

**Paperwork Reduction Act Submission
SBA Standard 7(a) and PLP Loan Programs
(OMB Control No. 3245-0016)**

JUSTIFICATION

OMB Clearance Conditions

The Paperwork Reduction Act (PRA) package for OMB#3245-0016 was previously submitted May 15, 2008. OMB's clearance approval was for one year so that SBA would have the opportunity to correct errors in the submission that OMB identified. The following are the items OMB identified and how they are being addressed:

1. OMB: The agency reported that no small entities responded to this collection.
SBA Response: The response to Question 5 of the Supporting Statement indicates that small entities, including small business applicants and certain lenders are impacted by this information collection. The response also states that SBA has worked with the lenders to develop an information collection that minimizes the burden on all respondents by requesting the minimum data necessary to make informed eligibility determinations.
2. OMB: The agency reported that 25% of respondents responded electronically to forms identified as paper only.
SBA Response: This information collection does not consist of any paper only forms. The response to Q. 3 of the Supporting Statement has been clarified to show the percentage of respondents that submits the forms electronically
3. OMB: The agency did not provide cites to the regulatory authority relevant to this collection.
SBA Response: Item 1 of the Supporting Statement includes the citation for the applicable statutory and regulatory authorities. The Agency will also ensure that these citations are uploaded in ROCIS along with the relevant texts.
4. OMB: The agency should provide separate information collections for each form to better account for the different burdens imposed on banks vs. small business applicants.
SBA Response: The submission identifies separately the burden hours for the small business versus the burden hours for the lender.

Submission

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 , (15 U.S.C. § 636(a) authorizes the Small Business Administration to guarantee 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. (See attached).

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 Controls) 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 its federal credit programs. (See attached

This information collection consists of the following forms:

- Form 4-I, Lender’s Application for Guaranty or Participation;
- Form 4, Application for Business Loan, (the contents of which are generally described in 13 C.F.R. 120.191).; and
- Form 4, Schedule A, Schedule of Collateral

CHANGES:

Form 4, Application for Business Loan: This form must be completed by the applicant for a standard 7(a) loan (including loans submitted by a lender under its status in SBA’s Preferred Lender Program (PLP)). With this submission, SBA has made minor changes to the form. (1) On page 1: simplified the instructions regarding requirement to disclose payment for assistance with the application; (2) On page 2, paragraph 3 of instructions regarding application exhibits, deleted “officer” from the group of persons required to submit personal financial statements, clarified that information on the assets of spouse and minor children and tax ID number is also required; and (3) page 3, paragraph 7, clarified the instructions.

Form 4-I, Lender’s Application for Guaranty or Participation: This form must be completed by the lender for each standard 7(a) loan application (including PLP processing). There are no changes to this form.

Form 4, Schedule A, Schedule of Collateral:

This is an optional form completed by the lender. There are no changes to this form.

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.

The SBA loan officer and the participating lender require the requested information from these forms to determine eligibility and to properly evaluate and consider the merits of each loan request based on criteria such as character, capacity, credit, collateral, etc. regarding SBA financial assistance programs could not be implemented without this information.

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 submit the data collected via an XML data package electronically to SBA; an SBA-provided electronic submission system (E-tran) to a centralized and automated SBA processing center; or as an attachment to an e-mail or a fax. E-Tran was developed in conjunction with the interagency eLoans initiative, one of the E-Government projects referenced in the President’s

Management Agenda. For PLP applications (or delegated submissions), approximately 90 percent are submitted electronically. The balance of PLP applications are submitted by fax to the SBA processing center. For non-delegated submissions, approximately 45 percent are submitted electronically by e-mail and the balance of applications are submitted by fax to the SBA processing center. In general, the process works as follows:

- Lender A with a high level of technological capability, extracts data from its indigenous origination systems and transfers an XML data package electronically to SBA via an SBA secure website.
- Lender B, less sophisticated but with Internet capability, enters data directly into an electronic submission system (E-tran) provided through an SBA secure website.
- Lender C, unwilling or unable to transmit electronically, continues to e-mail as an attachment or fax the applications to the processing center.

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 requested on the Form 4 and Form 4-I is necessary for proper loan application evaluations and is not available by other means or from other sources. The information collected on the application is unique to the individual applicant and the circumstances and conditions of its business operation, so there are no other sources of the information that could suffice. If there is any duplication, it would be very minimal and only for a few cases where a second 7(a) loan is requested. Even if the applicant has received SBA financial assistance in the past, the information provided on the form needs to be current and verified with each application. The minimum information necessary is being requested.

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-I), describe any methods used to minimize burden.

The two broad constituencies impacted by this data request are lenders 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. SBA estimates approximately 2,200 lenders will use Form 4-I. SBA estimates approximately 15,300 small businesses will submit their loan requests using Form 4. The Agency is aware that data collection affects the cost of processing loans, particularly for smaller loans. SBA has worked very carefully in the past with the lenders to minimize and streamline data collection resulting in the reduced collection of data from the lenders as well as the Agency's principal constituency, small business borrowers. SBA will continue to work with its lending partners to further revise, streamline, and expedite its loan processing procedures, the associated forms and data collections required, and the technology and procedures used to transmit that data to the SBA.

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.

This information is necessary each time a small business applies for a loan. SBA would not have the necessary information on which to base a credit or eligibility decision without this collection.

The collection of data enables the Agency to provide small businesses with ready access to capital and failure to collect the information requested in these forms may compromise the effectiveness of the program. Federal financial assistance to small businesses cannot be extended without the requested information.

7. Existence of Special Circumstances

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

There are no special circumstances.

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 notice was published in the Federal Register on July 21, 2009 (74 FR 35902). 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. Various statements required by law and executive orders are provided to each respondent as part of the application 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, gender, and criminal records. . 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. The Agency has published a Privacy Act System of Records notice that covers this information. See attached Federal Register Notice at 74 FR 14912-14914 (April 1, 2009), 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.

Total estimated annual responses are 15,300 by borrowers (Form 4) and 15,300 (Form 4-I and 4A) by lenders for a total of 15,300 loan requests. This figure was based on the number of projected 7(a) loans for FY 2009 processed either through the Standard 7(a) Loan Processing Center or submitted as PLP loans. As of July 31, 2009, approximately 12,700 loans have been submitted through these two centers. The balance of SBA's 7(a) loan activity has been SBA Express, Community Express, Patriot Express, and Small/Rural Lender Advantage which use other OBM-approved forms.

The estimated number of users for the various Form 4s is as follows:

Form 4 is completed by the borrower. Form 4-I is completed by the lender. Both are required for standard 7(a) and PLP (delegated lender) submissions. As stated above, for FY 2009, the estimate is 15,300 7(a) loans will use these forms.

Form 4-Schedule A is optional. A lender may use its own format to list personal property with a value of \$5,000 for each item that is securing the loan. SBA estimates that not more than 10 percent of 7(a) loans using Form 4-I use this form or their own form to meet this purpose.

Burden hours for each form listed below are the estimated maximum. The aggregate burden hours are an estimated average that considers all of the forms.

Borrower:

Form 4

Estimated Number of Respondents: (Borrowers): 15,300

Estimated Number of Responses (loan applications):15,300

Estimated Time per Application: 12.00

Total Estimated Hour Burden for Borrower: $15,300 \times 12.00 = 183,600$ hours

Lender:

Form 4-I $15,300 \text{ responses} \times 2.00 \text{ hours} = 30,600$

Estimated Number of Respondents: (Lenders): 2,000

Estimated Number of Responses (guaranty applications):15,300

Estimated Time per Application: 2.00

Total Estimated Hour Burden: $15,300 \times 2.00 = 30,600$ hours

Form 4, Schedule A 1,530 responses x 0.5 hours = 765
Estimated Number of Respondents: (lenders): 2,000
Estimated Number of Responses (collateral schedule): 1,530
Estimated Time per Application: 0.5
Total Estimated Hour Burden: 1,530 x .5 = 765

Total Estimated Hour Burden for Lender: 31,365

Total Estimated Hour Burden for Borrower and Lender: 214,965

SBA estimates that the average salary of the respondent to this information collection is equivalent to a GS-11 loan officer's salary, at an hourly rate of \$26. The annual cost to respondents would be 214,965 hours x \$26 per hour = \$5,589,090.

13. Estimate of Total Annual Cost

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

There are minimal start-up 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.

For Standard 7(a) Loan Processing, the forms are reviewed by an employee with an average grade of a GS-12 whose salary is approximately \$31.00 per hour. Approximately 5,100 applications are submitted annually through the Standard 7(a) Loan Processing Center where the applications are reviewed by SBA employees for eligibility and creditworthiness.

Forms 4 and 4-I together require an average of 4 hours to review (must be submitted together) –

5,100 applications x 4 hrs. x \$31/hr. = \$632,400

Form 4-Schedule A is part of the package but does not require a review by SBA during the application process. It is a listing of collateral valued at \$5,000 or more.

The balance of the loans (10,200) using Forms 4 and 4-I are submitted using the PLP process. When a lender is designated as a PLP lender by SBA, the lender makes the credit decision and initial eligibility determination. The lender submits to SBA (Sacramento Loan Processing Center) only a copy of Page 1 of Form 4 and a copy of the front of Form 4-I. This is reviewed by an employee with an average grade of a GS-7 whose salary is approximately \$17 per hour. The review takes approximately 5 minutes.

10,200 x 5 minutes x \$17/hr. = \$14,450

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.

There has been a decrease in burden hours due to an overall decrease in small business lending due to the recession.

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. Further, 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.