Has made at least three SBA loans per year for the last 3 fiscal years; and
(9) Has no enforcement actions or agreements with its state or federal regulators that are
    unacceptable to SBA.

Currency in the lenders’ SBA portfolio is a particularly critical consideration in the
CommunityExpress approval process. However, the Agency recognizes that due to
mergers and acquisitions in the banking industry, changes in SBA reporting systems and
lender tracking systems, and other factors, there may occasionally be discrepancies
between currency figures developed by individual lenders and the currency figures
developed by SBA for those same lenders. Lenders that identify significant differences
between the currency rates developed by the lender and those developed by SBA (that are
not related to lack of accurate 1502 reporting) may follow-up with the Sacramento Loan
Processing Center to identify the source of those discrepancies.

A. Existing PLP Lenders

A PLP lender that wishes to participate in CommunityExpress may send a request in
writing to Richard Taylor, Director, Sacramento Loan Processing Center, 501 I Street,
Suite 12-100, Sacramento, CA 95814. The request must include documentation that the
lender has met the above CommunityExpress participation requirements, a description
of the lender’s designated geographic area, and the name of the planned technical assistance
provider. The lender must provide a copy of the request to Stephan Dix, National
Community Reinvestment Coalition, 733 15th Street, NW, Washington, D.C. or fax to
202/628-8866.

B. New PLP Lenders

When an SBA field office nominates a lender for PLP status, it also may nominate the
lender for CommunityExpress status. When a holding company with a PLP subsidiary
requests an extension of PLP status to a non-PLP subsidiary, it may also request
CommunityExpress status for the non-PLP subsidiary. The nomination or request must
include a description of the lender’s designated geographic area with a statement as to whether the area is LMI or why the area should be served by CommunityExpress, the written approval by NCRC of the lender’s T/A provider selections and agreements and documentation that the lender has met the above CommunityExpress participation requirements.

When a lender receives a new PLP Agreement because of its acquisition of or merger with a PLP lender, it will also receive a new CommunityExpress Agreement if the acquired or merged PLP lender had CommunityExpress status.

C. Participation Process

The Center gathers the information relevant to the participation decision, analyzes it, and sends it with a recommendation to the AA/FA for final decision. The Center notifies the lender of the decision and if participation is approved, the Center sends the lender instructions for submitting CommunityExpress loans and a CommunityExpress Agreement to sign. The term of CommunityExpress status, when possible, will be tied to the lender’s remaining PLP term. The lender must sign and return the agreement to the Center before the lender’s CommunityExpress status is effective.

D. Non-PLP Lenders

Similar to the SBAExpress program, SBA field offices that derive less than 20 percent of their loan volume from PLP lenders (for the two most recent fiscal years) are authorized to nominate two non-PLP lenders to participate in the CommunityExpress program.

These nominees may be lenders currently participating in the SBAExpress program or other non-PLP lenders.

A CommunityExpress nomination for a non-PLP lender must show that the lender has:

(1) Participated with SBA for at least the last three years;
(2) Processed at least three SBA loans per year for each of the last three years;
(3) Been reviewed and received an acceptable rating by Headquarters or the nominating district in the past year using OFA authorized lender review criteria.
(4) A currency rate (by dollars of all loans) equal to or greater than 85 percent for the last 5 complete fiscal years plus the elapsed portion of the current fiscal year;
(5) Remained current in filing required 1502 reports;
(6) Remained current in remitting required guaranty and servicing fees; and,
(7) Remained in good standing with their regulatory authorities.

Approved non-PLP nominees receive initial one-year CommunityExpress terms. A non-PLP CommunityExpress lender must meet CommunityExpress renewal standards to have its term renewed after that.

Field offices that are authorized to nominate lenders may apply through Charles Thomas
in the Office of Financial Assistance.
6. WHERE MAY THE LENDER MAKE COMMUNITYEXPRESS LOANS?

The CommunityExpress program is targeted primarily to pre-designated geographic areas. Before introducing the program (or expanding into a new market), the CommunityExpress lender must ensure it has:

(A) Clearly defined the market and documented that the market comprises the program’s target population;
(B) Developed a significant presence in the target market; and,
(C) Developed an effective technical assistance (T/A) relationship.

A. Lender Must Clearly Address SBA’s Target Population

CommunityExpress lenders must designate specific geographic areas for the delivery of the CommunityExpress program. These areas must be Low or Moderate Income urban and rural areas (LMI) or, if not an LMI, they must be specifically identified (by zip code, census track, etc.) geographic areas accompanied by a justification as to why the area should be served by CommunityExpress. Non-LMI areas eligible for CommunityExpress could include, for example, areas with high concentrations of minorities. (If a lender identifies and substantiates a non-LMI area with a high concentration of minorities, the lender would also be allowed to make loans to all eligible small businesses falling within that geographic area, regardless of their demographic.) CommunityExpress lenders may also serve veteran, women, or minority borrowers outside pre-designated areas.

Lenders must maintain documentation to substantiate each target area or population conforms with CommunityExpress program requirements. If CommunityExpress lending is based on geographical markets, these markets must be identified by zip code, census tract, or other geographic identifier. In most instances, the markets will be LMI areas, so notation of that status will suffice for documentation. In the case of non-LMI areas, market identification information must be accompanied by a justification as to why the area should be included in the CommunityExpress program. For loans made to borrowers falling outside LMIs, the lender must ensure the basic borrower demographic information that substantiates CommunityExpress eligibility is recorded in the loan file.

B. Lender Must Develop Presence in Target Market

Lenders are expected to develop and maintain a significant local presence in all markets in which the CommunityExpress program is to be offered. This presence is considered critical to the lender’s identification of qualified technical assistance providers and the monitoring of the effectiveness of the technical assistance provided. It will also help promote marketing and outreach efforts for CommunityExpress, particularly as local community groups and organizations will be so essential to
reaching the targeted communities.

C. Lender Must Develop Effective Technical Assistance Relationships

Combining technical and financial assistance to maximize the development and success potential of New Markets small businesses is a major objective of the CommunityExpress program. Timely and effective technical assistance (T/A) is considered a key to accomplishing that objective. It is therefore critical that CommunityExpress lenders identify and develop relationships with T/A providers that have the capacity and the commitment to provide effective technical assistance to the small business participants in this program. T/A providers must be selected and T/A agreements signed before loans can be approved in a specific market.

In some instances, lenders may already have relationships with qualified T/A providers. But in others, lenders will need assistance in identifying T/A providers and developing T/A provider agreements. (NCRC can provide sample T/A provider agreements.) The NCRC has agreed to help lenders in identifying and assessing T/A providers, and all T/A provider selections and T/A provider agreements should be reviewed by the NCRC CommunityExpress program manager (Stephan Dix; Suite 540; 733 15th Street, NW; Washington, DC 20005; Phone #: 202-628-8866 and e-mail: sjd@ncrc.org). (The SBA encourages T/A providers to become NCRC members which involves a nominal fee of $100-$200 per year.) Also, while NCRC’s national network of some 800 community-based organizations includes many experienced T/A providers, there may be target markets where its members don’t have adequate or appropriate T/A capacity, so alternative T/A providers will have to be considered.

SBA field offices also have extensive experience in developing and coordinating local T/A resources, particularly in the communities targeted by this program, so they too should assist as needed in the T/A selection process. Moreover, in aggressively promoting this program, some field offices may take the lead in recruiting interested lenders and linking them with T/A providers.

D. Sources of Technical Assistance

Many communities offer a wide range of prospective CommunityExpress T/A providers. Some are highly specialized, such as the National Technical Centers, but many others, such as the SCORE and SBDC programs, provide a broad range of technical and management assistance. The following are potential sources of local management and technical assistance:

- Certified Development Companies (CDCs)
- Community based non-profit T/A providers
• Local Chambers of Commerce
• Microenterprise Intermediaries
• National, Regional, and State T/A Providers
• Service Corps of Retired Executives (SCORE)
• Small Business Development Centers (SBDCs)
• State and Local Government Business Assistance Offices
• Women Business Centers

Many of these organizations will be in a position to undertake contractual agreements to provide technical assistance, while others, such as SCORE may be prohibited from such arrangements, because by statute their services must be provided for free. (However, in the case of SCORE, local chapters can accept donations. Similar or other arrangements may be possible with other organizations.)

7. WHAT ARE THE REQUIREMENTS FOR PROVIDING TECHNICAL ASSISTANCE?

The SBA and the NCRC view management and technical assistance as critical to the development, growth, and success of CommunityExpress borrowers. The CommunityExpress program was therefore conceived and structured to ensure that borrowers under the program receive appropriate pre- and post-loan closing management and technical assistance. This assistance is to be arranged and, when necessary, paid for by the CommunityExpress lender. The SBA’s standard 75 and 85 percent loan guaranties have been incorporated into this program (in contrast to the 50 percent SBA guaranty under SBAExpress) to offset some of the lenders’ expense associated with the T/A requirement.

CommunityExpress lenders must establish (and document) an internal procedure to ensure the consistent delivery of appropriate and effective technical and management assistance. The process begins with the identification of qualified and committed T/A providers. The focus then shifts to the CommunityExpress applicant and the T/A provider’s development of a business plan (as appropriate) and an assessment of the applicant’s management and technical assistance strengths and weaknesses. If weaknesses are identified as a result of that assessment, the lender should document the T/A provider’s recommendations and the remedial plan. The lender, in cooperation with the T/A provider, is also expected to strongly encourage the applicant to follow that plan.

Lenders may anticipate that in some instances, following approval of the loan, the borrower may become less receptive to receiving T/A. While the SBA understands this can be problematic, it also believes that adequate pre-approval emphasis to the applicant of the importance of the T/A in the loan consideration, reinforced by the loan agreement and the fact that this is an SBA requirement, should help mitigate resistance. Still, the Agency recognizes that despite good faith efforts by the lender and T/A provider, there will be borrowers that fail to take advantage of available T/A. Under those
circumstances, lenders would be expected to document their efforts to provide T/A, including, for example, a copy of correspondence to the borrower strongly urging the borrower to take advantage of T/A.

Additional lender documentation should include file copies of the initial management assessment, the T/A provider’s recommended action plan, and information on the type and duration of the counseling and training assistance received by the borrower. This documentation must also be available for SBA review teams. Other documentation a lender may want to consider includes a borrower authorization permitting the lender to furnish relevant information concerning the loan applicant’s operation, loan performance, etc. to the TA provider and a hold harmless agreement on behalf of the lender.

8. HOW WILL WE RENEW THE LENDER’S COMMUNITYEXPRESS STATUS?

The Sacramento Loan Processing Center (“the Center”) will automatically start the renewal process a few months prior to the expiration of a lender’s CommunityExpress status. The Center will contact the lender and ask it to certify as to whether it currently is or in the past two years has been subject to an enforcement action by or any formal or informal agreements with its state or federal regulators.

The SBA field office that nominated a lender for CommunityExpress must review the lender at least three months prior to its renewal date for the lender to be considered for CommunityExpress renewal. Reviews shall be coordinated with the Office of Lender Oversight. The field office must send a copy of its review to the Sacramento Center.

The Center gathers the information relevant to the renewal decision, analyzes it, and sends it with a recommendation to the AA/FA for final decision. The AA/FA considers whether the lender continues to meet the requirements for CommunityExpress participation.

SBA expects to add a minimum volume requirement for CommunityExpress renewal in the future, so CommunityExpress lenders are encouraged to use the program.

At renewal PLP and non-PLP CommunityExpress lenders must meet the following portfolio currency rate requirements:

- If the lender has at least a 90 percent currency rate on its SBA 7(a) portfolio (excluding CommunityExpress loans) for the last 5 complete fiscal years plus the elapsed portion of the current fiscal year, it may qualify for up to a two-year CommunityExpress renewal.

- If the lender has at least an 85 percent currency rate on its SBA 7(a) portfolio (excluding CommunityExpress loans) for the last 5 complete fiscal years plus the
elapsed portion of the current fiscal year, it may qualify for up to a one-year CommunityExpress renewal. At the expiration of that up to one-year term, if the lender’s currency rate has risen to 90% or above, the lender’s CommunityExpress status may be automatically renewed for an additional up to one-year period, depending on the expiration date of its current PLP Agreement.

However, under extenuating circumstances, SBA may consider a temporary waiver of the 85 percent currency rate requirement.

The Center notifies the lender of the AA/FA’s decision and if the renewal is approved, the Center sends the lender a new CommunityExpress Agreement to sign. The lender must sign and return the agreement to the Center before the lender’s CommunityExpress renewal is effective. If the renewal is not approved, the lender may not make CommunityExpress loans after its CommunityExpress status ends.

If the lender wants to re-apply for CommunityExpress status after not being renewed, it must wait at least one year from the decline decision before reapplying for CommunityExpress status. If the only cause for nonrenewal was failure to meet the currency rate requirement, the lender may re-apply to the Center for CommunityExpress status as soon as its currency rate satisfies the SBA requirement.

9. WHAT ARE THE REQUIREMENTS OF CommunityExpress LOAN PROCESSING?

SBA business loan eligibility, policy, and procedures generally apply to CommunityExpress loans. The CommunityExpress lender must know and apply all SBA business loan requirements, including those in the Small Business Act, 13 CFR Parts 120 and 121, and SBA Standard Operating Procedures (SOPs 50 10, 50 50, and 50 51), unless specifically waived by this Guide. In addition, certain types of loans, loan programs, and businesses are not eligible for CommunityExpress. Among the program criteria are:

- The owners, partners, and/or principals must be of good character. (If an applicant provides an affirmative response to any part of the first paragraph of SBA Form 1919, a CommunityExpress lender may waive the fingerprint requirement and approve the loan in accordance with SBA policy, as set forth in Section 10 A (6) (d) below.)

- Loan proceeds must be used exclusively for business related purposes. (CommunityExpress lenders must follow verification procedures at least as thorough as those used for their conventional loans and also secure certification from the applicant that the proceeds of the loan will be used exclusively for business related purposes.)

A. What Are the Eligibility Requirements?
An SBA loan must be eligible for the SBA guarantee to be valid. The following restrictions apply to CommunityExpress loans:

(1) **Loan Programs and Pilots Not Allowable for CommunityExpress**

Lenders may use CommunityExpress only for 7(a) loans and not for the microloan program, the development company program (504) or for LowDoc loans or any other pilot program loans, unless specifically allowed by that pilot.

(2) **Types of Loans Not Allowable for CommunityExpress**

(a) Disabled Assistance Loan Program (DAL)

(b) Energy Conservation

(c) International Trade

(d) Qualified Employee Trusts (ESOP)

(e) Pollution Control Program

(f) Defense Loan and Technical Assistance (DELTA)

(g) Export Working Capital Program (EWCP); and

(h) CapLines Program (including Builders Loan Program)

(3) **Types of Businesses Not Allowable for CommunityExpress**

CommunityExpress loans are not eligible for:

(a) Agricultural and farm businesses

(b) Fishing and shore operations (including commercial fishing activities and the construction of new fishing vessels)

(c) Medical facilities (including residential care facilities)

(d) Mines (including sand and gravel pits)

(e) Applicants doing business in foreign countries

(f) Businesses engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting; and
(g) A business with any products or services of a sexual nature.

(4) Refinancing Under CommunityExpress

Under CommunityExpress, a lender may refinance an existing non-SBA guaranteed borrower debt if: (1) The existing loan no longer meets the needs of the applicant; (2) The new loan meets the SBA’s 20 percent increase in cashflow requirement, if applicable (see SOP 50 10); and, (3) The existing debt has been current (no payment beyond 29 days past due) for at least the last 36 months. This policy applies to refinancing a debt between the applicant and the requesting lender or between the applicant and another lender. Lenders must avoid any circumstances that could create a possible conflict of interest.

Existing SBA guaranteed loans may not be refinanced under CommunityExpress, unless the transaction is the purchase of an existing business that has an existing SBA loan that is not with the applicant CommunityExpress lender.

(5) Use of Proceeds for Business Purposes

Due to the special nature of CommunityExpress, particularly the level of authority and autonomy delegated to lenders under this program, the SBA is particularly concerned that CommunityExpress loan proceeds be used exclusively for business related purposes. The SBA therefore expects lenders to use reasonable methods to ensure that loan proceeds are used for business related expenses, which generally would mean conformance with verification procedures at least as thorough as those used for its conventional loans. At a minimum, lenders must thoroughly communicate to borrowers that all SBA loan proceeds must be used only for business related purposes and must also secure a certification from the borrower that all loan proceeds will be so used. (SBA will retain the right to deny a repurchase request if an egregious misuse of proceeds has taken place.)

(6) Additional Restrictions Specific to CommunityExpress

The following restrictions also apply to CommunityExpress loans:

(a) Existing SBA loan. If an applicant already has an SBA loan for the applicant business, the lender may make the CommunityExpress loan only if the existing SBA loan is current.

(b) Piggy-back loan. A loan is not eligible for CommunityExpress if the lender has a piggy-back loan with the borrower. A piggy-back is a loan made by the lender at or about the same time for the same or similar purpose as the
CommunityExpress loan, with a lien position senior to the CommunityExpress loan.

(c) 100% Financing. A CommunityExpress loan may not be used to finance more than 90 percent of the actual cost of any real estate being acquired or of the capital needs for a new business.

(d) SBA Form 1919. A CommunityExpress loan may be made only if questions 1, 2, and 3 on any required SBA Form 1919, SBAExpress and CommunityExpress Borrower Information Form, for the CommunityExpress loan are all answered “No.” However, if one or more question is answered “Yes,” the lender may clear the form and submit the loan under CommunityExpress, when the subject’s affirmative activity meets the following situations (as defined in SOP 50-10):

- A Single Minor Offense within the last 10 years; or
- Several Minor Offenses Remote in Time; or
- A Prior Offense that was cleared by the AA/FA or designee on a previous application where no other offenses have occurred since the previous application was cleared by the AA/FA or designee.

(e) Previous submission. A loan is not eligible for CommunityExpress if the CommunityExpress lender is aware that the application was previously submitted to SBA under any program, including CommunityExpress, SBAExpress, PLP, CLP, LowDoc or regular 7(a).

(f) Ethical requirements. A loan is not eligible for CommunityExpress if there is any question of possible violation of any of SBA’s ethical requirements.

(g) Contaminated collateral. A loan is not eligible for CommunityExpress if it will have primary collateral that will not meet SBA’s environmental requirements or that will require use of a non-standard indemnification agreement, as described in SOP 50-10(4).

(h) Previous loss to government. A loan is not eligible for CommunityExpress if:

(i) The applicant business previously defaulted on a Federal loan or Federally assisted financing that resulted in the Federal government or any of its departments or agencies sustaining a loss in any of its programs; or

(ii) Any of the owners, or those that control the applicant business, or any of its associates, previously owned, operated or controlled a business that defaulted on a Federal loan (or guaranteed a loan that defaulted) and caused the Federal government or any of its agencies or departments to sustain any
loss in any of its programs.

This restriction applies whether or not SBA was involved in the previous loss.

In addition, a loan is not eligible if a principal of the applicant was the recipient of a student loan that is in a delinquent status.

(i) **Conflict of interest.** A loan is not eligible for CommunityExpress if there are any real or apparent conflicts of interest involved.

(j) **Letter of credit.** A loan is not eligible for CommunityExpress if it guarantees a letter of credit, funds a line of credit to secure a letter of credit, or otherwise funds or secures a letter of credit.

A loan is not ineligible for CommunityExpress just because the borrower has been or is subject to a bankruptcy. That is a matter to be considered in the lender’s credit decision. Some loans that are not eligible for CommunityExpress may be eligible under other SBA loan programs, including PLP, LowDoc, or regular 7(a).

**B. What Are the Terms and Conditions of CommunityExpress Loans?**

(1) **Maximum Loan Amount and SBA Guarantee Percentage**

The total amount of any CommunityExpress loan may not exceed $250,000. The SBA guarantee on a CommunityExpress loan may not exceed 85 percent for loans of $150,000 or less and 75 percent for CommunityExpress loans over $150,000 (up to $250,000). The aggregate balance of all CommunityExpress and SBAExpress loans to a borrower and its affiliates may not exceed $250,000. The aggregate balance of the SBA guaranteed portions of CommunityExpress and all other outstanding SBA loans to a borrower and its affiliates may not exceed $1 million.

**EXAMPLE 1:** A borrower has an SBAExpress loan of $50,000, and a CommunityExpress loan of $25,000. The borrower may obtain another CommunityExpress loan for $175,000.

**EXAMPLE 2:** A borrower has a 7(a) loan with a balance of $1,250,000 and a 75 percent SBA guarantee (for an SBA portion of $937,500). The borrower may obtain a CommunityExpress loan for $70,000.

(2) **Multiple CommunityExpress Loans**

A lender may not approve more than one CommunityExpress loan to the same
borrower for the same project, unless there is a legitimate need to do so. A loan for a project may not be split into multiple smaller loans, in order to avoid SBA fees or requirements.

EXAMPLE 1: A borrower needs $75,000 for working capital. A lender proposes to make three CommunityExpress loans of $25,000 each, so that none of the loans require collateral. (See Paragraph 9 B (6) of this Guide regarding collateral requirements.) The loans are not eligible for CommunityExpress, because the reason for splitting the loans is to avoid an SBA requirement.

EXAMPLE 2: A borrower needs $250,000 to start its business--$200,000 to purchase equipment and a $50,000 line of credit. The lender applies for two separate CommunityExpress loans, because the maturity and repayment terms will be different for the equipment purchase and the line of credit. The loans are eligible for CommunityExpress.

(3) Revolving Line of Credit Loans

Revolving line of credit loans, including those accessed by credit cards, are extremely important to small businesses, particularly new and expanding small businesses. The lending community and the SBA are therefore continuing to develop and offer new and enhanced loan products that better address the demand for revolving line of credit loans.

The CommunityExpress revolving line of credit loans may now be offered up to a maximum term of seven years, and termout provisions may be included at the outset of the loan. In addition, a CommunityExpress revolver may consist of revolving and termout portions of any length, as long as the combined term does not exceed 7 years.

In offering revolving lines of credit loans and their enhancements, the SBA must reasonably ensure that revolvers, particularly those accessed through credit cards, are used for business related purposes. As discussed under Section 9 A 5 above, lenders must apply verification procedures at least as thorough as those used for their conventional loans. At a minimum, lenders must thoroughly communicate to borrowers that all SBA loan proceeds must be used only for business related purposes and also secure a certification from the borrower that all loan proceeds will be so used.

EXAMPLES:
A CommunityExpress lender may approve a loan with a 1 year revolver and a 1 year termout.

A CommunityExpress lender may approve a loan with a 2 year revolver and a 4
year termout.

A CommunityExpress lender may approve a loan with a 5 year revolver and a 2 year termout.

A CommunityExpress lender may not approve a loan with a 7 year revolver and a 1 year termout.

Loan Term Extensions:

A CommunityExpress revolving loan with a term of less than 7 years may be extended up to a maximum of 7 years from the original date of the note. The extension is done by providing notice to the SBA servicing office. (No new loan number will be generated.) However, if the initial loan was originally 12 months or less with a .25 percent guaranty fee, and the loan is being extended past 12 months, the lender must pay to SBA in Denver the remainder of the SBA guaranty fee that would have been due if the loan had originally been for a term of more than 12 months.

EXAMPLE: A lender makes an $80,000 revolving loan with a 12 month maturity and pays an SBA guarantee fee of 0.25 percent. At maturity, the lender extends the loan for another 12 months. At that time the lender must pay SBA an additional guaranty fee of 1.25 percent (2 percent minus 0.25 percent originally paid and the .25 that the lender is eligible to retain for loans under $150,000.).

Workouts:

CommunityExpress revolving loans may be termed out past the initial 7 years only as a result of a workout situation. The maximum term for any workout is the minimum period that would normally be required to pay back the loan from the cash flow of the business, not to exceed 3 years. Loans with initial terms of 12 months or less that are termed out beyond 12 months as part of a workout arrangement do not require an additional guaranty fee above the original .25 percent.

Increases:

CommunityExpress revolving line of credit loans may be increased based on the needs of the small business and its credit situation, but the increase must not make the loan exceed the CommunityExpress limit of $250,000. While the amount of the increase is left to the discretion of the lender, it is expected that increases above 33 percent of the original loan amount will include an analysis of appropriate credit and risk factors consistent with the procedures the lender uses.
for loans of similar size and type without a government guaranty. Increases must be processed through the SBA Processing or Servicing Center to which the loan is assigned.
(4) **Maximum Maturity**

Maturities on CommunityExpress loans are the same as for any other 7(a) loan, except that revolving CommunityExpress loans are limited to a maximum maturity of seven years. The term of an CommunityExpress loan may not exceed the period of the SBA guarantee commitment.

(5) **Interest Rates**

CommunityExpress loans are subject to the same maximum interest rate as all SBA loans, as published in the Federal Register. For variable rate loans, an CommunityExpress lender is not required to use the base rate identified in the Federal Register. It may use the same base rate of interest it uses on its similar non-SBA loans. However, the interest rate throughout the term of the loan may not exceed the maximum allowable SBA interest rate and the loan may be sold on the secondary market only if the base rate is the low prime rate as published each business day in a national financial newspaper or is SBA’s Optional Peg Rate.

(6) **Collateral**

SBA’s general policy is that, to the extent that collateral is available, it must be taken to fully secure all loans backed by taxpayer dollars. However, under CommunityExpress, to encourage smaller loans and to facilitate access to smaller lines of credit, lenders are not required to take collateral for loans of $25,000 or less. For CommunityExpress loans greater than $25,000, the lender is not required to comply with SBA’s general collateral policy but must follow the collateral policies and procedures that it has established and implemented for similar size and type loans not guaranteed by the government. (SBA nevertheless expects the lenders’ collateral policies will be reasonable and prudent.)

(7) **Fees**

The SBA guarantee and servicing fees are the same for CommunityExpress as for regular SBA loans. The lender may charge the same other fees for CommunityExpress loans it charges for its non-SBA loans of similar size and type, but SBA will not purchase any portion of the loan balance that consists of fees charged to the borrower.
(8) Access to CommunityExpress Funds

CommunityExpress loan funds may be accessed through a variety of methods consistent with the way the lender normally conducts business for similar size and type loans. Access through a credit card issued by the lender, including for revolving lines of credit, is acceptable under the CommunityExpress program. However, lenders must ensure that these loans are supported by legally enforceable and assignable debt instruments.

(9) Secondary Market Sales

CommunityExpress loans may be sold on the secondary market, as long as for variable rate loans, the base rate is the low prime rate as published each business day in a national financial newspaper or is SBA’s Optional Peg Rate.

C. What is the Lender's Eligibility Review?

Although we don't delegate the SBA eligibility determination to the CommunityExpress lender, the CommunityExpress lender must determine that an CommunityExpress loan is eligible for an SBA guarantee under CommunityExpress before it submits a request for a loan number. The lender must do for CommunityExpress loans the things that SBA does for 7(a) loans to determine a loan is eligible. For example, the CommunityExpress lender must review franchise documents to determine that the franchisee has the opportunity for profit and the risk of loss commensurate with ownership. The CommunityExpress lender must keep in its loan file documentation supporting its eligibility determination. For an CommunityExpress loan, size of the applicant is determined as of the date of the lender's approval of the loan. A CommunityExpress lender may accept as true the size information provided by the applicant, unless credible evidence to the contrary is apparent.

D. What Credit Analysis Must the Lender Do?

The CommunityExpress credit decision is delegated to the lender. However, the lender is required to use appropriate and generally accepted credit analysis processes and procedures, and these procedures must be consistent with those used for similar size and type loans the lender makes without an SBA guarantee. Acceptable analytical processes include “credit scoring” if the lender uses credit scoring for similar size and type non-SBA loans. The credit analysis technique must be documented, must be kept in the loan file, and is subject to SBA review.
10. WHAT IS THE CommunityExpress APPLICATION PROCEDURE?

A. What Forms Are Required?

CommunityExpress loan packages must include the forms and information the lender requires to make an informed eligibility and credit decision. The lender's application must be certified by the applicant as true and complete, and it must reflect that the loan proceeds are to be used exclusively for business related purposes. This language must appear on the application form or on the financial statement from the applicant if a specific application form is not used. The form, including this certification, must be signed by the borrower.

The only SBA application form required is the SBA Form 1919, “SBAExpress and CommunityExpress Borrower Information Form,” which now includes a certification on use of proceeds. For a CommunityExpress loan, one of these forms must be signed by each of the following:

(a) for a sole proprietorship, the sole proprietor
(b) for a partnership, all partners
(c) for a corporation, each officer, director, and 20% or more owner
(d) any other person, including a hired manager, who has authority to speak for and commit the borrower in the management of the business
(e) any person guaranteeing the loan, if that guaranty normally would have been required by SBA.

The lender must keep the form as part of the loan file, but does not have to send it to SBA.

The CommunityExpress lender is responsible for the completeness of all of the required forms and information.

B. How Does the CommunityExpress Lender Request an SBA Loan Number?

When the CommunityExpress lender determines that a loan is eligible, approves the credit, and completes the loan package, the lender sends to the Sacramento Loan Processing Center ("the Center") the “Request for Loan Number” and any forms or checklists required by the Center (to provide evidence of eligibility and required data inputs to generate the loan number).

The lender may send the request for loan number by mail, facsimile transmission or electronic transmission with the specific option worked out with the Center. Once SBA resources can support full lender compliance, all CommunityExpress loan
number requests must be transmitted electronically via the Internet.

For loans with a maturity of twelve months or less, the lender does not send the check for the guarantee fee to the Center with the request for a loan number. When a loan number is assigned for a short-term loan, the Center tells the lender that the guaranty fee check must be sent directly to OFO at U.S. Small Business Administration, P.O. Box 748, Denver, Colorado 80259. The lender must do this before it signs the SBA Authorization for SBA. If OFO does not get the check within 10 business days after we issue the loan number, SBA cancels the guarantee.

C. What Does the Center Review?

The Center reviews the request for loan number to check that the lender provided the required information and to see if there are any eligibility problems. This eligibility review is a quick look to protect SBA and the lender from ineligible loans on which SBA could not honor its guarantee. If we assign an SBA loan number and later learn that the loan is not eligible, we still may deny liability on our guarantee.

Note: Congress determines SBA's budget on an annual basis. SBA does not have authority to guarantee loans if it has run out of authority. While we delegate loan approval authority to the CommunityExpress lender, the loan does not have an SBA guarantee until the Center issues a loan number. The Center does not issue a loan number if funds are not available.

D. How Do We Notify the Lender After We Review a Request?

If a loan is eligible and funds are available, the Center will try to give the lender a loan number by fax or by electronic transmission within one day after the request for loan number is received. If the Center identifies an eligibility problem, the Center reviewer advises the lender of the problem. If the lender wants, the Center will deny the loan within the one-day turnaround period and explain the eligibility problem in writing to the lender and the SBA field office. Or if the lender prefers, the Center will keep the application until the problem is researched and resolved.

E. How Does a Lender Request Reconsideration of a Denial?

If the Center finds a proposed loan ineligible and the lender disagrees, the lender may request a reconsideration, which must be in writing. An oral discussion can occur as to the facts, but it must be followed up in writing and contain the information needed to make an eligibility decision. The lender must send the reconsideration request to the Center within 30 days after receiving the Center's initial decision. The Center will notify the lender of the reconsideration decision.

If the reconsideration is denied, the lender may ask for further reconsideration. The
request for further reconsideration must be sent to the Center within 30 days after the last eligibility decision. It must specifically request a reconsideration at the next higher level and say why we should reverse the eligibility decision. The Center sends the request to the AA/FA for review and a final eligibility decision. The Center tells the lender the final decision.

Loans ineligible for CommunityExpress may under some circumstances be eligible for submission under some other SBA loan program [such as PLP, CLP or regular 7(a)]. If the Center denies a CommunityExpress loan number and the lender resubmits the loan to SBA under another loan program, the lender must notify the office to which it submits the loan that the loan was denied an CommunityExpress number. The lender must provide that office a copy of the Center's denial letter.

11. WHAT MUST A LENDER DO FOR CLOSING, SERVICING AND LIQUIDATION OF CommunityExpress LOANS?

A. Who Drafts and Signs the SBA Authorization?

The lender drafts the Authorization without SBA review and signs it on behalf of SBA. The Authorization is drafted from the form “Authorization (CommunityExpress Loan),” rev. 1/12/01. (The Authorization may be accessed from SBA’s banking page at http://www.sba.gov/banking/.)

B. What are the Closing Requirements?

A CommunityExpress lender may use the same closing and disbursement procedures and documentation for its CommunityExpress loans as for its conventional loans. However, the note or debt instrument must be in a form that is legally enforceable and assignable, in the event that it would ever have to be assigned to SBA to take over servicing of a CommunityExpress loan.

The lender must make sure to get all required collateral positions and to meet all other required conditions before loan disbursement. These conditions include requirements identified in the loan write-up, like standby agreement, appraisal, business license, or cash/equity injection.

The lender must do the following before disbursing a loan for which it issues an SBA guarantee:

(1) The lender must use IRS tax transcripts to verify financial information used to support the loan credit analysis for all CommunityExpress loan applications. (However, as set forth in SBA Notice 5000-753, CommunityExpress lenders are authorized to close and disburse CommunityExpress loans without waiting for the IRS transcript, although they must follow-up and verify the IRS data when
received. Also, if credit scoring is used and does not include business revenues or profits, IRS tax verification is not required.) The lender has the applicant sign “Request for Copy or Transcript of Tax Form,” IRS Form 4506 (or another form as IRS may designate) and requests a transcript from IRS. An explanation of the tax verification procedure and requirements is in SOP 50-10(4), pages 153-156. If the lender discovers any discrepancy that is significant enough to indicate possible fraud on the part of the small business, the lender must:

-- Instruct the Center in writing to cancel the loan; and

-- Call the OIG FRAUD LINE at 1(800)767-0385 (Toll Free) or mail

or fraud cases to: Small Business Administration

Office of Inspector General
Investigations Division
Mail Code: 4113
409 3rd Street, SW
Washington, DC 20416

Include a cover letter explaining the discrepancy. Include the names, addresses and telephone numbers of the applicant, business, lender, packager and tax return preparer.

(2) Get satisfactory evidence that there has been no unremedied adverse change since the date of the application, or since any of the preceding disbursements, in the financial or any other condition of Borrower that would warrant withholding or not making any disbursement. For revolving line of credit disbursements, lenders should essentially follow the same practice as they do with their non-SBA loans. This should include at least an annual review of the transcript of account.

(3) Get required hazard insurance on all assets taken as collateral. If the lender does not require hazard insurance (for example, if it would impose an undue burden on a borrower given the small size of a loan), the lender must document the reason in its loan file. (Lenders are not required to take collateral for CommunityExpress loans of $25,000 or less, and for loans greater than $25,000, the lender must follow the collateral policies and procedures established and implemented for loans not guaranteed by the government. If collateral is not taken, hazard insurance is not required.)

(4) Make the required flood hazard determination and require flood insurance (when collateral is taken), pursuant to the flood insurance requirements in SOP 50-10-(4). (Generally, those requirements state that flood insurance is required on real estate collateral in a flood zone, but it is within the lender’s discretion to determine whether flood insurance is necessary on contents when the building is not taken as collateral.)
(5) In the construction of a new building or an addition to a building, get borrower's agreement that the construction will conform with the "National Earthquake Hazards Reduction Program Recommended Provisions for the Development of Seismic Regulations for New Buildings." Compliance with these requirements must be evidenced by a certificate issued by a licensed building architect, construction engineer or similar professional, or a letter from a state or local government agency stating that the issuance of an occupancy permit is required and is subject to conformance with building codes and that the local building codes include the Seismic standards.


(6) Get borrower's agreement that it will, to the extent feasible, purchase only American-made equipment and products with the proceeds of the CommunityExpress loan.

(7) For any loan involving construction of more than $10,000, require borrower and contractor to execute SBA Form 601, Applicant's Agreement of Compliance. Lender must keep this form in the loan file, but does not have to send it to SBA.

(8) The Small Business Act requires that all borrowers supply information about payments to loan packagers, accountants, appraisers, lawyers, or any other individual or entity that assisted the borrower in getting the loan. The borrower may use either SBA Form 159 or the lender's form, as long as it provides the information required by SBA Form 159. Lender must keep this form in the loan file, but does not have to send it to SBA. If the applicant did not pay anyone to assist in the preparation of the loan, the applicant must certify to this in writing or fill out the form showing no payment.

(9) Get certification from any 50% or more owner or applicant that he or she is not more than 60 days delinquent on any obligation to pay child support arising under:

   a) an administrative order;

   b) a court order;

   c) a repayment agreement between the holder and a custodial parent; or
(d) a repayment agreement between the holder and a state agency providing child support enforcement services.

(10) Require appropriate environmental reviews and compliance. A CommunityExpress lender must follow the environmental requirements of SOP 50-10(4) and is delegated the authority to internally make the decisions regarding environmental risk that are stated there as reserved for the processing SBA office. A CommunityExpress lender may not:

(a) Request a CommunityExpress loan number for a loan that the lender knows will have primary collateral that will not meet SBA’s environmental requirements or that will require use of a non-standard indemnification agreement; or

(b) Disburse a loan requiring use of a non-standard indemnification agreement, without SBA approval.

(11) Retain evidence of the amount of any cash or equity injection.

(12) Get an appraisal for any real estate taken as collateral, if the appraisal is necessary for appropriate evaluation of creditworthiness.

The lender does not have to use SBA Form 1050, Settlement Sheet, to document disbursements.

C. What Are the Servicing and Liquidation Requirements?

Routine CommunityExpress loan servicing and liquidation issues will be handled centrally by either SBA’s Loan Servicing Center in Little Rock at 2120 Riverfront Drive, Little Rock, AR 72202 (501-324-5871) or in Fresno at 2719 North Air Fresno Drive, Fresno, CA 93727-1547 (209-487-5650).

The CommunityExpress lender must service and liquidate its SBA guaranteed loan portfolio (including its non-CommunityExpress loans) using generally accepted commercial banking standards employed by prudent lenders.

The CommunityExpress lender must liquidate any defaulted SBA guaranteed loan in its portfolio unless SBA advises in writing that SBA will liquidate the loan. The lender must take ordinary protective measures when merited. It may recover expenses of protection of collateral from the proceeds of the sale of collateral.

Lenders must accurately report the status and outstanding balance of all of their SBA loans, including CommunityExpress loans, to Colson Services Corp., using the 1502 format, by the third day of each month, or the next business day after the
third if the third of the month is not a business day.

All CommunityExpress lenders must remain current in filing the required monthly reports in the form required by SBA and in remitting required SBA servicing fees.

(1) When is SBA Consent For an Action Required?

The CommunityExpress lender may take any necessary servicing or liquidation action for any CommunityExpress loan in its portfolio, with the following exceptions:

The lender must get prior written consent of SBA before taking an action to:

(a) Increase the principal amount of the loan

(b) Change the SBA guaranteed percentage of the loan

(c) Transfer the loan to another lender

(d) Compromise with any obligor for less than the full amount due of the principal loan balance outstanding. (Accrued interest may be adjusted, if justified, without SBA approval. If a loan is delinquent or liquidation is contemplated or underway, prior SBA approval is required to release a guarantor for less than the principal balance owed even if actual demand has not yet been made on the guarantor.)

(e) Sell or pledge more than 90 percent of the loan

(f) Disburse a loan with primary collateral having significant potential environmental risks that are proposed to be minimized by a non-standard indemnification agreement

(g) Acquire environmentally impaired property

(h) Take any action that would create a conflict of interest or confer any preference on the lender in collection or lien position with respect to SBA’s position or the shared SBA/lender position on the loan.

(i) Title property in the name of the Agency

(j) Handle any non-routine litigation (including all contested litigation) or any routine litigation involving estimated legal costs exceeding $5000. (A Litigation Plan must be submitted.)
The lender must notify SBA when it takes an action to:

(k) Decrease the principal amount of the loan

(l) Cancel the loan

(m) Change the trade name of the business (or, if it has no trade name, the name of the business entity)

(n) Change the borrower's address

(o) Change the interest rate on a fixed rate loan or the interest rate spread on a variable rate loan

(p) Change a loan's maturity

(q) Handle a situation that requires SBA to re-classify the loan into "liquidation status."

SBA will send the lender a written concurrence or nonconcurrence for any action requiring SBA consent, and will acknowledge in writing the receipt of any notification required above. For all actions for which the lender has unilateral authority, it must keep documentation of the actions in its files.

(2) **How Does the Lender Document Liquidation of a CommunityExpress Loan?**

The lender does not have to provide a liquidation plan to SBA. However, it must document any action taken during the liquidation of a loan. SBA will review liquidation actions as part of the general review of a lender's use of the CommunityExpress program.

(3) **How Does the Lender Apply Proceeds of Collateral?**

Apply proceeds from the sale of collateral in the following order:

(a) liquidation expenses

(b) the 120 days of interest permitted on the balance as of the earliest uncured default

(c) principal balance of the loan.
(4) May the Lender Take Back a Note Receivable?

A lender may take back a Note Receivable on the sale of collateral on any reasonable terms negotiated between the lender and the buyer. The Note Receivable will not have an SBA guarantee.

(5) What Situations Require Particular Justification?

Avoid selecting firms owned by officers, directors, employees or stockholders (10% or greater) of the lender to provide care and preservation services, legal assistance, or other liquidation services. If it cannot be avoided, be prepared to justify the benefit to SBA of using the particular firm.

The lender must document and justify any release of collateral for an SBA guaranteed loan that will subsequently be pledged for a conventional loan from the lender. This situation may be considered to be a Preference.

12. HOW DOES SBA PURCHASE ITS GUARANTEE?

SBA purchases its guarantee after:

(a) the lender has fully liquidated all collateral – lender must conduct site visit of significant collateral (significant means collateral with a market value of $10,000 or more at loan origination) within 90 days of date of default;

(b) the lender has pursued all collectible obligors; and

(c) SBA has reviewed the loan documentation.

If the loan documentation shows that the lender has complied with the Supplemental Guarantee Agreement, this Program Guide, SBA's rules and regulations and there is no evidence of fraud, negligence, misrepresentation or other misconduct, SBA will pay the guaranteed percentage of the balance remaining after liquidation plus the guaranteed percentage of up to 120 days of interest based on the balance outstanding at the time of the earliest uncured default if liquidation proceeds were insufficient to cover a full 120 days of interest. The SBA will not pay the lender more than the guaranteed percentage of the loan balance at the time of default plus the guaranteed percentage of 120 days of interest at the rate in effect on the date of default. The lender must absorb any expenses that exceed this amount.

SBA will not purchase any portion of the loan balance that consists of fees or amounts charged to the borrower. If fees charged by the lender are not paid prior to the purchase request, the lender must deduct the outstanding fees, and interest charged on such fees, from the balance shown on the transcript of account submitted to SBA.
To receive payment, the lender must submit to SBA a liquidation wrap-up report with all the information required by SOP 50 51 (2) and copies of the collateral documents to the appropriate SBA Loan Servicing Center in Little Rock at 2120 Riverfront Drive, Little Rock, AR 72202 or Fresno at 2719 North Air Fresno Drive, Fresno, CA 93727-1547.

The SBA servicing office reviews the account and prepares the paperwork required to process the guaranty purchase. The servicing center will accept, in lieu of supporting documentation, the lender’s certification that “liquidation is complete” in those cases where the outstanding loan balance does not exceed $25,000.

SBA reserves the right to purchase its guarantee prior to liquidation and to liquidate the loan using SBA personnel. SBA expects this to be a rare occurrence.

13. HOW DOES SBA REVIEW THE CommunityExpress LENDER’S PERFORMANCE?

SBA will assess a CommunityExpress lender’s performance through a combination of onsite lender reviews and analyses of available management information system data.

A. Onsite Lender Reviews

Onsite lender reviews may be performed by SBA field offices and/or SBA’s centralized review teams. These reviews will focus on how well CommunityExpress lenders:

1. Follow prescribed SBA and CommunityExpress policy and procedures;
2. Apply appropriate internal control safeguards;
3. Apply reasonable and prudent practices to process, close, service, and liquidate CommunityExpress loans;
4. Duplicate, for CommunityExpress loans, those established practices, procedures, and analyses that the lender uses for other non-SBA loans of similar size and type; and,
5. Have responded to previous review findings and recommendations.

SBA or its contractors may charge the lender a fee to cover the costs of the review. The review will be scheduled in advance with the lender and will result in a Report of Review that will be shared with the CommunityExpress lender.

After the Report of Review is finalized, it will be used by SBA as one of the factors in determining whether the lender should continue as a CommunityExpress lender. An CommunityExpress review will not be used to determine the extent to which the SBA guarantee is in effect on any particular loan. That determination is made at the time of purchase of SBA’s guarantee. Review of a file during an CommunityExpress review does not give the lender any estoppel claim, right or defense.

B. Analysis of Management Information
SBA has developed a preliminary program participation benchmark that currently requires a minimum currency rate (dollars) of 85 percent for loans approved in the last 5 years. However, the Agency is continuing to study, evaluate, and develop program benchmarks that will be revised and expanded in coming months.

14. WHAT IS THE PROCEDURE FOR SUSPENSION OR REVOCATION
CommunityExpress STATUS?

A lender loses its CommunityExpress status if it loses its PLP status. In addition, SBA may determine at any time, at its own discretion, whether to suspend or revoke a lender’s authority to make CommunityExpress loans under this pilot. Reasons for suspension or revocation may include, but are not limited to, loan performance unacceptable to SBA; failure to be an active participant of the CommunityExpress program; an inability to acceptably process, close, service and liquidate SBA loans; or violations of applicable statutes, regulations, published SBA policies and procedures, or the terms of the CommunityExpress Agreement.