



SBA Policy Notice

TO: All Employees

CONTROL NO.: 5000-931

SUBJECT: 7(a) and 504 Program Changes Effective
October 1, 2004

EFFECTIVE: 10/1/2004

The purpose of this notice is to explain the changes to the 7(a) and 504 Loan Programs effective October 1, 2004. These changes are in part the result of Continuing Resolution H.J. Res. 107 ("CR"), which will be in effect until November 20, 2004, and the expiration of certain temporary statutory provisions.

7(a) Program

The following chart explains the changes in the guaranty fee, the lender annual service fee, and the commercial loan fee as follows:

<u>Fees</u>	<u>Through September 30, 2004</u>	<u>Beginning October 1, 2004</u>
<u>Guaranty Fee</u> (under 13 CFR 120.220(a))		
<u>Total Loan Amount</u> \$150,000 or less	1 percent (of SBA guaranteed portion)	2 percent (of SBA guaranteed portion). Lender is again permitted to retain 25 percent of the fee.
\$150,001 to \$700,000	2.5 percent	3 percent
\$700,001 +	3.5 percent	3.5 percent (no change)
<u>SBA-Guaranteed Portion of Loan Amount</u> \$1,000,001 to \$1,500,000	0.25 percent of the amount over \$1,000,000	No such fee (the fee, and the \$1.5 million limit on loan guarantee amount, both expired September 30, 2004)
<u>Lender Annual Service Fee</u> (under 13 CFR 120.220(f))	0.36 percent of the outstanding balance of the SBA guaranteed portion	0.50 percent of the outstanding balance of the SBA guaranteed portion
<u>Commercial Loan Fee</u> Combination Financing (created by Public Law 108-217 as of April 5, 2004)	0.7 percent of the amount of the commercial loan in a senior lien position	No such fee (Combination Financing expired on September 30, 2004).

EXPIRES: xxx

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Must be accompanied by SBA Form 58

On the above chart, the fees under the “Beginning October 1, 2004” column are effective for loans **approved** on or after October 1, 2004. The fees under the “Through September 30, 2004” column will be applied to all loans approved by SBA (which must include the issuance of a SBA loan number and obligation of SBA funds) through and including September 30, 2004.

Other Changes

7(a) Loan Guaranty Limit

The loan guaranty limit under section 7(a)(3)(A) of the Act was temporarily increased from \$1.0 million to \$1.5 million (as a result of PL 108-217). This provision expired on September 30, 2004. As a result, beginning on October 1, 2004, the maximum guaranty permitted under this section is again \$1.0 million.

Combination Financing/Piggyback Financing

PL 108-217 also established a temporary new financing vehicle entitled “Combination Financing.” The financing was comprised of a loan guaranteed under the 7(a) Loan Program and a commercial loan not guaranteed by the Federal government. In most cases, the SBA guaranteed loan was subordinate to the commercial loan. PL 108-217 provided that if the commercial loan was in a senior lien position, the lender participant of the SBA guaranteed loan was required to pay SBA an additional fee of 0.7 percent of the commercial loan amount. The combination financing provisions expired on September 30, 2004, and as a result, beginning October 1, 2004, “Combination Financing” is not allowed. Any provisions concerning Combination Financing that were imposed by SBA Policy Notice No. 0000-1727 are no longer effective. In addition, SBA’s practice of allowing “piggyback financing”, as defined in SOP 50 10 (4), will be suspended effective October 1, 2004, until further notice.

SBAExpress

The maximum loan amount for *SBAExpress* loans was temporarily increased from \$250,000 to \$2 million (as a result of PL 108-217). This provision expired on September 30, 2004. Accordingly, the maximum loan amount for *SBAExpress* loans **approved** on or after October 1, 2004 is again \$250,000, as set forth in the *SBAExpress* program guide dated October 1, 2002.

New 7(a) Wizard

SBA has altered the current 7(a) Authorization Wizard Version 2004 with a revised “7a Wizard 2004.1.” 7a Wizard 2004.1 will be available on October 4, 2004, to Lenders and SBA personnel at SBA’s banking website. Normally, there is a 30-day grace period for Lenders to incorporate the newest version of the wizard. However, beginning October 4, 2004, Lenders must use 7a Wizard 2004.1 in order to ensure that they are meeting the requirements for 7(a) loans that become effective October 1, 2004. For SBA, the 7a Wizard 2004.1 will automatically replace the 7a Wizard 2004 on SBA’s servers for use by the SBA field offices on Monday, October 4, 2004.

If you have any questions regarding the 7a Wizard 2004.1, please submit your questions to the 7(a) Authorization e-mail box at Auth-7a@sba.gov.

504 Fee Change

Each fiscal year, the on-going guaranty fee paid by 504 borrowers to SBA under 13 CFR 120.971(d)(2) is adjusted as part of the fee structure required to cover the costs of the 504 Program associated with loan defaults, and to keep the 504 Program at a zero subsidy rate. For loans approved in FY 2005, the on-going guaranty fee for 504 loans is 0.288 of one percent. This is a decrease from the FY 2004 fee of 0.393 of one percent.

SBA has notified Colson Services Corp. of this change.

Instructions to Manually Change the 504 Wizard

The on-going guaranty fee in the 504 Authorization “Wizard” must be changed by the user (whether SBA or the CDC) in order to reflect the correct fee. The wizard that is currently available has an on-going fee that will default to “0.393” in Paragraph B.6 of the 504 Authorization.

To set the on-going fee to the new value, first change the on-going guaranty fee to 0.288 in the “On-Going Guaranty Fee” Wizard panel of the Project Information Section. After inputting the above value, click on the “Default” button located in the same section. The value will then be set for all future 504 loan authorizations. Each user must set this default on their machine.

The next version of the 504 Wizard will reflect the fee in effect at that time.

Notification and Questions

SBA district offices must notify Certified Development Companies and 7(a) Lenders of these changes. SBA district offices with questions on this notice may direct their questions to James Hammersley via email at james.hammersley@sba.gov. CDCs and Lenders are directed to forward questions to the local SBA field office.

Hector V. Barreto
Administrator

Expires: 10/1/2005