



### **Quick Snapshot: SBA/SOP Q&A**

SBA and business lending conferences are great opportunities to share ideas and address issues affecting SBA lenders and lender service providers. We've attended several recently where questions came up about the SBA's latest SOP revisions, issued in October 2010. When the SBA issues new SOP revisions this fall, we'll address them in detail. In the meantime, this Q&A may answer any lingering questions or concerns about the current SOPs.

#### **SOP Q&A:**

**Q: Secondary market sales of larger loans.** Is it OK to break a large loan for a borrower into several smaller loans, to make selling the loans easier (as long as all the loans are pari passu for lien positions)?

**A:** While this is technically possible, the SBA has expressed caution about doing it this way. If the customer/overall credit goes bad, you have multiple strikes against you for problem loans, and workouts are complicated.

**Q: Alternative Size Standard.** With the Alternative Size Standard now permanent, are the "regular" size standards still relevant?

**A:** YES. Both standards still exist, and it's possible that a business might not meet the Alternative Size Standards but still be a small business under the regular standards.

**Q: How does SBA define Prudent Lending?**

**A:** As defined by the SBA, "Prudent Lending" isn't a judgment on individual underwriting decisions on each credit. "Prudent Lending" refers to a process: Is the lender treating the care and maintenance of its SBA loans the same way it treats its conventional loans, and in accordance with the lender's approved Policies and Procedures?

**Q: Passive Income. What types of businesses are now eligible?**

**A:** Newly eligible businesses now include: 1) residential facilities licensed as nursing homes; 2) businesses engaged in leasing equipment, household goods, etc.; 3) businesses such as barber shops, hair salons, and nail salons, without regard to whether they hire or contract people providing services and; 4) mini-warehouses.

**Q: Lender Supervision and Enforcement SOP/Disclosure of Fees SBA Notice 5000-1177.** What documentation of loan agent fees must lenders retain in their files?

**A:** Lenders must retain the original signature version of the form in their file for compliance review purposes. ALL pages of the form must be submitted, even if no information is listed on the page.

**Q: Change of Ownership/Business Valuation.** Can the purchase price of a business be more than the business valuation, as long as the amount financed by SBA does not exceed the valuation amount?

**A:** YES, but the credit memo must explain why the higher price is appropriate.

At J.R. Bruno & Associates, we're your answer to growing and maintaining a profitable SBA program. Call us today.

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