**Paperwork Reduction Act Submission**

**Supporting Statement for**

**U.S. Small Business Administration**

**Application for Section 504 Loans**

**(OMB Control Number 3245-0071)**

**Justification**

The SBA recognizes that its forms need to be modernized to meet the needs of its applicants and its Certified Development Companies (CDCs). Since 2014, the last time the Form 1244 underwent a significant content overhaul, the SBA has experienced significant changes to its loan programs, standard operating procedures (SOP), and loan submission processes. As such, multiple current forms used in the 504 program are out-of-date, redundant, and can be cancelled without the agency losing any ability to collect pertinent data. Specifically, SBA has identified duplication between the two forms (Form 1244 and Form 2450) that are currently approved under this information collection. SBA has also identified duplication between Form 1244 and Form 2234: (Part A), Premier Certified Lenders Program (PCLP) Guarantee Request; (Part B), Supplemental Information for Premier Certified Lender Program (PCLP) Processing; and (Part C), Eligibility Information Required for 504 Submission (PCLP). Form 2234 is currently approved under OMB Control Number 3245-0346, which is also being revised to reflect changes. In order to remove the various duplicative request for information, SBA has made the changes described below.

* Form 2234 (Parts A,B, and C). As stated in the PRA submission for OMB Control Number 3245-0346, this form is being cancelled and the non-duplicative contents, including the following has been added to Form 1244.
* PCLP-specific information fields
* Potential export information
* Special-purpose asset information
* Business category eligibility information
* Ethical requirements of Lenders

* Form 2450: This form is used by non-PCLP CDCs as a checklist to help determine applicant eligibility for a 504 loan. It is filled out in conjunction with the Form 1244 and is submitted to the Sacramento Loan Processing Center as part of a 504 loan application. Many of the questions on Form 2450 are duplicative of those on Form 1244. As a result, the Form 2450 is rarely used in the actual determination-making process. As such, the SBA is recommending that the Form 2450 be discontinued, and its questions be migrated to the new Form 1244.
* Form 1244: This form is central to the 504 loan process. All 208 CDCs use it to gather information from their loan applicants and enter their responses into E-TRAN before it is submitted to the SLPC for processing. There are multiple submissions methods for 504 loans: The Premier Certified Lenders Program (PCLP) process, the Abridged Submission Method (ASM), and the non-PCLP method, all of which have different submission requirements and have, up to this point, used separate forms for their specific submission methods. . As part of the revision of this form , the SBA is seeking to standardize the 504 process by having all submission methods (PCLP, ASM, and non-PCLP) use the Form 1244 with specific instructions for each, thus eliminating the need for separate checklists like the Form 2450. Additionally, while not an exhaustive list, the following changes have been made to the Form 1244:
	+ Formatting: Breaking from the current two-section format, the revised version form has been reorganized into 5 sections: 1) Applicant Business Information, (2) Principal Information, (3) Statements Required by Laws and Executive Orders and Certification, (4) CDC information and required exhibits, and (5) CDC Agreements and Certifications;
	+ Instructions: Page 1 of the revised form includes form structure and instructions for how the form is to be filled out depending on the submission method;
	+ Ownership Tables: The revised form includes ownership tables in which the applicant will list all owners and associates of the operating company and eligible passive company (if applicable)’
	+ Large Financial Statement Tables Removed: Due to duplication with the credit memorandum, the balance sheet, income statement, cash flow table, and project collateral breakdown have been removed from the revised form;
	+ New Required Exhibits: Specific instructions were added concerning licensure requirements, historic property certifications, pending lawsuits, and plans for business exports;
	+ ESOP, 401(k), and Worker Co-op: Instructions regarding how these entities should be reported and the required documents have been added;
	+ Third-Party Lender Certification. The instructions for “Third Party Lender Certification for Loans Made for Debt Refinancing” has been removed and will be included in SOP 50 10.
	+ 508 Compliance: Tables and information collection fields have been simplified for the document to be made 508 compliant more easily
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 appropriate section of each statute and regulation mandating or authorizing the collection of information.*

Section 503 of the Small Business Investment Act of 1958, as amended (15 U.S.C. 697), authorizes SBA to guarantee a debenture issued by a Certified Development Company (CDC) participating in the SBA’s 504 Loan Program. The proceeds from each debenture are used to fund loans to eligible small business concerns (SBCs). The Small Business Act, the Small Business Investment Act and loan program regulations impose certain requirements that SBA and program participants must meet before the Agency can guarantee the debenture. *See* 15 U.S.C. §§636(a) (6) and 687(f) and 13 C.F.R. §120.150.

1. **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.*

In general, the information requested helps SBA to assess compliance with the requirements set forth in these statutory and regulatory sections, and facilitates the 504 loan financing process, including approving of the CDC’s request for guarantee of the debentures

The SBA uses the information to review the creditworthiness and repayment ability of the Applicant, the eligibility of the Applicant for SBA financial assistance and the terms and conditions of the 504 loan for which the Applicant is applying. The form is also used by CDCs to request debenture guarantee.

1. **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.*

SBA Form 1244 is available electronically to the general public from SBA’s website, www.sba.gov in a fillable PDF format. The SBA collects 100 percent of this application form through E-Tran.

1. **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.*

As described above, SBA has made a concerted effort to identify and remove duplicative request for information. In light of the changes SBA had made, except for minimal identifying data, the information now being requested represents the minimum necessary to make prudent decisions on loan applications. That information is unique to each loan and is not obtainable through other means or from other sources.

1. **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 collection of information impacts an estimated 5800 small businesses that apply for 504 loan financing and the 208 CDCs that process and submit their applications. Only the minimum information necessary for the SBA to make an eligibility determination as well as to ensure that the loan meets the SBA’s credit standards is required. The financial data required should be readily available from the Applicant’s bookkeeping or accounting systems.

1. **Consequences if the collection of information is not conducted.**

*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.*

The SBA has a statutory obligation to ensure that SBA’s eligibility and credit criteria are met. The data requested is necessary to determine the viability and eligibility of the Applicant. If the information were not collected, SBA could not fulfill its statutory duties and would likely provide assistance to applicants that are ineligible or pose a greater financial risk to the Agency.

1. **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.

1. **Solicitation of public comments.**

*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 on the availability of data, frequency of collection, clarity of instructions.*

The required 60-day comment notice was published in the Federal Register on February 13, 2020, at 85 FR 8331. The public comment period concluded on April 13, 2020. The SBA received two public comments: one from the National Association of Development Companies and one from CSRA Business, both of which were supportive of the changes being proposed.

1. **Payment or gifts.**

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

There are no payments or gifts to respondents.

1. **Assurance of confidentiality.**

*Describe any assurance of confidentiality provided to respondents and the basis for the*

*assurance in statute, regulation, or agency policy.*

Form 1244 includes a section entitled, “Statements Required by Laws and Executive Orders.” This section advises each respondent of, among other things, the protections against disclosure of sensitive and confidential information under the Freedom of Information Act, (5 U.S.C. 552), Privacy Act (5 U.S.C. 555a), the Right to Financial Privacy Act of 1978 (12 U.S.C. 3401), and other statutes or executive orders related to financial assistance from the Federal government.

1. **Questions of a sensitive nature**

*Provide additional justification for 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 information necessary, specific uses for the information, the explanation to be given to persons from whom the information is requested, and any steps to be taken to obtain their consent.*

The 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. The Debt Collection Improvement Act requires any agency administering a Federal loan program to require persons applying for a loan to provide their taxpayer identifying number. 31 U.S.C. 7701(b). The SBA also uses social security numbers to facilitate critical searches in the federal databases listing defaulted loans, in consumer credit databases and in fraud detection systems, and to aid in the collection and reporting of any defaulted loans. The SBA uses the demographic information to assess the extent to which SBA’s loan programs assist all demographics. The 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 (4/1/2009) as amended by notices published at 77 FR 15835 (3/16/2012) and 77 FR 61467 (10/9/2012).

1. **Estimates of hourly burden of the collection of information.**

*Provide estimates of the hour burden of the collection of information. Indicate the number of respondents, frequency of response, annual hour burden, and an explanation of how the burden was estimated. Also provide estimates of annual costs to respondents for the hour burden for the information collection; identifying and using appropriate wage rate categories.*

SBA estimates that the Form 1244 will be submitted by approximately 5,800 small businesses (via 208 CDCs) based on the number of applications received by SBA in FY19. Of the 5,800 applications, an estimated 23 or 0.39% will be PCLP processed, 4,621 or 80% using the ASM, and 1,156 or 20% using the non-PCLP/ASM.

Due to the different submission method requirements, each has a different time estimate to complete:

* Submission through the PCLP---23 x 3.25 hours = 74.75 burden hours.
* Submission through the ASM—4,621 × 2.25 hours = 10,397 burden hours.
* Submission through non-PCLP/ASM —1,156 × 2.45 hours = 2,832 burden hours.

The total estimated annual hour burden is 13,334 hours

Due to the wide range of Applicants, it is difficult to accurately assess the value of the time required to fill out Form 1244. In order to be conservative, the $43.75 hourly rate of a Washington D.C.-based GS 12/13 is used.

• Submission through the PCLP - 74.75 burden hours x $43.75 = $3,270

• Submission through the ASM - 10,397 burden hours x $43.75 = $454,868

• Submission through non-PCLP/ASM - 2,832 burden hours x $43.75 = $123,900

The total estimated cost burden is $582,038

1. **Estimate of total annual cost burden for submission.**

*Provide an estimate for the total annual cost burden to respondents or recordkeepers resulting from the collection of information. ( Do not include the cost of any hour burden shown in items 12 and 14).*

The SBA’s E-Tran submission process eliminates duplication and shipping costs for CDCs. Currently, 100% of applications are submitted by CDCs electronically.

1. **Estimated annualized costs to the Federal government.**

*Provide estimates of annualized costs to the Federal Government. Also provide a description of the method used to estimate cost, which should include 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 following is the estimated annual cost to the Federal Government/SBA:

The Form 1244 requires an estimated average of 2 hours to review. SBA estimates it will receive about 5800 annually, and approximately 2 hours to review an application. Estimated annual cost (5800 applications x 2 hours x $43.75/hour) = $527,500 (The form is reviewed by employees with average grades of a GS-12/GS-13 whose salaries are averaged at approximately $43.75 per hour.)

1. **Explanation of program changes in Items 13 or 14 on Form 83-I.**

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

The decrease comes from the SBA receiving fewer Form 1244 submissions year-over-year and the SBA deciding to retire the Form 2450.

1. **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.*

From time to time or as part of annual program performance reporting, the SBA publishes aggregated data (e.g., number of loans approved; total dollar value of loans approved) based on this information collection.

1. **Expiration date for collection of information.**

*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***.**

No such approval sought.

1. **Exceptions to certifications 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.

1. **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.*

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This collection of information does not employ statistical methods.