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SUPPORTING STATEMENT  
U.S. Small Business Administration  
Paperwork Reduction Act Submission

**A. JUSTIFICATION**

**Summary Terms and Conditions**

On October 15, 2007, SBA submitted this information collection to OMB for emergency processing under 13 CFR 1320.13. OMB did not approve that submission but rather directed SBA to resubmit “the package for regular processing” after the agency had addressed OMB’s concerns. Specifically, OMB requires SBA to clarify the instructions regarding submission of the forms and provide clear contact information; designate the Lender Advantage Initiative as a pilot program, limited in scope and scale, and subject to programmatic reevaluation prior to expansion; and revise the design of the form to improve clarity and use of the form. SBA has taken the following steps to address these issues:

**Instructions**

SBA has revised the package to ensure that the instructions are an integrated part of the form. We have enlarged the print and reconfigured the form to improve readability of the information requested. We have also clarified the Agency contact information (which is on the last page of each Part), and clearly identified which parties are required to complete each section. In general we would expect participating SBA lenders to be familiar with the form (after initial SBA training) and be in a position to assist small business borrowers to complete the form after the lender determined that it was unwilling to make the loan without an SBA guaranty. The Lender will then submit the completed application to SBA’s Standard 7(a) Loan Processing Center in Sacramento.

**Designation as Pilot Program**

SBA plans to introduce this streamlined loan processing initiative in a limited area (SBA’s Region VIII) and to test, refine, and assess its efficacy before considering any expansion to additional areas. However, this processing initiative is not a “pilot program” as that term is generally applied in SBA’s business loan programs. As provided in the regulations governing “pilot” business loan programs, SBA “may suspend, modify or waive rules in order to test new programs or ideas.” [13 CFR 120.3, *Pilot Programs*.] Implementation of this streamlined process does not require suspension, modification or waiver of any rules. Use of the term “pilot” would therefore, create confusion among lenders. These streamlined procedures are merely a simpler, less paper-intensive alternative to the standard 7(a) (SBA Forms 4 and 4-I) loan application process, and are designed for those lenders that process a small number of 7(a) loans annually, each for a relatively low dollar amount. For such loans, the proposed collection of information (Form 2301) will replace the Agency’s lengthier and more complex 7(a) loan application forms (SBA Forms 4 and 4-I).

**1. Circumstances Necessitating the Collection of Information**

*Explain the circumstances that make the collection of information necessary. Identify any legal or administrative requirements that necessitate the collection. Attach a copy of the applicable section of each statute and regulation that mandates or authorizes the collection of information*

Section 7(a) of the Small Business Act authorizes the Small Business Administration to guaranty loans made by banks or other financial institutions to qualified small businesses for the purposes of plant acquisition, construction, conversion, or expansion, and/or for the acquisition of land, materials, supplies, equipment, or working capital. The Federal Managers Financial Integrity Act (FMFIA) codified at 31 U.S.C. § 3512 et seq., and OMB Circulars A-123 (Management's Responsibility for Internal Control) and A-129 (Policies for Federal Credit Programs and Non-tax Receivables) require a federal agency to evaluate the character and performance of individuals participating in federal credit programs. Under authority of section 7(a) of the Small Business Act, 15 U.S.C. 636, SBA is implementing new loan processing procedures that are designed to streamline 7(a) loan processing for smaller 7(a) lenders (lenders that process 20 or fewer SBA loans per year), or lenders not currently participating in the 7(a) loan program. The proposed application form (Form 2301) is the primary vehicle for implementing these procedures. The specific information requested through this form is listed in 13 CFR 191.

SBA believes that by modifying the standard 7(a) application process, its smaller 7(a) participants that do not process SBA loans routinely (and do not have a dedicated SBA staff due to the low volume), or lenders that choose not to participate due to concerns about the "paperwork" associated with 7(a) loans, will increase their participation in the 7(a) loan program and expand access to capital by rural small businesses. SBA estimates that approximately 2,000 7(a) lenders fall into the smaller lender category. According to an analysis of SBA lending activity, these smaller lenders lend proportionately more to rural businesses (32 percent of SBA loans went to rural businesses in 2007 YTD) versus their larger counterparts (8 percent of SBA loans went to rural businesses in 2007 YTD).

According to SBA 7(a) loan numbers as of 9/30/07, 7(a) loans to rural America (using the OMB definition of rural) represented only 17 percent of total 7(a) loan volume for FY 2007 compared to 21 percent for FY 2006. The total number of loans to rural small businesses decreased from 20,536 loans in FY 2006 to 16,871 loans in FY 2007, a decrease of approximately 17.8%. Urban loans are up approximately 7.8%, for a total difference of approximately 25.6%. If these numbers are compounded over a three year period, SBA will be providing urban areas access to capital at a rate of almost 100% greater than rural areas. Another SBA study identified that as of August 31, 2007, the number of lenders making 20 loans or less overall has decreased from 2,449 in Fiscal Year 2000 to 2,057 in 2007. This is a drop of 16 percent. SBA believes that the decrease in lending to rural, small businesses is directly related to SBA losing, as 7(a) participants, the smaller lenders that process a relatively small number of SBA loans per year. These are the lenders that use our programs to build their communities, and not necessarily as a profit center, as large banks do.

SBA believes these smaller lenders are decreasing their participation with SBA because:

1. They do not qualify for one of the expedited 7(a) loan processes (SBAExpress, Community Express, or PLP) under which SBA delegates the final credit decision as well as the preliminary eligibility determination to qualified lenders that demonstrate their comprehensive knowledge of SBA's eligibility; and
2. The standard 7(a) loan submission process, which new 7(a) participants or existing 7(a) participants that do not qualify for an expedited process must follow, requires the submission to SBA of an extensive amount of information using OMB-approved SBA Forms 4 and 4-I plus all exhibits. This is the case whether the loan request is for \$20,000 or \$2,000,000.

Currently, approximately 94 percent of SBA's 7(a) loans are processed through an expedited process under which the lender has been granted delegated authority to make the credit decision and is considered knowledgeable in SBA's eligibility rules and therefore only needs complete an abbreviated Eligibility Checklist. The other 6 percent of the 7(a) loan volume is processed as follows: the Applicant completes an application form (SBA Form 4) which requires the submission to the lender and SBA of more than 14 exhibits including personal financial statements on the principals, resumes, business financial statements, a listing of collateral, and copies of any franchise agreements. The lender then is required to analyze all the information and submit its analysis (Form 4-I) together with all the supporting documentation to SBA. (Depending on the complexity of the loan request, and whether the Applicant has affiliates, the Standard 7(a) loan submission package to SBA can be several inches thick compared to a 2-page (plus an eligibility checklist) submission to SBA for the expedited loan processes.) Under standard 7(a), SBA then in turn re-analyzes the all submitted documentation and makes the final credit and eligibility decisions.

Although the proposed forms are based on Forms 4 and 4-I, they will be tailored for this new pilot initiative to provide a streamlined standard 7(a) application process for 7(a) loans of \$350,000 or less. The total burden hours associated with the new form is estimated to be 5 hours compared to the current SBA Forms 4 and 4-I which total 14 hours. This is a reduction of almost 65 percent.

## **2. How, By Whom, and For What Purpose Information Will Be Used**

*Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection.*

Proposed New Forms:

Form 2301 (Part A): Part A is completed by the Small Business Applicant ("Borrower"). It consolidates the information required by SBA Form 4, Business Loan Application (OMB Control # 3245-0016) and Form 912, Statement of Personal History (OMB Control 3245-0178). The information requested includes identifying information regarding the applicant, loan request, indebtedness, information about the principals, information about current or previous government financing, and certain other disclosures. The information also facilitates borrower background checks as authorized by the Section 7(a)(1)(B) of the Small Business Act, 15 U.S.C. 636(a)(1)(B).

Form 2301 (Part B): Part B of this form is completed by the 7(a) Participant ("Participant" or Lender). It consolidates the information required by SBA Form 4-I (OMB Control #3245-0016). This form includes identifying information regarding the lender, loan terms, and use of proceeds, collateral, and the Lender's analysis of the loan request. The form also requires the Lender to perform an "eligibility evaluation" using Form 2301, Part C.

Form 2301 (Part C): Part C of this form is completed by the Participant. It consolidates eligibility information required by numerous exhibits that are part of Form 4 into an abbreviated questionnaire. OMB has previously approved similar forms that collect eligibility information such as OMB approved Form # 3245-0348, Form 1920SX, Part C. This questionnaire is designed to identify those borrowers that fall into the simple eligibility groups that do not require additional information or complex analysis.

The information collected through these forms will be used by program managers, top Agency management, and government entities with oversight authority over SBA primarily for loan monitoring, portfolio risk management, and lender oversight. These groups will use the data to determine how effectively SBA's loan programs are meeting the needs of various geographical, demographical, and industry markets and segments; the safety and soundness of SBA's loan policies and procedures; and to set program fees consistent with the subsidy rate model. SBA will also use the information to report to its various oversight authorities regarding the number, dollar volume, and demographic characteristics of its 7(a) loan guaranty recipients.

### **3. Technological Collection Techniques**

*Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g. permitting electronic submission of responses, and the basis for the decision for adopting this means of collection. Also describe any consideration of using information technology to reduce the burden.*

Lenders will submit the data collected via fax or e-mail to a centralized SBA processing center. The process is designed for those small lenders that do not have a high level of technological capability but with some form of internet connection to transmit the information electronically.

### **4. Avoidance Of Duplication**

*Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in item 2 above.*

The information collected is unique to the individual applicant and the circumstances and conditions of its business operation, so there are no other sources of the information nor is it currently available electronically. In developing the form, SBA sought to minimize the burden on the borrowers and lenders by reducing the amount of documentation required of the borrower and the amount of information that the lender has to transmit to SBA. The reduced documentation will also decrease the borrower's and lender's processing costs, particularly for very small loans.

### **5. Impact On Small Businesses Or Other Small Entities**

*If the collection of information impacts small businesses or other small entities (Item 5 of OMB Form 83-1), describe any methods used to minimize burden.*

There are two broad constituencies impacted by this data request, 7(a) Lenders that do not qualify for one of SBA's expedited processes (SBAExpress, Community Express and PLP) and prospective small business borrowers. While the major portion of SBA's loan volume accrues from large lenders using the expedited processes, the Agency does have more than 2,000 smaller lenders that participate in SBA's loan programs on an infrequent basis. The Agency is highly aware that data collection affects the cost of processing loans, particularly for smaller loans. However, the Agency does not anticipate that this information collection will have a significant economic impact on these entities. SBA has worked very carefully in the past with large and small lenders to minimize and streamline data collection without sacrificing function. These same efforts have again been used for this new data collection, resulting in the reduced collection of data from the lenders as well as the Agency's principal constituency, small business borrowers.

## **6. Consequences If Information Is Not Collected**

*Describe the consequence to the Federal program or policy activities if the collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles to reducing burden.*

Failure to collect the information contained in the forms may compromise the effectiveness of the 7(a) loan program, SBA's recoveries, and the program's contribution to improving the nation's economy. SBA is responsible for providing small business access to capital in an efficient and timely manner, while maintaining its fiduciary responsibility to the taxpayer. This collection of information facilitates SBA's ability to fulfill those responsibilities by providing the critical information needed by SBA to monitor and analyze loan and lender data trends and risks. SBA collects data to allow lenders and borrowers to modify significant loan terms as needed after the loan is approved, such changes can significantly modify SBA's position and increase the potential for loss. Real-time monitoring allows for early warning triggers that indicate an increase in risks, and assist the Agency to identify where its resources should be employed to mitigate risks and ultimately reduce potential loan losses.

## **7. Existence Of Special Circumstances**

*Explain any special circumstances that would cause an information collection to be conducted in a manner, etc.*

Lenders submit loan data to SBA for its loan guaranty approval on a loan by loan basis. Because lenders want SBA to approve loans on a rolling basis, they submit this information more than once a quarter. Some of the data collected includes business information. SBA has procedures to protect the information's confidentiality to the extent permitted by law. This information can be accessed only with the approval of the Office of Financial Assistance Technology Project Manager.

## **8. Solicitation of Public Comment**

*If applicable, provide a copy and identify the date and page number of publication in the Federal Register of the agency's notice, required by 5 CFR 1320.8(d), soliciting comments on the information collection prior to submission to OMB. Summarize public comments received. Describe efforts to consult with persons outside the agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, or reporting format (if any), and on the data elements to be recorded, disclosed, or reported.*

A Federal Register public comment notice was published on August 28, 2007, at 72 FR 49344. The comment period expired on October 29, 2007. No comments were received.

## **9. Payments or Gifts**

*Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.*

No gifts or payments are provided to any respondents.

## **10. Assurance of Confidentiality**

*Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or agency policy.*

The information collected is protected to the extent permitted by law. SBA has incorporated various statements required by law and executive orders into Form 2301 to advise each respondent of among other things, the protections against disclosures of sensitive and confidential information under the “Freedom of Information Act (5 U.S.C Section 552), “Right to Financial Privacy Act of 1978 (12 U.S.C. Section 3401), and other significant executive orders or legislation governing federal financial assistance.

### **11. Questions of a Sensitive Nature**

*Provide additional justification for any questions of a sensitive nature, such as sexual behavior and attitudes, religious beliefs, and other matters that are commonly considered private. This justification should include the reasons why the agency considers the questions necessary, specific uses to be made of the information, explanation to be given to persons from whom the information is requested, and any steps to be taken to obtain their consent.*

SBA collects social security numbers and information on a borrower’s ethnicity, race, and criminal records. This data collection of sensitive material has not been expanded beyond that which is currently collected via OMB approved Forms # 3245-0016 – Application for Business Loan and #3245-0178 – Statement of Personal History. The social security number is the unique identifier associating a person with a specific loan. SBA also uses social security numbers to facilitate critical credit searches in the federal databases listing defaulted loans, in consumer credit databases and in fraud detection systems. SBA collects demographic information to assess the extent to which SBA’s loan programs assist all demographics. We also note that SBA has a Privacy Act System of Records that covers this information. See attached Federal Register Notice at 69 FR 58598 (September 30, 2004), Loan System – SBA 21.

### **12. Estimate of the Hourly Burden of the Collection of Information**

*Provide estimates of the hour burden of the collection of information, well as the hour cost burden. Indicate the number of respondents, frequency of response, annual hour and cost burden, and an explanation of how the burden was estimated.*

There are approximately 2,000 7(a) lenders that process 20 SBA loans or less per year. The average time spent completing the forms is 5 hours based on the estimated time it takes to complete Forms 4 and 4-I, and taking into consideration the reduction in information that will be collected on this new form versus Forms 4 and 4-I.

Total annual responses for Lender Advantage is estimated to be 4,000 based on the following: During FY 2007, there were approximately 5,840 loans processed using the Standard 7(a) process (6 percent). (The rest, approximately 92,000 were submitted under an expedited process.) The average loan size for Standard 7(a) loans was approximately \$398,000. SBA believes that the Lender Advantage initiative, will significantly increase the number of loans of \$350,000 or less that are submitted under standard 7(a).

Therefore, the additional annual hourly burden for the forms for Lender Advantage is 4,000 applications x 5 hours = 20,000 hours.

Based on a GS-11 loan officer’s annual salary, the hourly rate is \$26. The annual cost to respondents would be 20,000 hours x \$26 per hour = \$520,000.

### **13. Estimate of Total Annual Cost**

*Provide an estimate for the total annual cost burden to respondents or recordkeepers resulting from the collection of information. Do not include hour cost burden from above.*

There will be minimal start-up or other costs to the respondents.

**14. Estimated Annualized Cost to the Federal Government**

*Provide estimates of annualized costs to the Federal Government. Also provide a description of the method used to estimate cost, including a quantification of hours, operational expenses (such as equipment, overhead, printing, and support staff), and any other expense that would not have been incurred without this collection of information.*

The cost to government would be approximately \$285,467 annually. This is based on the cost of an analyst (grades 9 – 12; average GS-11 at \$26 per hour) taking approximately 80 minutes to analyze the application, develop a recommendation, and prepare a loan officer’s report; 50 minutes by the Lead Loan Specialist (GS-13 at \$37 per hour) to review the information and make a recommendation. In addition a Loan Processing Assistant (grades 5 – 7; average GS-6 at \$16 per hour) would spend approximately 22 minutes to enter and retrieve data to support the decision.

Analyst:  $4/3 \text{ hours} \times \$26/\text{hour} \times 4,000 = \$138,667$ .

Lead Loan Specialist:  $5/6 \text{ hours} \times \$37/\text{hour} \times 4,000 = \$123,333$ .

Loan Processing Assistant:  $22/60 \text{ hours} \times \$16/\text{hour} \times 4,000 = \$23,467$ .

**15. Explanation of Program Changes in Items 13 or 14 on OMB Form 83-I**

*Explain reasons for any program changes or adjustments reported in Items 13 or 14 of the OMB Form 83-I.*

This is a new information collection.

**16. Collection of Information whose Results will be Published.**

*For collection of information whose results will be published, outline plans for tabulation and publication. Address complex analytical techniques. Provide time schedules for the entire project.*

Except for summary data that might be included in various agency reports (e.g., number or percentage of loans processed using this form) this information will not be published.

**17. Expiration Date for Collection of this Data**

*If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons why the display would be inappropriate.*

Not applicable; expiration date will be published.

**18. Exceptions to the Certification in Block 19 on OMB Form 83-I**

*Explain each exception to the certification statement identified in Item 19, “Certification for Paperwork Reduction Act Submission,” of OMB Form 83-I.*

In Section 19 of OMB Form 83-I, item I indicates the use of statistical survey methodology in the collection of information. Because each loan application is unique to the applicant and to the loan terms (maturity, interest rate, loan amount, etc.) SBA cannot employ a statistical survey methodology to obtain the required information for the loan program. A statistical survey for

this area would not likely be representative and, therefore, would increase SBA's financial risk if relied upon.

**B. Collection of Information Employing Statistical Methods.**

*Describe (including a numerical estimate) the potential respondent universe and any sampling or other respondent selection method to be used.*

Not applicable.