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Business Lending News

SBA ELIMINATES PERSONAL RESOURCES TEST FOR 7(a) AND 504 LOANS, ADDRESSES CDC OPERATIONS REQUIREMENTS

As part of its ongoing efforts to make the SBA lending process easier for borrowers, and to encourage job growth, the SBA has issued changes to the 7(a) and 504 loan programs. SBA posted its [Final Rule on Personal Resources, Affiliation and CDC Operations](#) on Friday, March 21, 2014.

Most of the rule covers CDC operations requirements. The rule is effective April 21, 2014, except for the amendment to 13 CFR 120.823, which is effective April 21, 2015.

Hot Topic for SBA Lenders: Eliminating the personal resources test. As you know, there was lively debate about this one. During the two-month comment period, February 25, 2013 to April 26, 2013, the SBA received "overwhelming support" from commenters for eliminating the personal resources test. As the SBA states:

- "This rule finalizes the proposed rule that the U.S. Small Business Administration ("SBA") issued to improve access to its two flagship business lending programs: the 504 Loan Program and the 7(a) Loan Program."
- SBA "...determined that elimination of the personal resources test would enable more robust Borrowers to participate in SBA's loan programs, thus mitigating risk to SBA's loan portfolio while facilitating job growth. SBA is adopting this regulation as proposed by removing this provision from the regulations."

Importantly, the SBA gives you latitude: "Although SBA will no longer require that the personal resources of owners be used to reduce the SBA funded portion of the total financing package, a lender that believes that prudent lending requires that assets either be injected or pledged as collateral for a particular loan would not be prohibited from so requiring."

While the typical SBA borrower doesn't have large personal resources, the primary advantage for lenders is in situations where a small business owner is in partnership with an investor whose ownership is 20% or more. In cases where the investor's resources far exceed the amount of the old guidelines, the small business can now borrow the capital necessary for growth and expansion.

To discuss this or other SBA and business lending issues, feel free to contact me by [email](#) or call me directly at 626.688.2125.

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