



U.S. Small Business  
Administration

# SBA 7(a) Community Advantage Pilot

A loan guarantee program for mission-focused lenders

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Download CA Participant Guide, [Version 7](#), effective May 31, 2022

# The SBA's Community Advantage Program supports smaller-dollar lending to historically underserved communities

Traditional lending has steadily decreased in smaller dollar lending:

- Fewer loans under \$100,000 received funding from regulated banks in FY21 according to FDIC statistics
- Historically underserved and low-wealth segments consistently experience barriers to accessing capital, such as in the form of traditional credit history and collateral requirements
- This disproportionately impacts minority business owners, as Black-owned and Hispanic-owned firms were 22% and 15% less likely to receive credit than white-owned firms

The SBA's Community Advantage program and 2022 policy changes aim to support mission-lenders in closing this small business capital gap

\*Census Bureau Annual Small Business Survey

# The SBA's Community Advantage (CA) Loan-Guarantee Program Provides Solutions for Mission Lenders

<b>Maximum Loan Amount</b>	\$350,000
<b>Loan Guarantee</b>	85% up to \$150,000 75% greater than \$150,000
<b>Qualified Lenders</b>	Community-based, mission-focused (CDFIs, CDCs, SBA-Authorized Microloan Program Intermediaries and SBA-Authorized Intermediary Lending Pilot (ILP) Program Intermediaries)
<b>Processing</b>	Flexible structure Delegated authority available for new lenders
<b>Collateral Requirements</b>	None required for loans up to \$50,000
<b>Interest Rates</b>	\$50,000 or less: Wall Street Journal (WSJ) Prime + 6.5% >\$50,000 - \$250,000: WSJ Prime + 6% >\$250,000 - \$350,000: WSJ Prime + 4.5%

## **Additional Lender Capabilities**

- Apply to offer a revolver / line of credit
- Charge processing fees within guidelines

## SBA Guarantee Secondary Market

- All term note SBA guaranteed portions of loans are eligible to be sold via SBA's Secondary Market Program and Securitization
- Revolving lines of credit cannot be sold
- Details can be found by reviewing [the Secondary Market Program Securitization Guide](#)
- SBA maintains and active list of approved [7\(a\) loan pool assemblers](#)
- [SBA Form 1086](#) is required for the process
- Process is managed by SBA's Fiscal Transfer Agent, Guidehouse
- Often these loan sales yield over par premiums for the lender
- Lenders maintain the entire servicing relationship and fee to do so

# Special Lending Requirements for CA Lenders

**60% Requirement:** CA Lenders must make at least 60% of the total number of their CA loans to underserved markets. Applications for CA loans must indicate which category(ies) of underserved market the loan meets, if applicable.

## Underserved markets are defined as:

- Businesses located in [Low-to-Moderate Income](#) (LMI) communities; Empowerment Zones and Enterprise Communities (EZ/EC); Historically Underutilized Business Zones (HUBZones); Promise Zones; Opportunity Zones; or Rural Areas;
- New businesses (those in operation for less than two years);
- Businesses that are 51 percent or more owned and controlled by one or more [Veterans](#); and
- Businesses where more than 50% of the full-time workforce is low-income or resides in LMI census tracts.

# Lender Participation: Delegated Authority (1 of 2)

Delegated authority means lenders may, without prior SBA review, process, close, service, and liquidate certain SBA-guaranteed loans

- **New Lenders**

- Delegated authority granted to all new CA Lenders (therefore modified criteria for new lender participation)
- A new lender applying to participate must, at the time of application, demonstrate that it currently has *at least* 20 similarly-sized commercial loans (may be SBA-guaranteed or non-SBA guaranteed) in its portfolio;

- **Existing CA Lenders that have been granted delegated authority**

- No action needed – may begin operating under the Federal Register Notice [87 FR 19165](#) changes upon effective date of the Federal Register Notice and may begin using the procedures in the updated CA Participant Guide when published
- All CA Lenders with delegated authority may choose on a loan-by-loan basis to submit a loan to LGPC for non-delegated processing

# Lender Participation: Delegated Authority (2 of 2)

Existing CA Lenders that do not have delegated authority as of April 1, 2022:

- May apply for delegated authority:
  - Under the rules that were in effect at the time the CA Lender was approved to participate in the CA Program (disbursed at least 10 CA loans); or
  - Currently have *at least* 20 similarly-sized commercial loans in portfolio, which may include guaranteed loans, including CA Loans
- Must continue to submit all CA loans through LGPC using non-delegated authority until granted delegated authority

# 2022 Community Advantage Changes – Policy

For the Community Advantage Program Only:

Policy Change	Description
<b>Maximum loan amount increased to \$350,000</b>	Maximum loan size increased from \$250,000 to \$350,000
<b>Participation in and use of delegated authority</b>	Now granted to all new CA lenders simplifying processes for lenders
<b>Lending and underwriting criteria</b>	Now allow lenders to underwrite in accordance with the same policies they apply to their similarly-sized commercial loans, including using credit alternatives in place of a minimum credit score
<b>Criminal background requirements removed</b>	Lenders are no longer required to ask criminal history questions of borrowers meaning they can use the same background policies they use with similarly-sized commercial loans
<b>Unsecured maximum increased to \$50,000</b>	Collateral requirements modified to increase the unsecured maximum from \$25,000 to \$50,000
<b>Hazard insurance requirements streamlined</b>	Lenders now able to use their own hazard insurance policies used for similarly-sized commercial loans
<b>Adjusted maximum allowable interest rates and fees a CA lender can charge</b>	See <a href="#">Participant Guide</a> for more details (page 22 and 39)
<b>Allow lender to make revolving line of credit</b>	Community Advantage lenders can now apply to offer a line of credit
<b>Affiliation requirements modified</b>	Affiliation simplified to further clarity

# 2022 Community Advantage Changes – Oversight

For the Community Advantage Program Only:

Oversight Change	Description
<b>Modified PARRis Scoring Model</b>	Adjusted the PARRis scoring model for Community Advantage lenders to better reflect the nature of mission lenders’ work. Score adjustment takes into account factors such as the CA Lender’s higher average SBPS score
<b>Identified Community Advantage Peer Group Concept</b>	Examines will now compare Community Advantage lenders’ performance relative to other Community Advantage lenders rather than traditional 7(a) lenders
<b>Developed Plan for the Field to Support Community Advantage Lenders</b>	Local SBA Field Staff will be trained and deployed to provide additional support to Community Advantage lenders in oversight processes
<b>Online, on-demand Training</b>	The Office of Capital Access has developed training video modules that will be available at <a href="https://www.sba.gov/pilot-loan-programs">Pilot loan programs (sba.gov)</a> to be accessed on-demand by lenders

# Apply to be a Community Advantage Lender

The SBA's Office of Capital Access is currently accepting applications for new lenders to join the program

- To apply (see Appendix B of Participant Guide for detailed instructions):
  - Complete [SBA Form 2301](#), “Community Advantage Lender Participation Application”
  - Gather supporting documentation listed on the Form
  - List of commercial loans in lender's portfolio (loan amount, date made, status)
  - Email the application and/or any questions to [CAloans@sba.gov](mailto:CAloans@sba.gov)

# Resources: CA Guide, Version 7, Effective May 31, 2022

Updated CA Participant Guide (Version 7) contains detailed information on making a CA loan and the following sub-topics: ([Download here](#))

- Debt refinancing
- Change of ownership
- Restrictions on making CA loans
- Contents of an application
- How to submit applications
- Completion of loan Authorization
- Loan closing and disbursement
- Loan servicing, liquidation, and guaranty purchase
- Ongoing Lender responsibilities
- Lender reporting responsibilities
- Oversight (Chapter 9)
- Secondary market (Appendix C)
- Secured credit facilities
- Affiliation & franchise (Appendix G)

# Resources

- **Guidance:** Community Advantage Participant [Guide](#) (Version 7, effective May 31, 2022)
- **FRN #1:** [87 FR 19165](#) Published April 1, 2022; New CA Lender applications accepted beginning May 2, 2022
- **FRN #2:** [87 FR 25398](#) Published April 29, 2022; Effective May 31, 2022
- **Current & future Notices published by SBA:** Posted [here](#)
- **Questions and New Applications:** [CAloans@sba.gov](mailto:CAloans@sba.gov)
- **Online Training:** [Pilot loan programs \(sba.gov\)](#)

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