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SUPPORTING STATEMENT
U.S. Small Business Administration
Paperwork Reduction Act Submission
OMB # 3245-0361

A. JUSTIFICATION

OMB Clearance Conditions

This information collection (IC) was previously submitted on November 15, 2007, for a new, more streamlined processing method for 7(a) loans designed for small, community banks. The initiative was titled Small/Rural Lender Advantage (S/RLA). OMB's conditional approval of the information collection, required SBA to evaluate the submission error rates and report the results with the next request for approval. Accordingly, SBA has analyzed the use of this information collection over the past three years and has not identified any notable response error issues.

With this submission, SBA is expanding the use of this information collection to two new initiatives. The first is a new pilot loan program called "Community Advantage" that will replace the existing Community Express Pilot Loan Program to provide 7(a) loan guaranties to small businesses in underserved markets, including Veterans and other members of the military community.

The Community Advantage pilot will utilize the streamlined Small/Rural Lender Advantage (S/RLA) processing approach, which is currently available to SBA's rural and small lenders with limited SBA lending volume, to make smaller-sized 7(a) loans. The second initiative will expand the S/RLA initiative by permitting lenders in SBA's Preferred Lender Program (PLP) to make 7(a) loans on a delegated basis of \$250,000 or less using the streamlined S/RLA processing approach. This initiative will be called "Small Loan Advantage."

SBA has streamlined this information collection to reduce, as far as practicable, the burden on the lenders and small businesses by eliminating unnecessary, ambiguous, excessive, and redundant questions; and by accepting electronic submission of completed applications and documents. In addition, where appropriate and feasible, SBA will share information across other offices and agencies, such as the Department of Treasury. SBA has also simplified the administrative process by coordinating and reducing requirements from multiple offices and agencies.

Other changes to this information collection are discussed below but generally the information collection has been amended to include changes in SBA's policies governing interest rates (a new fixed interest rate maximum is now allowed); clarify which individuals must provide personal history; and to reflect updates to SBA's policies governing 7(a) loans as outlined in SOP 50 10 5(C), which became effective October 1, 2010.

Current 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. In addition, 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 and set standards for information required for federal loan programs. (Copies of relevant provisions are attached) This information collection facilitates SBA's ability to carry out these responsibilities, and obtain necessary information; the IC consists of the following forms:

Form 2301 (Part A): Lender Advantage Initiative, Small Business Application for SBA Guaranteed Loan. Part A is completed by the Small Business Applicant ("Borrower"). This form collects identifying information regarding the applicant, loan request, indebtedness, information about the principals, information about current or previous government financing, and certain other disclosures.

Form 2301 (Part B): Lender Advantage Initiative, Lender's Application for Guaranty. Part B of this form is completed by the 7(a) Participant ("Participant" or "Lender"). This form includes identifying information regarding the lender, loan terms, 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): Lender Advantage Initiative, Eligibility Questionnaire. Part C of this form is completed by the non-delegated Participants. This questionnaire is designed to identify those borrowers that fall into the simple eligibility groups that do not require additional information or complex analysis.

Form 2301 (Part D): Eligibility Information for Community Advantage (CA) Loans. Part D of this form consolidates eligibility criteria regarding Community Advantage loan applicants and will be completed by delegated Community Advantage lenders.

Form 2301 (Part E): Community Advantage Lender Participation Application. Part E of the form is completed by the Lenders applying to participate in the Community Advantage Pilot Program.

Form 7: Eligibility Information for Preferred Lender Program (PLP) Loans. This form consolidates eligibility criteria for standard 7(a) loans as well as Small Loan Advantage loans and will be completed by Preferred Lender Participation (PLP) lenders. (PLP lenders have been given delegated authority by SBA to process their standard 7(a) loans. In addition, this eligibility checklist will cover the new initiative, Small Loan Advantage, for a PLP's smaller loans of \$250,000 or less.)

Form Changes:

On Form 2301 (Part A), SBA clarified the instructions regarding the individuals who are required to complete Section D5. On Form 2301 (Part B), SBA has made the following changes to comply with current policies: (1) expanded the section on interest rates to allow the lender to use a fixed rate in addition to a variable rate; (2) updated the use of proceeds section to include information that SBA is capturing on change of ownership transactions; (3) reduced the set of instructions to lenders on required credit analysis from 2 sets to 1 set; and (4) for Community Advantage loans, added a page for Community Advantage loans to cover any management or

technical assistance received by the Borrower. For a change of ownership, there is virtually no increase in burden hours estimated since only 1-2 percent of all SBA loans are for a change of ownership. Most SBA loans are to establish new businesses, to provide working capital or machinery and equipment to existing businesses, or to purchase owner-occupied business real estate. For Community Advantage loans, the completion of this information should take no longer than 2 hours. On Form 2301 (Part C), SBA modified the Conflict of Interest section to be in compliance with SBA's existing policies.

Because the two new initiatives will permit loan application submissions under delegated authority, a new Form 2301 (Part D) was developed for the Community Advantage delegated lender to respond to statements regarding the eligibility of the loan since it is the responsibility of a delegated lender to make the initial determination as to whether the small business applicant is eligible for an SBA loan based on SBA's eligibility criteria.

Form 7 is the existing PLP eligibility checklist which is used by PLP lenders for all their 7(a) loans submitted under their delegated authority. It has been modified to cover Small Loan Advantage loans as well. (For a non-delegated lender, SBA makes the eligibility determination.)

Finally, a new Form 2301 (Part E) was developed to be used by lenders applying to SBA to participate in the Community Advantage Pilot Program.

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 information collected will be used by program managers, top Agency management, and government entities with oversight authority over SBA for credit and eligibility decisions, 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. 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). In some cases, the information is used to make credit decisions as to whether to extend the SBA 7(a) loan guarantee.

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.

For S/RLA, Lenders 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.

For Small Loan Advantage, PLP lenders will use SBA's electronic submission system (E-tran).

For Community Advantage, those lenders that have delegated authority will use SBA's electronic submission system as well. For those Community Advantage lenders that do not have delegated authority, they will fax or e-mail the loan applications to a centralized SBA processing center. The Form 2301 (Part E) – (the lender's application) will be mailed either in paper form or electronically through email, to the program office listed on the Form.

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, as well as the applicable program requirements, so there are no other sources of the information that are currently available that would meet SBA's purposes. In developing the forms, 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 four broad constituencies impacted by this data request: (1) 7(a) Lenders that do not qualify for one of SBA's delegated processes (SBAExpress, Community Express, Patriot Express, and PLP); (2) PLP lenders; (3) Community Advantage lenders; and (4) 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. In the past year, only 750 small, community lenders have participated in Small/Rural Lender Advantage. 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.

In addition, SBA estimates that it has 700 PLP lenders who currently use the more detailed application process of Forms 4 and 4-I (OMB Control No. 3245-0016) for all 7(a) loans, no matter what the size of the loan. Using the loan application forms covered by this submission will permit PLP lenders access to the more streamlined process for their smaller-sized loans now available only to community lenders. The Agency does not anticipate that this information collection will have a significant economic impact on these entities.

Under the Community Advantage pilot, organizations that previously were not permitted to be a 7(a) lender will be permitted to access the 7(a) loan guaranty program as a Community Advantage lender. It is estimated that there will be approximately 50 to 100 Community Advantage lenders under this pilot. These lenders already have other loan programs that they administer as CDFIs, CDCs, and Microlenders. The Agency does not anticipate that this information collection will have a significant economic impact on these entities. It is expected,

however, that the use of this streamlined process will reduce burden on the lenders for these initiatives.

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 and the Community Advantage Pilot Program, SBA's recoveries, and the programs' 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 make credit and eligibility decisions, and 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 identifies early warning triggers that indicate an increase in risks, and assist the Agency in identifying 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 in place 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 17, 2010, at 75 FR50784. The comment period expired on October 18, 2010. 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. 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 74 FR 14890 (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.

There are approximately 2,000 7(a) lenders that receive approval* for 20 SBA loans or less per year. SBA initially estimated that these same 2,000 lenders would use the S/RLA process. However, only approximately 750 community lenders are using the S/RLA process.

Total annual responses for S/RLA for FY 2009 was more than 920 approved applications representing \$142.6 million to small businesses. As of September 30, 2010, another 1027 S/RLA loans were approved for FY 2010. SBA is estimating a similar volume for FY 2011.

For PLP processing, approximately 13,200 PLP loans were approved during FY 2010, 4,900 of which were approved for \$250,000 or less. SBA is estimating that PLP lenders will use the briefer loan application format available through Small Loan Advantage for the smaller loans in FY 2011. All these loans will be submitted under delegated authority.

For the Community Advantage pilot, SBA is estimating that approximately 5,000 loans will be approved using these forms. It is estimated that 1,000 will be submitted non-delegated and 4,000 will be submitted under delegated authority.

The estimated burden hours and costs for each form are as follows:

Form 2301, Part A: Small Business Application for SBA Guaranteed Loan Form – 2 hours. The estimated burden hours are 2 hours times 10,900 applications or 21,800 hours.

Based on a GS-11 loan officer's annual salary, the hourly rate is \$26. The annual cost to respondents would be 21,800 hours x \$26 per hour = \$566,800.

Form 2301, Part B: Lender's Application for Guaranty Form – 2 hours. The estimated burden hours are 2 hours times 10,900 applications (1,000 for S/RLA, 5,000 for Community Advantage and 4,900 for Small Loan Advantage) or 21,970 hours (the extra page for Community Advantage adds approximately 170 hours). Based on a GS-11 loan officer's annual salary, the hourly rate is \$26. The annual cost to respondents would be 21,970 hours x \$26 per hour = \$571,220.

Form 2301, Part C: Eligibility Questionnaire – 1 hour. This form is completed by those lenders that submit the loan application and supporting documentation to SBA for SBA to make the credit and eligibility determination. The estimated burden hours are 1 hour times 2,000 applications or 2,000 hours. Based on a GS-11 loan officer's annual salary, the hourly rate is \$26. The annual cost to respondents would be 2,000 hours x \$26 per hour = \$52,000.

Form 2301, Part D: Eligibility Information for Community Advantage (for use by Community Advantage Lenders with delegated authority only) – 10 minutes. The estimated burden hours are 10 minutes times 4,000 applications or 670 hours. Based on a GS-11 loan officer's annual salary, the hourly rate is \$26. The annual cost to respondents would be 670 hours x \$26 per hour = \$17,420. It consolidates eligibility criteria regarding the loan applicants and will be completed by delegated Community Advantage lenders.

Form 2301, Part E: Community Advantage Lender Participation Application (for use by lenders applying to participate in the Community Advantage Pilot Program). The estimated burden hours are 7 hours times 50 participation applications or 350 hours. Based on a GS-13 executive director's annual salary, the hourly rate is \$43. The annual cost to respondents would be 350 hours x \$43 per hour = \$15,050.

Form 7: Eligibility Information for Preferred Lender Participation (PLP) Loans – 10 minutes. The estimated burden hours are 10 minutes times 13,200 applications or 2,200 hours. Based on a GS-11 loan officer's annual salary, the hourly rate is \$26. The annual cost to respondents would be 2,200 hours x \$26 per hour = \$57,200. It consolidates eligibility criteria regarding the loan applicants and will be completed by PLP lenders.

(*For all loan submissions, SBA tracks approvals rather than loans processed. For non-delegated loan submissions, a loan is either approved, declined or screened out. Screen-outs generally become approvals once the missing information is submitted and the number of declined loans is minimal. All loan applications submitted by delegated lenders receive an SBA loan number (approval) since the lender is delegated the credit decision and the preliminary eligibility determination.)

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 \$157,900 annually.

Loan application

This is based on those applications that are submitted to SBA by non-delegated lenders. 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.

It is estimated that 1,000 applications will be received by the lenders under S/RLA and approximately 1,000 applications from Community Advantage lenders that do not have delegated authority.

Calculation for Review of Loan application

Analyst: $4/3 \text{ hours} \times \$26/\text{hour} \times 2,000 = \$69,340.$

Lead Loan Specialist: $5/6 \text{ hours} \times \$37/\text{hour} \times 2,000 = \$61,670.$

Loan Processing Assistant: $22/60 \text{ hours} \times \$16/\text{hour} \times 2,000 = \$11,740.$

Community Advantage Participation Application

The cost of a financial analyst (grades 12-13; average GS-13 at \$43 per hour) taking approximately 7 hours to analyze the participation application, screening the package to ensure that all required documents are attached, analyzing the participation application to ensure that the information contained in the documents are acceptable, and preparing the recommendation. The cost of the Supervisory Financial Analyst (GS-14 at \$51) to review the analyst's recommendation and comments, reviewing required documents and conducting follow up with lender (participant) or analyst, and concurring with analyst recommendation or prepare a separate recommendation may take 2 hours to complete. In addition a Staff Assistant (grades 12 at \$36 per hour) would spend approximately 22 minutes to enter and retrieve data to support the decision.

Calculation for the Community Advantage Participation Application

Financial Analysts (GS-13): $7 \text{ hours} \times \$43 \times 50 \text{ applications} = \$15,050$

Supervisory Financial Analysts (GS-14): $2 \text{ hours} \times \$51 \times 50 = \$5,100$

Staff Assistants (GS-12): $2 \text{ hours} \times 36 \times 50 = \$3,600$

Total = \$23,750

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.

The previous PRA submission was for a new information collection. The number of responses was estimated based on informal discussions with district offices and small lenders. SBA estimated that 2,000 small, community lenders would use these forms. A recent review of actual activity has determined that only 750 community lenders are using these forms. In addition, the actual number of responses was 77 percent less due to a lower demand than previously anticipated due to the economic downturn.

However, by adding the two new initiatives, the estimated number of loan applications and lenders using these forms is expected to substantially. Therefore, the estimated total is much higher than the previous PRA.

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.