

PAPERWORK REDUCTION ACT SUBMISSION
Supporting Statement for
U.S. Small Business Administration
Application for Section 504 Loans
(OMB Control Number 3245-0071)

SBA has determined that it is necessary to revise this information collection to implement amendments made by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) to the debt refinancing options available under SBA's 504 Loan Program. SBA is requesting emergency approval of the revisions, which are described below, to expedite the delivery of the enhanced benefits to small businesses seeking to refinance debt and access financial relief during the current pandemic.

Justification

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. Participating CDCs include Premier Certified Lenders Program CDCs (PCLP CDCs), which have delegated authority to process, service, and liquidate 504 loans; Accredited Lenders Program CDCs (ALP CDCs), which have limited delegated authority; and CDCs that are neither PCLP nor ALP CDCs, which must obtain SBA approval for most loan actions. 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. In general, a project in the 504 Loan Program includes: a loan obtained from a private sector lender (the "Third Party Lender") with a senior lien covering at least 50 percent of the project cost; a loan obtained from a CDC (a "504 Loan") with a junior lien covering up to 40 percent of the total cost (backed by a 100 percent SBA-guaranteed debenture); and a contribution from the Borrower of at least 10 percent equity.

The 504 Loan Program provides two options for small businesses to refinance debt. Under the first option, for a 504 Project that involves the expansion of the small business, the borrower may currently refinance, and add to the project's total cost, any amount of existing indebtedness that does not exceed 50 percent of the project cost of the expansion (Debt Refinancing with Expansion). 15 U.S.C. § 696(7)(B) and 13 C.F.R. 120.882(e) and (f). Under the second option, debt refinancing is available for a 504 Project that does not involve the expansion of the small business (Debt Refinancing without Expansion). 15 U.S.C. 696(7)(C) and 13 CFR 120.882(g).

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Div. N, Title. III of Pub. L. 116-260, Consolidated Appropriations Act, 2021) ("Economic Aid Act"), which was enacted on December 27, 2020, made several amendments to these two debt refinancing options. With respect to Debt Refinancing with Expansion, the Economic Aid Act increased the percentage of the debt that may be refinanced to 100% of the cost of the expansion. With respect to Debt Refinancing without Expansion, the Economic Aid Act made the following changes that require revisions to the information collection, including: (1) eliminating the prohibition against PCLP CDCs using delegated authority to approve loan applications; (2) reinstating an alternate job retention standard that was previously removed from the Debt

Refinancing without Expansion Program by section 521 of division E of the Consolidated Appropriations Act, 2016, Public Law 114-113, enacted on December 18, 2015; (3) revising the definition of “qualified debt” to mean debt that was incurred not less than 6 months before the date of application instead of 2 years before the date of application; and (4) removing from the definition of “qualified debt” the condition that the debt not be subject to a guarantee by a Federal agency. In addition, SBA is making other technical changes to conform the information collection to regulatory requirements.

The relevant portions of each statute and regulation mandating or authorizing this information collection are included with this submission.

Summary of Revisions

Page 12 – Form 1244 currently prohibits PCLP CDCs from using their delegated authority to process any application for debt refinancing without expansion; instead, the PCLP CDC must process the application through the Sacramento Loan Processing Center (SLPC). This prohibition was removed by the Economic Aid Act and, accordingly, SBA is removing it from the form. In its place, SBA is adding two questions that will specify when the PCLP CDC must process the application through SLPC, including whether the debt being refinanced is same institution debt (which includes the debt of the CDC or the Third Party Lender providing funds for the refinancing, or of affiliates of either), and whether, in cases involving the refinancing of Federally-guaranteed debt, the CDC is requesting an exception to the requirement that the new installment payment be at least 10% less than the existing installment amount. If the answer to either one of these questions is “yes”, the application must be processed through the SLPC. These revisions do not change the information the PCLP CDC is required to collect, only how the application is processed.

Page 12 - With respect to debt refinancing with expansion, SBA is adding two questions to conform the form to current regulations and to clarify when PCLP CDCs are required to process the application through the SLPC and not through the PCLP CDC’s delegated authority. These questions include whether the CDC is requesting an exception to the requirement that the new installment payment be at least 10% less than the existing installment amount and whether the CDC is requesting a waiver of the requirement that the 504 eligible fixed assets collateralizing any debt to be refinanced (or relating the portion of debt being refinanced in the case of partial refinance) also collateralize the 504 Loan. SBA is also revising the current question on the form to clarify that a PCLP CDC must process the application through the SLPC if the debt being refinanced is the debt of the CDC (in addition to the TPL), or of affiliates of either. These revisions do not change the information the PCLP CDC is required to collect, only how the application is processed.

Page 14 –SBA is adding an option to allow the loan Applicant to indicate whether the project is eligible under the debt refinance alternate job goal established by the Economic Aid Act.

Page 14 – SBA is adding a separate entry to facilitate disclosure of use of refinancing proceeds involving land purchases only. The current format of “Land/Building” does not clearly indicate how information is to be reported.

Page 15– “Base closures” and “minority-owned business” are being added to the list of economic development objectives met by the project. These are not new categories; they were inadvertently omitted during the last update.

Page 18 – Exhibit 20 currently requires that, if the debt was previously refinanced within two years of the date of application, non-PCLP CDCs must submit with the application for Debt Refinancing without Expansion (and PCLP CDCs must retain in its loan file) copies of the debt and lien instruments for both the current debt and the debt that was previously refinanced. With the minimum age of the qualified debt shortened from 2 years to 6 months by the Economic Aid Act for Debt Refinancing without Expansion,

SBA is revising the form to remove the requirement that these debt and lien instruments be included as part of Exhibit 20.

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.

In general, the information requested helps SBA to assess compliance with the statutory and regulatory requirements governing the 504 debt refinancing programs and facilitates the 504 loan financing process. The SBA uses the information collected 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.

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.

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 Form 1244 submissions through E-Tran, SBA's electronic loan submission system.

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.

SBA has made a concerted effort to identify and remove duplicative request for information. The requested information is unique to each loan and is not obtainable through other means or from other sources.

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 collection of information impacts an estimated 7,119 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.

6. 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.

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 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.

As part of its requests for emergency processing of the revised information collection SBA is also requesting waiver of the required public comment notice. If the request is granted, SBA will publish the notice in the Federal Register before the emergency approval period ends.

9. 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.

10. 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 and policies governing the 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), the Federal Funding Accountability and Transparency Act of 2006, as amended (31 U.S.C. 6101 Note), and other statutes or executive orders related to financial assistance from the Federal government.

11. 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 (or other taxpayer identification number) 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).

12. 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 Form 1244 is completed by both the CDC and the small business applicant. SBA estimates that, based on the number of applications received by SBA in FY20, approximately 7,119 applications (responses) will be completed by small businesses with each applicant submitting once annually on average. These applications will be submitted by 208 CDCs. Of the 7,119 applications, an estimated 15, or about 0.2%, will be submitted by PCLP CDCs using their delegated authority to process the loan; 5,695, or just under 80%, will be submitted under the Abridged Submission Method (ASM) (which is a streamlined application process under which CDCs may submit fewer documents to SBA for review) by PCLP CDCs (for applications not processed through their delegated authority) and ALP CDCs; and 1,409, or about 19.8%, will be submitted by non-PCLP/non-ALP CDCs that cannot use ASM. The burden hour estimate for CDCs was estimated from feedback from CDCs.

Due to the different submission method requirements, each method has a different time estimate to complete. The estimate of the number of hours for each of the methods below includes the burden hours for the CDC and small business applicants to complete the form.

- Submission by PCLP CDCs through their delegated authority --- $15 \times 2.25 \text{ hours} = 33.75$ burden hours.
- Submission by PCLP CDCs or ALP CDCs through the ASM— $5,695 \times 2.5 \text{ hours} = 14,238$ burden hours.
- Submission by non-PCLP/non-ALP CDCs — $1,409 \times 3.5 \text{ hours} = 4,932$ burden hours.

The total estimated annual hour burden is 19,204 hours.

Due to the wide range of Applicants, it is difficult to estimate 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 - $33.75 \text{ burden hours} \times \$43.75 = \$1,477$.
- Submission through the ASM - $14,238 \text{ burden hours} \times \$43.75 = \$622,913$.
- Submission through non-PCLP/ASM - $4,932 \text{ burden hours} \times \$43.75 = \$215,775$.

The total estimated cost burden is \$840,165.

13. 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).

SBA estimates the total annual cost burden to respondents or record keepers resulting from the collection of information to be minimal. The financial data required should be readily available from the Applicant's bookkeeping or accounting systems. Additionally, SBA's E-Tran submission process eliminates duplication and shipping costs for CDCs. Currently, 100% of applications are submitted by CDCs electronically.

14. 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 7,119 annually, and approximately 2 hours to review an application. 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. Therefore, the estimated annual cost to the government is \$622,913 (7,119 applications x 2 hours x \$43.75/hour).

15. 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 total estimated annual hour burden has increased since the last submission due to an increase in the total number of small businesses submitting applications during 2020 versus 2019.

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.

SBA routinely publishes information resulting from this loan application (e.g., name and address of borrower, amount of loan) on USAspending.gov as required by the Federal Funding Accountability and Transparency Act of 2006, as amended. The SBA also publishes aggregated data (e.g., number of loans approved, total dollar value of loans approved) based on this information collection as part of annual program performance or other reports.

17. 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.

18. 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.

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.

This collection of information does not employ statistical methods; remaining questions are inapplicable.