

**§ 120.395 What is SBA's collateral position?**

SBA will require a lien on the building which must be in no less than a second position.

**§ 120.396 What is the term of the loan?**

The loan must not exceed sixty (60) months plus the estimated time to complete construction or rehabilitation.

**§ 120.397 Are there any special restrictions?**

The borrower must not use loan proceeds to purchase vacant land for possible future construction or to operate or hold rental property for future rehabilitation. SBA may allow rental of the property only if the rental will improve the ability to sell the property. The sale must be a legitimate change of ownership.

**Subpart D—Lenders****§ 120.400 Loan Guarantee Agreements.**

SBA may enter into a Loan Guarantee Agreement with a Lender to make deferred participation (guaranteed) loans. Such an agreement does not obligate SBA to participate in any specific proposed loan that a Lender may submit. The existence of a Loan Guarantee Agreement does not limit SBA's rights to deny a specific loan or establish general policies. *See also* §§ 120.441(b) and 120.451(d) concerning Supplemental Guarantee Agreements.

## PARTICIPATION CRITERIA

**§ 120.410 Requirements for all participating Lenders.**

A Lender must:

- (a) Have a continuing ability to evaluate, process, close, disburse, service and liquidate small business loans;
- (b) Be open to the public for the making of such loans (not be a financing subsidiary, engaged primarily in financing the operations of an affiliate);
- (c) Have continuing good character and reputation, and otherwise meet and maintain the ethical requirements of § 120.140
- (d) Be supervised and examined by a State or Federal regulatory authority, satisfactory to SBA; and

(e) In order to make Low Documentation loans, be:

(1) A bank or thrift institution which has executed an SBA Form 750, Loan Guaranty Agreement, and which has at least 20 qualified loans outstanding as of the call report date closest to the date of its fiscal year end, or

(2) An institution other than a bank or thrift institution which has executed an SBA Form 750, Loan Guaranty Agreement, and which has at least 20 qualified loans outstanding as of its latest fiscal year end. For purposes of this paragraph (e), a qualified loan is one which was initially approved in the amount of \$100,000 or less and is classified as a commercial, industrial or commercial real estate loan for purposes of call reporting. A lender may request an exception to the requirements of this paragraph (e) from the SBA Associate Administrator for Financial Assistance.

[61 FR 3235, Jan. 31, 1996, as amended at 62 FR 302, Jan. 3, 1997]

**§ 120.411 Preferences.**

An agreement to participate under the Act may not establish any Preferences in favor of the Lender.

**§ 120.412 Other services Lenders may provide Borrowers.**

Subject to § 120.140 Lenders, their Associates or the designees of either may provide services to and contract for goods with a Borrower only after full disbursement of the loan to the small business or to an account not controlled by the Lender, its Associate, or the designee. A Lender, an Associate, or a designee providing such services must do so under a written contract with the small business, based on time and hourly charges, and must maintain time and billing records for examination by SBA. Fees cannot exceed those charged by established professional consultants providing similar services. *See also* § 120.195.

**§ 120.413 Advertisement of relationship with SBA.**

A Lender may refer in its advertising to its participation with SBA. The advertising may not:

§ 120.420

- (a) State or imply that the Lender, or any of its Borrowers, has or will receive preferential treatment from SBA;
- (b) Be false or misleading; or
- (c) Make use of SBA's seal.

PLEDGING NOTES OR TRANSFERRING  
UNGUARANTEED PORTION

**§ 120.420 Financings by participating lenders.**

(a) A lender may pledge the notes evidencing SBA guaranteed loans or sell the unguaranteed portions of such loans if SBA, notwithstanding the provisions of Sec. 120.453(c), in its sole discretion, gives its prior written consent. The Lender must be secure financially and have a history of compliance with SBA's regulations and any other applicable state or Federal statutory and regulatory requirements.

(b) The Lender, SBA, and any third party involvement in the transaction, as determined by SBA in its sole discretion, must enter into a written agreement satisfactory to SBA acknowledging SBA's interest as guarantor of the subject loans and accepting that all relevant third parties agree to recognize and uphold these interests under the Act, this part, and the contractual provisions of SBA's Loan Guarantee Agreement. In any such agreement, the parties must agree to the following conditions:

(1) The Lender, SBA, or third party custodian agreeable to SBA, will hold all pertinent Loan Instruments, and the Lender will continue to service the loans after the pledge or transfer is made; and

(2) The Lender must retain an economic risk in and bear the ultimate risk of loss on the unguaranteed portions. This must be demonstrated to SBA's satisfaction by establishing a sufficient reserve fund at the time of sale of the unguaranteed portions and, in the case of pledging notes, by retaining all of the economic interest in the unguaranteed portion of any loan which a note evidences.

(c) The Lender may not use SBA guaranteed loans or the collateral supporting such loans as collateral for any borrowing not related to financing of

13 CFR Ch. I (1-1-99 Edition)

the guaranteed or unguaranteed portion of SBA loans.

[62 FR 15602, Apr. 2, 1997]

MISCELLANEOUS PROVISIONS

**§ 120.430 SBA access to Lender files.**

A Lender must allow SBA's authorized representatives, during normal business hours, access to its files to review, inspect and copy all records and documents relating to SBA guaranteed loans.

**§ 120.431 Suspension or revocation of eligibility to participate.**

SBA may suspend or revoke the eligibility of a Lender to participate in the 7(a) program because of a violation of SBA regulations, a breach of any agreement with SBA, a change of circumstance resulting in the Lender's inability to meet operational requirements, or a failure to engage in prudent lending practices. Proceedings for such purposes will be conducted in accordance with the provisions of part 134 of this chapter. A suspension or revocation will not invalidate a guarantee previously provided by SBA.

CERTIFIED LENDERS PROGRAM (CLP)

**§ 120.440 What is the Certified Lenders Program?**

Under the Certified Lenders Program (CLP), designated Lenders process, close, service, and may liquidate, SBA guaranteed loans. SBA gives priority to applications and servicing actions submitted by Lenders under this program, and will provide expedited loan processing or servicing. All other rules in this part 120 relating to the operations of Lenders apply to CLP Lenders.

[61 FR 3235, Jan. 31, 1996; 61 FR 7986, Mar. 1, 1996]

**§ 120.441 How does a Lender become a CLP Lender?**

(a) An SBA field office may nominate a Lender or a Lender may request a field office to consider it for CLP status. SBA district directors may approve and renew a Lender's CLP status. The district director will consider whether the Lender: