

SUPPORTING STATEMENT
U.S. Small Business Administration
Paperwork Reduction Act Submission

A. JUSTIFICATION

1. Circumstances necessitating the collection of information

The U.S. Small Business Administration is requesting that the forms associated with a new 7(a) loan initiative, Lender Advantage, be reviewed and approved on an emergency basis. The justification for this request as, required by the PRA and OMB regulations, is being submitted concurrently with this Form 83-I submission.

This new 7(a) loan initiative is designed for smaller 7(a) lenders (20 or less SBA loans per year), or lenders not currently participating in the 7(a) loan program. SBA estimates that approximately 2,000 7(a) lenders fall into the smaller lender category. According to an analysis of SBA lending activity, these smaller lenders lend proportionately more to rural businesses (32 percent of SBA loans went to rural businesses in 2007 YTD) versus their larger counterparts (8 percent of SBA loans went to rural businesses in 2007 YTD).

Using SBA 7(a) loan numbers as of 8/10/2007, the following conclusion is evident. SBA 7(a) loans to rural America (using the OMB definition of rural) are down approximately 17.4% in FY07 over FY06. Urban loans are up approximately 7.8%, for a total difference of approximately 25.2%. If these numbers are compounded over a three year period, SBA will be providing urban areas access to capital at a rate of almost 100% greater than rural areas. .

Another SBA study identified that as of August 31, 2007, the number of lenders making 20 loans or less overall has decreased from 2,449 in Fiscal Year 2000 to 2,057 in 2007. This is a drop of 16 percent. SBA believes that the decrease in lending to rural, small businesses is directly related to SBA losing, as 7(a) participants, the smaller lenders that process a relatively small number of SBA loans per year. These are the lenders that use our programs to build their communities, and not necessarily as a profit center, as large banks do

SBA believes these smaller lenders are decreasing their participation with SBA because:

1. They do not qualify for one of the expedited 7(a) loan processes (SBAExpress, Community Express, or PLP) under which SBA delegates the final credit decision as well as the preliminary eligibility determination to qualified lenders that demonstrate their comprehensive knowledge of SBA's eligibility; and
2. The standard 7(a) loan submission process, which new 7(a) participants or existing 7(a) participants that do not qualify for an expedited process must follow, requires the submission to SBA of an extensive amount of information using OMB-approved SBA Forms 4 and 4-I plus all exhibits. This is the case whether the loan request is for \$20,000 or \$2,000,000.

Currently, approximately 94 percent of SBA's 7(a) loans are processed through an expedited process under which the lender has been granted delegated authority to make the credit decision and is considered knowledgeable in SBA's eligibility rules and therefore only needs complete an abbreviated Eligibility Checklist. The other 6 percent of the 7(a) loan volume is processed as follows: the Applicant completes an application form (SBA Form 4) which requires the submission of more than 14 exhibits including personal financial statements on the principals, resumes, business financial statements, a listing of collateral, and copies of any franchise

agreements. The lender then is required to analyze all the information and submit its analysis (Form 4-I) together with all the supporting documentation to SBA. (Depending on the complexity of the loan request, and whether the Applicant has affiliates, the Standard 7(a) loan submission package to SBA can be several inches thick compared to a 2-page (plus an eligibility checklist) submission to SBA for the expedited loan processes.) Under standard 7(a), SBA then in turn re-analyzes the all submitted documentation and makes the final credit and eligibility decisions.

Although the proposed forms are based on Forms 4 and 4-I, they will be tailored for this new initiative to provide a streamed standard 7(a) application process for 7(a) loans of \$350,000 or less. The total burden hours associated with the new form is estimated to be 5 hours compared to the current SBA Forms 4 and 4-I which total 14 hours. This is a reduction of almost 65 percent.

SBA believes that by modifying the standard 7(a) application process its smaller 7(a) participants that do not process SBA loans routinely (and do not have a dedicated SBA staff due to the low volume) will increase their participation in the 7(a) loan program and expand access to capital by rural small businesses.

Proposed New Forms

Form 2301 (Part A): Part A is completed by the Small Business Applicant (“Borrower”). It consolidates the information required by SBA Form 4, Business Loan Application (OMB Control # 3245-0016) and Form 912 ,Statement of Personal History (OMB Control 3245-0178) onto one page. The information requested includes identifying information regarding the applicant, loan request, indebtedness, information about the principals, information about current or previous government financing, and certain other disclosures. The information also facilitates borrower background checks as authorized by the Section 7(a)(1)(B) of the Small Business Act, 15 U.S.C. 636(a)(1)(B).

Form 2301 (Part B): Part B of this form is completed by the 7(a) Participant (“Participant” or Lender). It consolidates the information required by SBA Form 4-I (OMB Control #3245-0016) into a one page form. This form includes identifying information regarding the lender, loan terms, and use of proceeds, collateral, and the Lender’s analysis of the loan request. The form also requires the Lender to perform an “eligibility evaluation” using Form 2301, Part B.

Form 2301 (Part C): Part C of this form is completed by the Participant. It consolidates eligibility information required by numerous exhibits that are part of Form 4 into an abbreviated questionnaire. OMB has previously approved similar forms that collect eligibility information such as OMB approved Form # 3245-0348, Form 1920SX, Part C. This questionnaire is designed to identify those borrowers that fall into the simple eligibility groups that do not require additional information or complex analysis.

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 applicable section of each statute and regulation that mandates or authorizes the collection of information.

Section 7(a) of the Small Business Act authorizes the Small Business Administration to guaranty loans made by banks or other financial institutions to qualified small businesses for the purposes of plant acquisition, construction, conversion, or expansion, and/or for the acquisition of land, materials, supplies, equipment, or working capital. The Federal Managers Financial Integrity Act (FMFIA) codified at 31 U.S.C. Section 3512 et seq., and OMB Circulars A-123 (Management's Responsibility for Internal Control) and A-129 (Policies for Federal Credit Programs and Non-tax Receivables) require a federal agency to evaluate the character and performance of individuals participating in federal credit programs. SBA will use the proposed application forms to collect information that will facilitate the loan making and guarantee processes. The specific information requested is listed in 13 CFR 191.

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.

The information collected will be used by program managers, top Agency management, and government entities with oversight authority over SBA primarily for loan monitoring, portfolio risk management, and lender oversight. These groups will use the data to determine how effectively SBA's loan programs are meeting the needs of various geographical, demographical, and industry markets and segments; the safety and soundness of SBA's loan policies and procedures; and to set program fees consistent with the subsidy rate model. SBA will also use the information to report to its various oversight authorities regarding the number, dollar volume, and demographic characteristics of its 7(a) loan guaranty recipients.

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.

Lenders will submit the data collected via fax or e-mail to a centralized SBA processing center. The process is designed for those small lenders that do not have a high level of technological capability but with some form of internet connection to transmit the information electronically.

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.

The information collected is unique to the individual applicant and the circumstances and conditions of its business operation, so there are no other sources of the information nor is it currently available electronically. In developing the form, SBA sought to minimize the burden on a borrower's and lender by reducing the amount of documentation required of the borrower and the amount of information that the lender has to transmit to SBA. The reduced documentation will also decrease the borrower's and lender's processing costs, particularly for very small loans.

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 83-1), describe any methods used to minimize burden.

There are two broad constituencies impacted by this data request, 7(a) Lenders that do not qualify for one of SBA's expedited processes (SBAExpress, Community Express and PLP) and prospective small business borrowers. While the major portion of SBA's loan volume accrues from large lenders using the expedited processes, the Agency does have more than 2,000 smaller lenders that participate in SBA's loan programs on an infrequent basis. The Agency is highly aware that data collection affects the cost of processing loans, particularly for smaller loans. However, the Agency does not anticipate that this information collection will have a significant economic impact on these entities. SBA has worked very carefully in the past with large and small lenders to minimize and streamline data collection without sacrificing function. These same efforts have again been used for this new data collection, resulting in the reduced collection of data from the lenders as well as the Agency's principal constituency, small business borrowers.

6. Consequences If Information Is Not Collected

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.

Failure to collect the information contained in the forms may compromise the effectiveness of the 7(a) loan program, SBA's recoveries, and the program's contribution to improving the nation's economy. SBA is responsible for providing small business access to capital in an efficient and timely manner, while maintaining its fiduciary responsibility to the taxpayer. This collection of information facilitates SBA's ability to fulfill those responsibilities by providing the critical information needed by SBA to monitor and analyze loan and lender data trends and risks. SBA collects data to allow lenders and borrowers to modify significant loan terms as needed after the loan is approved, such changes can significantly modify SBA's position and increase the potential for loss. Real-time monitoring allows for early warning triggers that indicate an increase in risks, and assist the Agency to identify where its resources should be employed to mitigate risks and ultimately reduce potential loan losses.

7. Existence Of Special Circumstances

Explain any special circumstances that would cause an information collection to be conducted in a manner, etc.

Lenders submit loan data to SBA for its loan guaranty approval on a loan by loan basis. Because lenders want SBA to approve loans on a rolling basis, they submit this information more than once a quarter. Some of the data collected includes business information. SBA has procedures to protect the information's confidentiality to the extent permitted by law. This information can be accessed only with the approval of the Office of Financial Assistance Technology Project Manager.

8. Solicitation of Public Comment

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 to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, or reporting format (if any), and on the data elements to be recorded, disclosed, or reported.

A Federal Register public comment notice was published on August 28, 2007, at 72 FR 49344. The comment period will expire on October 29, 2007. No comments were received to date. SBA's request for emergency processing also includes a request for waiver of waiting until the end of the notice requirement as it relates to the new initiative.

N.B. Revise depending on outcome of discussion with OMB re emergency clearance.

9. Payments or Gifts

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

No gifts or payments are provided to any 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.

The information collected is protected to the extent permitted by law. SBA has incorporated various statements required by law and executive orders into Form 2301 to advise each respondent of among other things, the protections against disclosures of sensitive and confidential information under the "Freedom of Information Act (5 U.S.C Section 552), "Right to Financial Privacy Act of 1978 (12 U.S.C. Section 3401), and other significant executive orders or legislation governing federal financial assistance.

11. Questions of a Sensitive Nature

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

SBA collects social security numbers and information on a borrower's ethnicity, race, and criminal records. This data collection of sensitive material has not been expanded beyond that which is currently collected via OMB approved Forms # 3245-0016 – Application for Business Loan and #3245-0178 – Statement of Personal History. The social security number is the unique identifier associating a person with a specific loan. SBA also uses social security numbers to facilitate critical credit searches in the federal databases listing defaulted loans, in consumer credit databases and in fraud detection systems. SBA collects demographic information to assess the extent to which SBA's loan programs assist all demographics. We also note that SBA has a Privacy Act System of Records that covers this information. See attached Federal Register Notice at 69 FR 58598 (September 30, 2004), Loan System – SBA 21.

12. Estimate of the Hourly Burden of the Collection of Information

Provide estimates of the hour burden of the collection of information, well as the hour cost burden. Indicate the number of respondents, frequency of response, annual hour and cost burden, and an explanation of how the burden was estimated.

Loan Approval Forms:

This new form will be used by approximately 2,000 7(a) lenders that process 20 SBA loans or less per year. The average time spent completing the forms is 5 hours based on the estimated time it takes to complete Forms 4 and 4-I, and taking into consideration the reduction in information that will be collected on this new form versus Forms 4 and 4-I.

Total estimated responses in the first 12 months for Lender Advantage is estimated to be 4,000 based on the following: During FY 2007, there were approximately 5,840 loans processed using the Standard 7(a) process (6 percent). (The rest, approximately 92,000 were submitted under an expedited process.) The average loan size for Standard 7(a) loans was approximately \$398,000. SBA believes that the Lender Advantage initiative, will significantly increase the number of loans of \$350,000 or less that are submitted under standard 7(a).

Therefore, the additional annual hourly burden for the forms for Lender Advantage is 4,000 applications x 5 hours = 20,000 hours.

Based on a GS-11 loan officer's annual salary, the hourly rate is \$26. The annual cost to respondents would be 20,000 hours x \$26 per hour = \$520,000.

13. Estimate of Total Annual Cost

Provide an estimate for the total annual cost burden to respondents or recordkeepers resulting from the collection of information. Do not include hour cost burden from above.

There will be minimal start-up or other costs to the respondents.

14. Estimated Annualized Cost to the Federal Government

Provide estimates of annualized costs to the Federal Government. Also provide a description of the method used to estimate cost, including a 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 cost to government would be approximately \$285,467 annually. This is based on the cost of an analyst (grades 9 – 12; average GS-11 at \$26 per hour) taking approximately 80 minutes to analyze the application, develop a recommendation, and prepare a loan officer's report; 50 minutes by the Lead Loan Specialist (GS-13 at \$37 per hour) to review the information and make a recommendation. In addition a Loan Processing Assistant (grades 5 – 7; average GS-6 at \$16 per hour) would spend approximately 22 minutes to enter and retrieve data to support the decision.

Analyst: $4/3 \text{ hours} \times \$26/\text{hour} \times 4,000 = \$138,667$.

Lead Loan Specialist: $5/6 \text{ hours} \times \$37/\text{hour} \times 4,000 = \$123,333$.

Loan Processing Assistant: $22/60 \text{ hours} \times \$16/\text{hour} \times 4,000 = \$23,467$.

15. Explanation of Program Changes in Items 13 or 14 on OMB Form 83-I

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

This is a new information collection..

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.

Except for summary data that might be included in various agency reports (e.g., number or percentage of loans processed using this form) this information will not be published.

17. Expiration Date for Collection of this Data

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.

Not applicable; expiration date will be published.

18. Exceptions to the Certification 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.

In Section 19 of OMB Form 83-I, item I indicates the use of statistical survey methodology in the collection of information. Because each loan application is unique to the applicant and to the loan terms (maturity, interest rate, loan amount, etc.) SBA cannot employ a statistical survey methodology to obtain the required information for the loan program. A statistical survey for this area would not likely be representative and, therefore, would increase SBA's financial risk if relied upon.

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.

Not applicable