

Supporting Statement
U.S. Small Business Administration
Paperwork Reduction Act Submission
All 7(a) Loan Programs
(OMB Control # 3245-0348)

Justification

This information collection is currently approved for use in SBA's Express and Pilot Loan Programs (Export Express, Community Express and Patriot Express). The collection consists of SBA Forms 1919, 1920SX (Parts B and C), 2237, and 2238. As discussed below, SBA is revising this information collection to make the changes necessary to conform to recent changes to the 7(a) loan program.

On September 27, 2013, SBA released an update to its Standard Operating Procedures (SOP), *Lender and Development Company Loan Programs*, designated as SOP 50 10 5(F). The update resulted in changes related to franchise eligibility, character determinations, credit standards, and appraisal and business valuation requirements, among others. In addition, the update to the SOP simplifies the application process for all SBA-guaranteed loans in the 7(a) Loan Program by consolidating the various forms used into one set of forms. The updated SOP will be effective on January 1, 2014.

Currently, several different forms are used by the applicant and lender to apply for an SBA-guaranteed loan depending on the processing method of the loan as well as the delegated authority of the lender. In addition to this information collection (OMB Control Number 3245-0348), SBA also uses the following forms to collect information from applicants and lenders applying for an SBA guaranteed loan: (1) SBA Forms 4, 4-I and 4 Schedule A (OMB Control Number 3245-0016); and (2) SBA Forms 2301 Parts A, B, C, D, and E and Form 7 (OMB Control Number 3245-0361).¹ In compliance with the SOP updates, SBA will eliminate all of these forms except for SBA Form 2301, Part E and will instead use Form 1919 and Form 1920 to collect the information currently collected by these eliminated forms.

It is the agency's view that moving all 7(a) Programs to the same set of forms instead of program-specific forms or forms based on the lender's delegated authority will reduce the paperwork burden for all involved parties and will encourage more borrowers and lenders to participate in SBA programs. Also, it will reduce confusion that borrowers and lenders may face when beginning the application process.

Summary of Collections of Information and Amendments to Conform to the SOP

1. Form 1919, SBA Express, Export Express, Small Loan Advantage, PLP-CAPLines and Pilot Loan Programs (Patriot Express and Dealer Floor Plan) Borrower Information Form

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. 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).

Changes:

¹ Other forms are used in the 7(A) loan program; however these are the only two information collections affected by this submission.

SBA has made the following changes: (1) revised the title and instructions to denote the form will be used for all 7(a) Programs; (2) added a chart to allow identification of all owners and the percentage of ownership for each; (3) the character determination questions and instructions for character determination procedures were updated to reflect recent changes to SBA Form 912 (OMB Control Number 3245-0178); (4) all references to Patriot Express have been removed as the Patriot Express Pilot Loan Initiative will expire 12-31,2013; and (5) a new question was added to incorporate the Addendum for Community Advantage Applicants only, which identifies any management or technical assistance the applicant received and was formerly collected as part of SBA Form 2301, Part A.

2. Form 1920SX (Part B), Supplemental Information for SBA Express, Export Express, Small Loan Advantage, Pilot Loan Programs and PLP Processing:

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, and other information such as the number of jobs created or retained.

3. Form 1920SX (Part C), Eligibility Information Required for SBA Express, Export Express, Small Loan Advantage, PLP-CAPLines and Pilot Loan Programs (Patriot Express and Dealer Floor Plan) Submissions:

This form is completed by the Participant. It consolidates eligibility criteria regarding the loan applicants, including use of proceeds and general rules applicable to the SBA Express, Community Express, and Patriot Express programs.

Changes:

Form 1920SX Parts B and C have been combined into one form, which will be designated as Form 1920. The “SX” has been removed from the form number as this form will now be used for all 7(a) programs not just for SBA Express and the title has been revised to reflect this expanded use. The lender will continue to use this form to request SBA’s guaranty.

The first portion of the new consolidated form (pages 1-3) reflects the information formerly contained in SBA Form 1920SX, Part B and includes borrower information (e.g., location, principals, type of business, and number of employees); loan terms (e.g., loan amount, interest rate, guaranty percentage, and use of proceeds). SBA has made the following changes to this information as a result of the SOP changes:

- (1) Clarified submission instructions to address both delegated and non-delegated enders;
- (2) Added fields to the interest rate box to identify the payment amount, the interest rate adjustment frequency, and a box for SBA Express, Export Express and EWCP lenders to identify a base rate other than the prime rate, LIBOR base rate or SBA Optional Peg Rate, as well as language indicating only those lenders are able to choose the “other” option for a base rate;
- (3) In the event the applicant is a franchise, added a field to identify the FRANData Unique Numbering System (FRUNS) number to assist SBA in properly identifying loans to franchises; and

(4) Removed Certified Public Accountants from the list of qualified individuals who perform a business valuation.

The new consolidated form continues (on page 4) with the eligibility information related to the application; i.e., information that was formerly collected by SBA Form 1920SX Part C. The following changes were made to the eligibility information:

- (1) Modified franchise related questions to reflect clarifications made in SOP 50 10 5(F) for applications involving franchises;
- (2) Revised the character determination questions to conform to recent changes in SBA Form 912, and revised the procedures to reflect changes in SOP 50 10 5(F) that permit all delegated lenders to clear applications for processing when certain stated conditions are met;
- (3) Added a question regarding whether the applicant has credit available elsewhere on reasonable terms from non-Federal sources;
- (4) removed questions regarding loan terms such as loan amount, maturity, guaranty percentage, and interest rates as they are duplicative of information collected elsewhere in the new consolidated form (this information was formerly collected by Form 1920SX, Part B);
- (5) Added two questions specifically addressing issues regarding religious organizations and applicants appearing to have a business aspect of a prurient sexual nature as a result of updates to the respective procedures for determining the eligibility of such applicants in SOP 50 10 5(F);
- (6) Revised the Use of Proceeds section to clarify: (a) the types of revolving loans that can be made; (b) when a lender may finance Other Real Estate Owned by the lender (OREO); (c) the circumstances under which refinancing of existing debt may occur, any differences between delegated and non-delegated processing, the refinancing of same institution debt, and the refinancing of existing SBA debt (this information was collected through SBA Forms 4, 4-I, 2301 (Parts A and B), and Forms 1919 and 1920).
- (7) Revised the questions regarding change of ownership to reflect changes to those procedures in SOP 50 10 5(F);
- (8) Added specific questions related to the International Trade Program (these questions were moved from SBA Form 7); Export Working Capital Program (also moved from SBA Form 7); Qualified Employee Trust; and the Community Adjustment and Investment Program (CAIP). These last two programs were not covered by this form previously;
- (9) Added a certification by SBA required under the Right to Financial Privacy Act (12 USC 3401); and
- (10) Revised the lender certification at the end of the form to ensure all necessary certifications and signatures formerly contained in SBA Form 4-I are included here.

4. *Form 2237, 7(a) Loan Post Approval Action Checklist:*

This form is completed by the Lender and submitted to SBA for post-approval changes such as a change in the approval amount or notification that the loan approval has been cancelled.

SBA Form 2237, 7(a) Loan Post-Approval Action Checklist:

No changes are being proposed to this form at this time.

5. Form 2238, Supplemental Information for SBA Express/Patriot Express Guaranty Request (Eligibility Authorized):

This form is completed by the Lender that has been designated as “eligibility authorized” and collects identifying information regarding the lender, loan terms, use of proceeds, and other information such as the number of jobs created or retained and also includes a certification by the lender that the applicant and the loan are eligible. Form 2238 takes the place of Form 1920SX (Part B) and Form 1920SX (Part C) for “eligibility authorized” lenders.

Changes:

This form is being discontinued as SBA eliminated eligibility authorization for certain delegated lenders.

In light of all these changes, this information collection as revised will consist of SBA Form 1919, *Borrower Information Form*; Form 1920, *Lender’s Application for Guaranty for all 7(a) Programs*; and Form 2237, *7(a) Loan Post Approval Action Checklist*.

We also note that on February 25, 2013, SBA published a proposed rule, 504 and 7(a) Loan Programs Update, in the Federal Register, which also contained proposed changes to this information collection. See, 78 FR 12633. SBA is currently finalizing that rule, including the additional changes to the information collection and will submit them to OMB for review and approval. Shortly after receiving that approval and following the effective date of the rule, SBA will post the forms with the changes based on the rule on the agency’s website.

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, including acquisition of land, material, supplies, equipment, and working capital.” (See attached copy of this provision).

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. (A copy of the relevant portions is attached).

This information collection facilitates SBA’s ability to carry out these authorities or responsibilities.

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 is 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 use the data to determine how effectively SBA's loan programs are meeting the needs of various geographic, demographic, and industry markets and segments; the safety and soundness of SBA's loan policies and procedures; and as a factor in developing the subsidy model and determining program fees. SBA also uses 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 currently submit the data collected via fax, mail or E-Tran (an electronic submission methodology) to a centralized and automated SBA processing center. Currently approximately 80 percent of SBA Express loan transactions are submitted electronically using E-tran. In addition, it is estimated that approximately 80 percent of Pilot Loan Programs and PLP submissions are also submitted electronically using E-tran since all of these processes are used by lenders with delegated authority. Beginning with the effective date of SOP 50 10 5(F) (1-1-2014), all lenders will be required to submit the data to SBA electronically through E-Tran, by email or through the website.

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 forms, SBA sought to minimize burdens by primarily considering for collection, data that lenders already collect. Additionally, as noted above, the application process has been streamlined for both borrowers and lenders in an effort to move forward to a totally electronic and uniform application for all parties. This reduces lender processing costs, particularly for very small loans. The Agency, therefore, went to great lengths to minimize data collection and to avoid duplicate data collection. We note that the private sector's development of electronic data transfer software also reduces duplication of effort.

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.

This information collection impacts 7(a) lenders as well as 7(a) borrowers. The Agency is aware that data collection affects the cost of processing loans, particularly for very small loans, and on a per dollar basis can be as prohibitive for large lenders as it is for small lenders. SBA worked very carefully with large and small lenders to minimize and streamline data collection without sacrificing function. These same efforts have also reduced the collection of data from 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 programs, 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 information needed by SBA to monitor and analyze loan and lender data trends and risks. This minimal reporting is a critical means of controlling the additional risk that SBA assumes in delegating authorities and expediting processing. 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.

On September 3, 2013, SBA published the required 60-day notice and request for comments in the Federal Register announcing proposed changes to these forms in connection with the update

to the SOP. (78 FR 54362) SBA did not receive any comments on the changes. A copy of this notice is attached.

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 1919 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. SBA maintains a Privacy Act System of Records governing the disclosure of an individual’s loan related personal information. See attached Federal Register Notice for SBA-21, Loan System, at 74 FR 14890 (April 1, 2009) as amended by notices published at 77 FR 15835 (3/16, 2012) and 77 FR 61467 (10/9/2012).

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.

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

Form 1919: Borrower Information Form – 9 minutes. The estimated burden hours are 45,000 applications x 9 minutes divided by 60 minutes or 6,750 hours. Based on a GS-11 loan officer’s annual salary, the hourly rate is \$26. The annual cost to respondents would be 6,750 hours x \$26 per hour = \$175,500.

Form 1920: Lender's Application for Guaranty for All 7(a) Programs – 26 minutes. The estimated burden hours are 45,000 applications x 26 minutes divided by 60 minutes or 19,500 hours. Based on a GS-11 loan officer's annual salary, the hourly rate is \$26. The annual cost to respondents would be 19,500 hours x \$26 per hour = \$507,000.

Form 2237: 7(a) Loan Post Approval Action Checklist – 5 minutes. The estimated burden hours are 20,000 applications x 5 minutes divided by 60 minutes or 1,667 hours. Based on a GS-11 loan officer's annual salary, the hourly rate is \$26. The annual cost to respondents would be 1,667 x \$26 per hour = \$43,000.

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 is no appreciable cost burden other than as reported in number 12 above.

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 100% of the applications, the information contained in Form 1919 and 1920 is submitted electronically to SBA and therefore incur no cost for this collection of information.

For servicing actions using Form 2237, the cost to the Federal Government is approximately \$580,000. This is based on a GS-11 reviewing the request and making a recommendation (including updating the accounting system) which takes approximately 30 minutes and a GS-12 reviewing the recommendation and acting on it which takes approximately 30 minutes. The hourly rate for a GS-11 is \$26. The hourly rate for a GS-12 is \$32. (20,000 submissions x 30 minutes x \$26/hour divided by 60 minutes equals \$260,000. 20,000 submissions x 30 minutes x \$32/hour divided by 60 minutes equals \$320,000.)

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 Form 83-I for this set of forms reflected the processing times and costs for Form 1919, Form 1920SX Part A, Form 1920SX Part B, Form 1920SX Part C, and Form 2237. With this update, SBA is streamlining each of the application process into two forms, Form 1919 and Form 1920, and the post approval modification process remains in the one Form 2237. Therefore, the reduction in processing times and costs is a result of a significant reduction in the number of forms required and the amount of information collected.

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.

There are no exceptions.

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.