FUTURE *LENDING* LEADERS
CLASS OF 2026

7(a) INDUSTRY REVIEW

EDITION V

NAGGL

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FOREWORD

The SBA 7(a) Loan Program continues to unfold into a dynamic and targeted engine for economic growth. As policy and program requirements continue to shape daily lending practices, lenders are navigating more defined eligibility standards, strengthened underwriting requirements, changes to small loan processing, and increased emphasis on prudent credit analysis and program integrity. At the same time, shifting economic conditions and evolving borrower needs continue to challenge the industry to remain both rigorous and responsive. In this environment, forward-thinking leadership is essential to preserve the strength, accessibility, and long-term impact of the 7(a) Program for America's small businesses.

Launched just five years ago, NAGGL's Future Lending Leaders (FLL) program was created with this very purpose: to develop and equip the next generation of 7(a) leaders who will carry the program into the future with integrity, innovation, and insight.

The twelve rising leaders that make up the FLL Class of 2026 have embraced the uncertainty, shown remarkable resilience, and leaned into growth, both professionally and personally. Through mentorship, peer learning, and deep industry engagement, they've emerged not only more capable, but more connected to their colleagues and to the mission of 7(a) lending.

As we present the fifth edition of the 7(a) Industry Review, we're proud to share a series of thoughtful and timely articles written by this year's Future Lending Leaders. And as an extra bonus, we have an article from one of the FLL mentors. These editorials offer firsthand perspectives on today's SBA landscape and reflect the unique experiences and convictions of those who will help shape what comes next for the 7(a) industry.

To the Class of 2026: Your voice matters. Your contributions are already making a difference. And the future of the 7(a) Program is brighter because of your leadership.

Anthony R. Wilkinson

Tony Wilkinson | President & CEO | NAGGL

Using Technology Vendors in SBA Lending: Compliance Considerations for Lenders

Christina Ashby | City National Bank

What does it take to build a strong bank-FinTech partnership in SBA lending—one in which nothing gets lost, nothing falls through the cracks, and outsourcing core functions does not mean outsourcing responsibility? As lenders become more dependent on automation, digital workflows, and third-party tools, technology vendors increasingly promise better origination, faster underwriting, and more seamless servicing and compliance operations. Yet building these partnerships is rarely simple, and there is no one-size-fits-all model for doing so successfully.

In building these partnerships, the starting point should always be SBA compliance. SBA is clear that even when a lender uses a third-party vendor or system, the lender remains responsible for errors, defects, and noncompliance. The Office of Credit Risk Management (OCRM) may take enforcement action, including penalties or the revocation of delegated authority, if a vendor's actions violate SBA requirements.

SOP 50 10 8 provides the governance framework for the use of technology vendors, agents, and Lender Service Providers (LSPs). SBA considers an Agent to meet the definition of an LSP under the following circumstances:

- *"An individual or entity engaged by a 7(a) Lender to provide services for the purposes of obtaining Federal financial assistance that include interaction with the Applicant either in-person or through the use of technology, to request or obtain financial information that will be provided to the 7(a) Lender or SBA. This includes Agents who:*
    - *Perform any **pre-qualification review** based on SBA's Loan Program Requirements or the 7(a) Lender's internal policies prior to submitting the Applicant's information to the 7(a) Lender; or*
    - *Provide to the 7(a) Lender an **underwritten application, whether through the use of technology or otherwise.***
- *Entities providing technology services to a 7(a) Lender that include underwriting."*

Technology vendors that perform lender functions—including origination, disbursement, servicing, and liquidation—on the lender's behalf for compensation are subject to additional requirements consistent with those applicable to an LSP. When it is unclear whether a technology vendor should be treated as an LSP, lenders should evaluate whether the technology does any of the following:

- Performs underwriting through software models,
- Hosts borrower portals,
- Manages E-Tran submission workflows,
- Automates servicing actions,
- Processes payments or calculates borrowing bases, or
- Maintains lender credit workflows.

This is especially important when assessing FinTech solutions that automate credit scoring, cash-flow analysis, risk scoring, and eligibility determinations.

As with traditional LSP relationships, the use of a technology vendor does not diminish the lender's operational responsibility. Credit and servicing decisions must remain the lenders alone. That includes credit underwriting and approval, eligibility determinations, collateral evaluation, servicing and liquidation decisions, and the accuracy of E-Tran submissions and certifications. If technology automates portions of these functions, lenders must ensure that any recommendation remains subject to lender oversight and does not operate autonomously. Agreements with technology providers that function as LSPs should explicitly state that the lender retains day-to-day responsibility for all loan operations, reinforcing the lender's delegated decision-making authority.

If you are using an LSP, has SBA reviewed your technology vendor agreement? SBA requires all LSP agreements to be in writing and submitted for review. As noted above, the same rules apply to technology vendors that fall within the LSP definition. In practice, that requirement may apply whenever a technology vendor interfaces with E-Tran, performs underwriting functions, interacts directly with applicants, conducts servicing functions, and/or handles sensitive loan data. As a practical rule of thumb, if the vendor's solution substitutes for work a lender employee would otherwise perform manually, SBA may view the arrangement as an LSP relationship, and the agreement should be submitted for SBA review.

A vendor agreement should not be the only document governing the relationship. It is merely the starting point for compliance. In addition to an SBA-reviewed and lender-approved agreement, lenders should maintain written policies and implement oversight procedures for all third-party partners, including technology vendors. Prudent oversight includes robust vendor risk management, appropriate due diligence at onboarding, and annual performance reviews. Key considerations include model validation, documentation, cybersecurity, and data integrity. Policies and procedures should also establish timeliness and quality-control standards for oversight and compliance monitoring.

With borrower portals and digital workflows now commonplace, wet signatures have largely become the exception rather than the rule. Electronic signatures add another layer of compliance that lenders must address in their policies and procedures. SBA requires any technology vendor processing electronic documents to comply with the following:

- NIST IAL2 Digital Identity Standards
- UCC Article 9-105 and Article 3 (when applicable)
- SBA audit trail and reproducibility requirements

When evaluating technology vendors, lenders should assess system reliability, long-term operational viability, disaster recovery and archiving plans, and the vendor's ability to testify in court regarding its signature systems. Vendor agreements should also be reviewed for compliance with SBA requirements related to litigation support, disaster recovery, archiving, and quality control.

Technology vendors now play a mission-critical role in SBA lending. Every lender is working toward the same core goals: increasing loan production, improving speed to market, and doing so without compromising credit risk management or compliance. The right technology can streamline operations and expand capacity. But while it makes sound business sense to outsource technology, lenders cannot outsource judgment or responsibility.

Key Takeaways for Technology Vendor Compliance

- Classify technology vendors correctly, often as LSPs.
    - Determine whether the technology used influences credit decisions.
    - If it does, ensure compliance with LSP requirements.
- Submit vendor agreements for SBA review when required.
- Maintain strong oversight and conduct periodic audits.
- Validate technology scoring models and underwriting tools.
- Maintain audit trails suitable for SBA review.
- Document lender—not vendor—decision-making.

- Confirm compliance with SBA signature, E-Tran, and data requirements.

By following these standards, lenders can embrace innovation without increasing the risk of guaranty denial, enforcement action, or compliance findings.

Getting Comfortable Lending to SBA-Eligible Industries

Victor Beauchamp | Lexicon Bank

SBA 7(a) lending is intended to support otherwise creditworthy borrowers who cannot obtain financing on reasonable terms without a government guaranty. As a result, industries that may be less attractive or restricted under conventional credit policies may still be fully eligible for 7(a) financing when supported by strong fundamentals. Lenders may use the 7(a) Loan Program to make loans to businesses that have the ability to repay the loan through the cash flow of the business but that do not meet the lender's internal credit requirements, for reasons such as a lack of collateral, the type of industry, the age of the business, or similar factors. The SBA loan guaranty enables a lender to make a loan to a business that would not otherwise be able to get a loan using conventional credit facilities. This helps the business as well as the lender, who may want to retain a customer or grow their portfolio while minimizing risk to the lender.

Credit Available Elsewhere Considerations

Credit available elsewhere is a statutory requirement for 7(a) loan eligibility and should not be confused with lender industry preferences or internal risk tolerance. A loan may meet all underwriting standards and still qualify for 7(a) financing if the borrower cannot obtain comparable credit on reasonable terms without SBA support.

How does a financial institution become comfortable lending to industries that are commonly financed through SBA programs but fall outside those typically supported by conventional commercial lending? In SBA lending, institutions often develop expertise in certain industries. As that expertise grows, individual lenders and credit officers naturally gravitate toward familiar industries where transactions are easier to structure, underwrite, and close. Over time, however, this specialization can create unintended concentration and diversification risk.

To manage that risk effectively, lenders must be able to responsibly evaluate a broader range of industries that are fully eligible under the 7(a) Loan Program guidelines but may not align with traditional conventional lending preferences. The ability to underwrite these industries consistently and prudently is critical to building a resilient and well-diversified 7(a) portfolio.

As with many aspects of credit decision-making, the solution lies in returning to foundational principles: the five C's of Credit. This article reviews each of the five C's and discusses how they can be applied to evaluate 7(a)-eligible industries that may differ from conventional credit profiles, while maintaining disciplined risk management practices.

All loans ultimately hinge on the five C's of Credit—Capacity, Capital, Collateral, Character, and Conditions. While differences between typical 7(a) industries and conventional lending targets are often most apparent when analyzing Conditions, all five elements play a critical role when underwriting SBA-eligible businesses. By revisiting these fundamentals, lenders can apply a consistent analytical framework using appropriate documentation, third-party data, and prudent internal credit standards, regardless of industry type.

Below is a brief review of each C and its application in SBA lending.

Capacity

Capacity refers to the borrower's ability to service debt from cash flow. Industries that are eligible for 7(a) loans but that may not align with conventional lending preferences often exhibit cash flow characteristics that differ from those preferred in conventional lending, such as higher labor dependency, reliance on contract revenue, seasonality, or customer concentration.

For 7(a) loans, lenders are expected to document repayment ability using appropriate cash flow analysis and reasonable assumptions consistent with SBA policy and prudent lending practices. For loans underwritten under the Standard 7(a) program, the SBA requires a minimum Debt Service Coverage Ratio (DSCR) of 1.15:1 and a minimum Global DSCR of 1.0:1[1]. For 7(a) Small Loans, SBA requires the lender to analyze the applicant's debt service coverage and to demonstrate a DSCR of at least 1.10:1[2]. Lenders may elect to impose higher internal standards for certain industries or business models as part of prudent risk management, provided those standards are applied consistently and do not conflict with SBA requirements.

Capital

Capital reflects the borrower's financial investment in the business and their commitment to the project. Many institutions impose minimum equity

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[1] SOP 50 10 8, Section B, Chapter 1, Paragraph C.2.a.ii.b)

[2] SBA Procedural Notice 5000-876777, effective March 1, 2026

requirements above SBA minimums to strengthen the overall credit structure. Under SOP 50 10 8, lenders may apply their own credit policies (including equity expectations) so long as they remain consistent with SBA eligibility and underwriting requirements and are applied in a uniform, non-discriminatory manner. However, there are certain projects where SBA requires a minimum equity injection or has a maximum debt-to-worth ratio, such as for loans to start-up businesses and loans for changes of ownership.

Post-closing liquidity is particularly important in SBA-financed businesses operating in industries with thinner margins, elevated working capital demands, or greater revenue volatility. Adequate liquidity provides an essential buffer against unforeseen operational or economic challenges.

Collateral

Collateral consists of the assets pledged to secure the loan. Conventional commercial lending often places significant emphasis on collateral coverage as a primary credit decision factor. In contrast, SBA will not decline a loan or deem it ineligible solely because of inadequate collateral. Instead, the lender is expected to take available collateral in accordance with SOP requirements and the lender's policies—typically starting with available business assets and, when those are insufficient, taking available equity in personal real estate to the extent required by the SOP.

This distinction is especially important for service-based or asset-light industries that may not support traditional collateral-driven underwriting but remain otherwise creditworthy. Lenders should consult the current SOP, as amended by SBA notices, for collateral thresholds, lien expectations, and documentation requirements applicable to the specific loan type and size.

Character

Character carries heightened importance in SBA lending, particularly when industry risk profiles deviate from conventional expectations. While character traditionally includes a review of credit history, SBA lending requires a more holistic assessment of a guarantor's background, experience, integrity, and track record.

Relevant and transferable industry experience is often a key mitigating factor for businesses operating in sectors less favored by conventional lenders. In some cases, a strong and experienced management team may offset limited direct industry experience. Additionally, derogatory credit should be evaluated in context rather than viewed in isolation to ensure an accurate assessment of character.

Conditions

Conditions encompass external factors that affect a business's ability to repay, including market trends, the economic environment, regulatory considerations, and industry-specific risks and opportunities. A key distinction between conventional and 7(a) lending lies in how lenders evaluate industry conditions in relation to credit elsewhere. Third-party industry data and economic analysis are essential tools in evaluating these conditions effectively.

The "Sixth C": Common Sense

Common sense is often viewed as the unofficial sixth "C" of credit and is particularly relevant in SBA lending. When underwriting industries that differ from conventional norms but are common within 7(a) loan portfolios, lenders must step back and assess whether the transaction makes sense for both the borrower and the institution. Sound judgment remains a cornerstone of prudent SBA lending.

Conclusion

Returning to the central question, "how do lenders become comfortable financing a wide range of industries commonly served by SBA programs", the answer begins with a strong assessment of character and experience, supported by disciplined application of the remaining C's.

By consistently applying the five C's of Credit—Capacity, Capital, Collateral, Character, and Conditions—lenders can evaluate SBA-eligible businesses effectively, even when those businesses fall outside traditional lending preferences. When combined with proper use of the SBA Standard Operating Procedures, clear separation of underwriting judgment from credit elsewhere analysis, and practical common sense, lenders can responsibly expand their SBA portfolios while managing risk in a controlled and sustainable manner.

Proactive and Compassionate Servicing: Advancing the SBA Mission Beyond Origination

Michael Brunett | Columbia Bank

Lenders who take part in government guaranteed lending programs do far more than distribute capital, they uphold public trust. Every SBA 7(a) loan represents a partnership between private lenders and taxpayers, designed to expand economic opportunity, strengthen communities, and support the long-term viability of small businesses. That mission does not end at origination. This stewardship extends well into the life of a loan, especially when circumstances change.

Too often, servicing receives far less attention than underwriting or closing. When performance deteriorates and problems become impossible to ignore, the response is typically to look for the exit; acceleration of the note, engage counsel for litigation, collateral liquidation, and submission of the UPP. These actions may be necessary in some cases, but they often come late, after enterprise value has already eroded and risk for denial or repair of the guaranty has increased. The question lenders should ask is: What could we have done earlier?

Borrower distress doesn't happen overnight. Difficulties materialize over a period of months or even years. Proactive servicing recognizes that time is the most valuable factor in risk management. When lenders actively monitor performance, maintain open communication, and recognize early warning signs, they identify borrower distress early, and more tools remain on the table such as short-term deferments, forbearance agreements, maturity extension and re-amortizations, payment modification, collateral right-sizing, and operational coaching. Timely action increases the probability of stabilization and reduces the likelihood of liquidation.

Why Proactive Servicing Matters

Proactive engagement can help to reduce the incidence and severity of defaults; and may avoid liquidation altogether. When liquidation is necessary, early action typically preserves more enterprise value, speeds resolution, and increases recovery. Equally important, early servicing intervention strengthens guaranty protection. SBA expects prudent, well-documented, and timely servicing actions.[3] When lenders demonstrate this, the risk of

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[3] SBA, *SOP 50 57 4*, Chapter 6 (Servicing Requests).

repair or denial decreases significantly. Proactivity is not just good practice; it is one of the most powerful tools available to preserve the guaranty.

Compassion as a Risk-Management Strategy

Compassion is often misunderstood as leniency. Compassion is a strategic tool that improves information flow, borrower engagement, and decision quality.

Distressed business owners are often overwhelmed by fear, shame, or fatigue. These emotions can cause them to withdraw or delay communication when transparency is most critical. A lender who leads with empathy creates space for honest dialogue and early disclosure. That, in turn, enables more accurate analysis and better outcomes.

Conversations should be just that, conversations, grounded in active listening to understand the perspective of the borrower. Use open-ended questions with acknowledgments of the owner's reality. Reiterate what you heard to confirm understanding. Come to agreement on near-term, achievable milestones. And hold borrowers accountable with clarity and respect.

Compassion coexists with discipline and accountability. Lenders can be firm on expectations and kind in delivery. Use an approach that reduces conflict, improves cooperation, and accelerates resolution. Frame the bank as a partner seeking sustainable solutions and clarify that early disclosure enables more options. Replace vague assurances with concrete next steps, clear dates, and mutual commitments to communicate. Empathy, however, does not override credit standards, SBA requirements or authority limits.

Executing Compassionate Servicing Within SOP Requirements

Compassionate servicing must always operate within the guardrails of SOP 50 57 4.[4] Lenders must understand:

- What actions fall within unilateral authority
- When prior SBA approval is required
- How to document servicing decisions
- How to align actions with the loan authorization and internal policy

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[4] SBA, *SOP 50 57 4*, Chapter 3 (Lender Responsibility and Authority).

Every decision, from the first conversation through restructuring or liquidation, should be evaluated through the lens of guaranty preservation. Compassion does not replace compliance; it strengthens it by improving documentation quality, communication consistency, and rationale clarity.

Consistency, Fairness, and Community Impact

Each borrower deserves to be treated consistently and respectfully. Employes should be trained for both policy and people. Organizations should pair credit acumen with human insight, SBA SOP fluency with negotiation and empathetic communication skills. Transparent dialogue enhances borrower cooperation, improves data quality, and leads to better outcomes whether that outcome is a successful workout or a dignified, orderly wind-down.

When liquidation becomes necessary, compassion is still essential. Clear timelines, collaborative asset disposition, and transparent communication with guarantors often produce higher recoveries than adversarial approaches. Protective advances for insurance or necessary maintenance can preserve collateral value and demonstrate prudent servicing.

These actions also reduce reputational risk. Communities notice how lenders support small businesses not only while they succeed, but also when they struggle.

Measuring What Matters

If proactive and compassionate servicing is to be taken seriously as a performance discipline, lenders must track the metrics that demonstrate its value. These may include:

- Early-contact rates
- Time-to-action from first warning sign
- Completeness and quality of servicing documentation
- Guaranty preservation outcomes
- Restructure success rates
- Liquidation recovery timelines and dollars recovered

Just as importantly, lenders should highlight qualitative outcomes: preserved jobs, stabilized businesses, and orderly exits managed with dignity. These metrics reframe servicing from a loss-mitigation function into a community-impact function…one that directly supports the SBA mission.

Advancing the SBA Mission Every Day

SBA lending is often celebrated for job creation, economic expansion, and new opportunities at origination. But that cannot be the end of the story. True mission alignment requires lenders to carry that stewardship forward through the entire life of the loan.

By combining vigilant monitoring, prompt action, and compassionate communication, lenders protect the guaranty, preserve enterprise value, and help small business owners navigate adversity with a real chance to endure. In doing so, they strengthen communities, uphold public trust, and elevate the standard of SBA lending.

Servicing is not an administrative obligation. It is a continuation of the mission and one of the most important responsibilities lenders hold.

Integration Over Innovation: Why APIs Are the Next Competitive Advantage in 7(a) Lending

Natalie Campion | Lendio

The 7(a) lending landscape has never had more technology available to support the loan lifecycle. Most institutions already have tools for borrower intake, origination, financial analysis, document collection, e-signature, servicing, and portfolio monitoring. Yet many teams still rely on spreadsheets, email threads, and manual re-keying to move information from one stage of the loan lifecycle to the next. In my role as a Customer Success Manager at a Lender Service Provider (LSP), I regularly see strong teams slowed not by a lack of expertise or effort, but by the gaps between the systems they depend on.

That is why the next competitive advantage in 7(a) lending is not simply adopting more technology. It is integrating the technology lenders already have. An Application Programming Interface (API) allows systems to exchange data directly and consistently. In practical terms, APIs reduce re-keying, limit mismatched data, and help create connected workflows across the loan lifecycle. For 7(a) lenders, that matters because disconnected systems do more than create inefficiency. They create preventable risk, inconsistent servicing, and weaker documentation of the work performed.

What Is an API?

At the heart of this shift is the API. In practical terms, an API is a set of rules that allows two different software systems to communicate directly and consistently, without manual re-entry. Think of it as a digital bridge: rather than a person re-keying data from a Loan Origination System into a servicing or core banking platform, an API allows that data to flow automatically and accurately. APIs do not require a lender to replace any existing system. They connect what already exists so the full technology stack can function as a single operating model.

The Modern 7(a) Tech Stack: A Collection of Islands

A typical 7(a) lender uses a staggering number of platforms across the loan lifecycle: a loan origination system, document management and imaging, core banking and payments, servicing and covenant tracking, insurance tracking, collateral and UCC management, credit monitoring, financial analysis tools, and SBA reporting and remittance support. Many of these platforms are strong at their specific function. The operational gap appears when key data must be duplicated across systems, or when an important event in one platform fails to trigger action in another.

When systems are not integrated, lenders compensate with manual data entry, spreadsheets serving as unofficial sources of truth, email-based exception management, and periodic reviews that discover issues long after they originated. This creates inconsistency across teams and branches, driving up both operational cost and compliance exposure.

Where Disconnected Systems Create the Most Risk

The consequences of fragmentation surface at the most critical points in the lending lifecycle. After closing, loan terms and borrower details must be established across servicing, core systems, insurance, collateral, and reporting platforms. When this work is manual, borrower and entity names can differ across systems, key dates entered incorrectly, covenants not properly tracked, and exceptions that go undetected until the first annual review, or worse, an audit or default. These are not minor data entry issues. They can directly impact a lender's ability to meet the Prudent Servicing standard required under SBA SOP 50 57.[5]

Ongoing portfolio monitoring presents similar challenges. SBA requires lenders to monitor each loan through tools such as periodic financial statement review, borrower contact, and analysis of credit reports and tax returns. Without integration, these risk signals remain fragmented. Payment behavior lives in one place, insurance compliance in another, financial statement tracking somewhere else, and credit alerts are routed separately. A lender may have all the right tools and still fail to respond in a timely manner because the workflow connecting them does not exist.

Perhaps the most consequential risk involves proving the work. In 7(a) lending, performing servicing is only half the obligation; lenders must also demonstrate it. SBA examiners expect clear evidence of when a deficiency was identified, when the borrower was notified, what corrective steps were taken, and whether escalation occurred. Disconnected systems make assembling this evidence painfully slow. Lenders can spend days pulling

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[5] SOP 50 57 4 Page 20

documentation from multiple platforms to reconstruct a servicing timeline that an integrated system could have logged automatically.

What APIs Solve in Practical Terms

An API-driven approach enables lenders to build workflows where key data is shared across platforms automatically, updates propagate to dependent systems in near real time, exceptions trigger tasks and routing instead of email threads, and every action and timestamp is logged consistently. Innovation improves a single step, but integration improves the full process.

The highest-impact use cases focus on three areas. First, establishing a single source of truth for borrower and loan data by defining a system of record for critical fields and using APIs to push that data to dependent platforms. This alone eliminates mismatched identifiers, boarding errors, and confusion during modifications or renewals. Second, building event-driven workflows where payment delinquency, insurance expiration, financial statement due dates, or covenant breaches automatically trigger standardized tasks and escalation timers, rather than waiting until quarterly review to discover a problem that started months ago. Third, creating automated audit trails that capture exception dates, borrower contact attempts, documents requested and received, and resolution actions. When an SBA examiner opens a file, the story tells itself.

It is also worth noting that emerging AI capabilities are making API-driven integration more accessible. AI tools can help lenders map data fields between systems, identify workflow gaps, and accelerate the configuration of new integrations, reducing the technical lift that has historically slowed adoption.

A Practical Roadmap for Getting Started

Lenders do not need to overhaul their entire technology environment to begin realizing value from integration. The better approach is to start with business goals and work backward to the breakpoints that matter most.

Start with your goals. Lenders that have quarterly or annual targets around response times, portfolio quality, or audit readiness, may choose to start there. Those goals will help prioritize which connections matter most and what outcomes to measure.

Map the workflow. Document the current state across origination, closing, boarding, servicing, and monitoring. Identify where data is manually re-entered, where handoffs break down, where exceptions commonly originate, and where compliance evidence is stored.

Prioritize the highest-risk breakpoints. Choose two or three use cases tied to measurable outcomes: reducing insurance lapses, improving delinquency response time, increasing annual review completion rates, or reducing manual boarding errors.

Evaluate vendor readiness. Not all vendors offer the same level of API maturity. In simple terms, "API maturity" refers to how modern, capable, and easy-to-use a vendor's connections are. This matters because an older, low-maturity API can require expensive, time-consuming IT work to set up, whereas a highly mature API is much closer to being "plug-and-play." When evaluating a vendor, it is important to understand what data connections are available today.

Generally, there are two main ways this data flows back and forth: real-time webhooks or delayed batch pulls. Webhooks automatically push data across platforms the exact moment an event happens. For example, if a borrower uploads a document into one system, it flows into other systems automatically and instantly. This is fundamentally different from a batch pull, which runs on a delayed schedule (like downloading a large file at the end of the day) and forces teams to wait for updates.

Finally, assess how well the APIs are documented and what the implementation timeline looks like. Lenders working with vendors that offer accessible, well-documented APIs will generally find it much easier to onboard and scale.

Build, then scale. Start with the fields and events that matter most. Prove value with a focused first integration, then expand. Once the workflow works, it will standardize across teams and markets. Measure exception volume, time to resolution, manual touches per loan, and audit findings tied to servicing documentation.

Conclusion

7(a) lenders have spent years perfecting individual tools for each step of the lending lifecycle. The next competitive advantage is improving how those steps connect. API-driven integration creates measurable improvements in responsiveness to portfolio risk, consistency of servicing actions, defensibility of compliance evidence, and the overall cost to manage a portfolio at scale. In an environment where lenders are expected to be faster, more consistent, and more thoroughly documented, integration is no longer optional infrastructure. It is a strategic advantage that lets lenders get back to the work that matters most: serving small businesses.

Affiliates and Eligibility: Strengthening SBA Credit Memos Through Proper Documentation

Zack Gabriel | Community First Bank of Indiana

When underwriting Small Business Administration (SBA) 7(a) loans, lenders must analyze affiliation and document their findings within the credit memo as this analysis plays a critical role in determining 7(a) eligibility and protecting the guaranty. Lenders must demonstrate that they performed appropriate due diligence. When lenders fail to fully evaluate or clearly document affiliation, they significantly increase the risk of guaranty repair or denial. Lenders should clearly define and discuss all affiliation determinations throughout the credit memo.

The Importance of Affiliation Analysis in 7(a) Lending

SBA determines affiliation when an applicant business or its owner maintains ownership interests in other businesses, whether directly or indirectly. Because these determinations are not always straightforward, lenders must document their conclusions thoroughly.

Once lenders identify which businesses meet SBA's definition of an affiliate, they must continue the analysis. Lenders must clearly document the specific affiliation regulations they applied, whether based on ownership, or an internal test defined by lender policy. Lenders must also explain why they classified each business as an affiliate or excluded it from that designation. Without this documentation, reviewers may determine that the analysis lacks support or appears incomplete.

After identifying all affiliates, lenders must incorporate these determinations into the credit memo in a way that supports 7(a) loan eligibility and demonstrates compliance with SBA requirements and lender expectations.

Clearly Documenting Affiliates and Non-Affiliates

Lenders must include a clear and concise summary of affiliates and non-affiliates in every SBA credit memo involving multiple businesses or ownership interests. If the applicant has no other ownership interests, lenders must document that as well. The summary must identify each related entity and explain the rationale for its classification. This documentation demonstrates that lenders performed the required due diligence and can defend their conclusions.

SBA's Universal Purchase Package (UPP) requires lenders to provide the documentation used in the affiliation analysis. When lenders omit this information or provide insufficient detail, SBA may classify the file as deficient, even if the underlying eligibility determination is correct. In contrast, well-documented affiliation determinations make the credit memo easier to review and defend during SBA audits or guaranty purchase reviews. Proper documentation shows how lenders reached their affiliation conclusions at loan origination.

Evaluation Size Standards and Eligibility

After identifying all affiliates, lenders must test size-standard eligibility. To determine whether an applicant qualifies as a small business, lenders must evaluate the receipts or employee counts of the borrower and all affiliates together. Eligibility issues often arise when lenders identify affiliation late in the underwriting process or overlook it entirely.

Under Industry Size Standards, lenders determine eligibility based on the NAICS code of the applicant's business. Depending on the industry, lenders must measure size by average annual receipts or employee count. Calculate average annual receipts using 3 or 5 years (as permitted) and include the receipts of the applicant and all affiliates.

Lenders may also apply SBA's Alternative Size Standards. Under this method, lenders must confirm that the combined tangible net worth of the applicant and its affiliates do not exceed $20 million and that their combined average net income after taxes does not exceed $6.5 million. [6] The applicant must meet both thresholds to qualify as a small business eligible for SBA financing.

A business may appear to meet size standards on its own but exceed thresholds once lenders include affiliates. If this occurs, the loan becomes ineligible for 7(a) financing. To prevent this issue, lenders should evaluate affiliation and size standards early in underwriting rather than during final review. The credit memo must clearly state the final size-eligibility conclusion and explain the rationale supporting this determination.

Reviewing Affiliate Financial Trends

Beyond eligibility considerations, lenders must review and discuss affiliate financial performance within the credit memo. An analysis of financial trends provides insight into how a business owner operates and manages related

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[6] SOP 50 10 8. pg. 15

entities, which becomes especially important when the applicant business is a start-up or has limited operating experience.

Positive trends among affiliates can strengthen the overall credit request by demonstrating capable management. Conversely, negative trends should signal potential concerns. Financial stress within an affiliate may eventually affect the applicant through increased cash demands on the owner or intercompany support.

Evaluating affiliate trends helps lenders understand how the owner operates their businesses and supports more informed credit decisions.

Cash Flow Analysis of Affiliates

When lenders identify affiliates, they must include each affiliate's cash flow in the global cash-flow calculation for Standard 7(a) loans. The credit memo must present a separate cash-flow chart for each affiliate because this analysis directly affects global debt-service coverage (DSC).

The applicant must show a reasonable ability to repay, and lenders often establish their own policy minimum (often 1.15x-1.25x). If an affiliate shows a cash-flow shortfall, the shortfall may reduce global DSC. If global DSC falls below the lender's policy maximum or SBA requirements for Standard7(a) loans, the loan generally fails repayment ability.

SBA does not require lenders to include non-affiliates in the global DSC calculation. However, some lenders maintain internal policies requiring analysis of all businesses owned by the guarantor. When applying such a policy, lenders must clearly state in the credit memo that the entity does not meet SBA's definition of an affiliate and that the financial analysis is included solely to satisfy lender requirements and prudent underwriting standards. This distinction helps avoid confusion during SBA reviews and reinforces compliance with SBA requirements.

Conclusion

Evaluating affiliation plays a critical role in confirming 7(a) eligibility and protecting the guaranty. When lenders overlook or inadequately document affiliation, they create eligibility risks that may not become apparent until after closing. To prevent these risks, lenders must clearly identify all affiliates and non-affiliates and support their conclusions with well-documented rationale in the credit memo. The discussion in the credit memo about affiliation is incomplete without also discussing the limit on maximum dollars guaranteed, which includes the applicant and its affiliates. The maximum outstanding dollars guaranteed is $3.75MM, inclusive of all 7(a) and 504 debt of the applicant and affiliates.

Lenders must analyze and clearly present size-standard eligibility, financial trends, and global cash flow. A missed affiliate can materially affect size-standard conclusions or global cash flow and may cause an otherwise strong loan to become ineligible for SBA support, resulting in a guaranty denial.

Trust, Transparency & Accountability in 7(a) Lending

Melanie Kearney | Lending Professional

Working in the lending industry is something special. We are called to help small businesses, which are the backbone of our nation's economy. The lending process can be compared to a sport, requiring trust and a shared purpose among the team. I recall working at a prior institution where we included bold verbiage on term sheets instructing applicants not to pay any fees outside of closing and to notify us immediately if they were asked to do so. At the time, it seemed superfluous; yet guidelines and guardrails often exist because past harm has shown they are necessary. It is difficult to fathom someone taking advantage of a small business, but the sad reality is that it does happen. SBA industry professionals have a responsibility to protect applicants—and the 7(a) Loan program—from the harmful practices of a minority of dishonest agents.

Agent monitoring by each institution may not be sufficient. My background in mortgage lending required key personnel involved in transactions to obtain and disclose their NMLS number. This unique identifier is issued by the Nationwide Mortgage Licensing System and is required under the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act), with the purpose of improving supervision and transparency. For 7(a) lending, this level of oversight is conducted by the Office of Credit Risk Management (OCRM). SOP 50 10 8 states: "The Director of SBA's Office of Credit Risk Management (OCRM) may, for good cause, suspend or revoke the privilege of an Agent to conduct business with the government. The suspension or revocation will remain in effect during any administrative proceedings under SBA regulations at 13 CFR Part 134. The meaning of 'good cause' can be found at 13 CFR § 103.4."[7]Unfortunately, by the time OCRM is able to follow the trail of misconduct, the damage is often already done.

SOP 50 10 8 also states: "SBA expects 7(a) Lenders to exercise due diligence and prudent oversight of their third-party vendors, including LSPs, and other loan agents."[8]

My former institution vetted agents—including SAM searches—prior to authorizing them to refer business. At any given time, there were over one

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[7] SOP 50 10 8, p. 69

[8] SOP 50 10 8, p. 68

hundred registered referral partners. Managing such a large database required significant human capital and expense.

A centralized, SBA-managed platform—ideally a Nationwide Small Business Licensing System (NSBLS)—could track agent documentation within E-Tran. Although OCRM actions are confidential, if a lender attempted to enter an application involving an unregistered referral partner, the system could flag it. Like exception codes for new loan applications, perhaps there could be warning flags that do not breach confidentiality. Every lender would have access to the same information, creating consistency and transparency. Additionally, applicants could search the database to make informed decisions about whom they choose to work with. Each lender could pay a modest fee for the service.

There should also be educational requirements for individuals acting as agents. Most applicants expect agents to be well-versed in SBA lending, yet there is currently no way for clients to compare agents' training or education to make an informed choice. There is no standard database for tracking credentials, nor is there a required level of training to act as an agent. By comparison, licensed mortgage brokers are required to complete pre-licensing education, pass an examination, and complete continuing education to maintain licensure. This information is stored in the NMLS database, presenting another opportunity to enhance the vetting process for brokers and agents in SBA lending.

Best-selling author and leadership coach Dr. Marshall Goldsmith said, "People are more inclined to pass the buck than they are to take responsibility. The fact is, though, passing the buck doesn't build your character or give you the opportunity to learn from your mistakes." The goal here is not to criticize agents. On the contrary, I have a genuine appreciation for the sales professionals who work tirelessly with a true passion for helping small business owners and their communities. I have witnessed their resilience in difficult times, admired the intellectual rigor involved in structuring complex deals, and respected the long hours and deep relationships agents build. For many, this work is a calling. The goal is to improve the process by establishing one centralized database for assigning credentials, monitoring nonperforming referral patterns, logging reprimands, and demanding ethical behavior across the SBA lending industry.

Small business owners count on the SBA to both provide funding and protect their interests throughout the lending process. In March 2025, the House Small Business Committee passed H.R. 1804, the *Small Business 7(a) Loan Agent Oversight Act*, which mandates SBA's Office of Credit Risk Management (OCRM) to report annually on loan agents. Its goal is to address loan agent fraud, which Pennsylvania Congressman Dan Meuser reports has exceeded $335 million over the past ten years.[9] The next logical step is to centralize agent data and make it accessible to all stakeholders so they can make prudent, informed decisions.

SBA provides access to capital that advances our nation's economy. Trust, transparency, and accountability are vital to the optimal performance of this important program and are critical for all participants.

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[9] https://meuser.house.gov/media/press-releases/congressman-meusers-bill-improve-ove rsight-sba-passes-house-small-business

SBA Working Capital Pilot Program

Adam Kirkbride | Commerce Bank

In 2024, the Small Business Administration (SBA) introduced the Working Capital Pilot (WCP) Program. Although it is not the first asset or transaction-based line of credit offered by SBA, it built on and expanded previous programs in meaningful ways. Borrowers and lenders were excited about the new opportunities. "Working capital is critical to growing small businesses," said SBA Associate Administrator for the Office of Capital Access, Thomas Kimsey. "We view the WCP as an opportunity for SBA lenders to expand their offerings and complement their core 7(a) offerings." But what exactly is the WCP and how can lenders ensure that they continue their prudent lending practices while utilizing this potent new program?

The WCP program is a 7(a) line of credit (LOC) supported by a 75% SBA guarantee. Loan amounts are available up to $5 million, with terms up to 60 months. The line can be collateralized by either a borrowing base certificate or specific transactions with a signed contract and an assignment of proceeds. The funds can be used for working capital to fund individual projects or orders throughout their life cycle to remove the working capital bottleneck to growth.

SBA can point to the WCP program as evidence it has been listening to feedback on its existing options for monitored lines of credit: CAPLines and Export Working Capital Program (EWCP) Lines. CAPLines offer needed flexibility for various domestic capital needs but have a clunky fee and term structure that doesn't match the annual flow of conventional bank lines of credit. The EWCP addresses the fee structure but is limited to borrowers with international sales. The WCP addresses both concerns and provides additional options for lenders.

WCP is SBA's most flexible monitored working capital offering as compared to CAPLines and EWCP. It is a monitored line of credit which uses business reports for inventory, accounts receivable, and signed contracts to determine how much credit is available at any given time. It offers several innovative new features, including an annual fee structure (modeled after the EWCP) with an annual SBA guaranty fee structure, assessed proportionally based on each year the facility is in use, support for both transaction-based and asset-based lending, and the ability to provide working capital for both domestic and international orders under a single loan facility.

Experienced lenders will already recognize the extra WCP requirement: loan monitoring. The existing EWCP and CAPLine programs represent less than 1% of all SBA loans originated in FY2025[10], so it's safe to say that loan monitoring is not something that most lenders like. Understanding loan monitoring starts with understanding the difference between transaction-based and asset-based lines. A transaction-based LOC will fund by the value of purchase orders or contracts prior to shipment. An asset-based LOC will fund using the value of in-stock inventory and billed but unpaid accounts receivable.

Where does a new lender get started? The SBA WCP Program Guide provides valuable guidance. Section 8 in the Program Guide is **WCP Specific Loan Closing and Disbursement Requirements.** This section goes over the different loan structures for WCP loans. For transaction-based loans, a lender will have to monitor each new purchase order or contract that the borrower would like to fund. For asset-based loans, the Program Guide states that, "All Asset-Based WCP loans must be administered using a Borrowing Base Certificate (BBC)." [11]- A BBC is a listing of all assets eligible to be used as collateral for the WCP loan, including inventory and current A/R, which is then subject to an advance rate to determine the amount of available credit.

SBA requires this monitoring to be done on a regular basis: either as each transaction is initiated for transaction-based lines, or monthly for asset-based lines over $1MM, and at least quarterly for lines of $1 million or less, unless the lender or SBA requires more frequent monitoring. This monitoring can be done in-house by the lending institution, or by using third party vendors that can be engaged to handle monitoring and disbursement approval to assist banks without the staffing or capability to cover this. The third-party vendors (who may be considered Lender Service Providers (LSPs) and are subject to SBA approval and lender oversight under applicable SBA requirements) work directly with the borrower and prepare all the required documentation to present to the lender. This allows the lender to simply review the information provided and fund based on reliable third party, verified information. However, the lender may not rely solely on the third party, as SBA requires the lender to make all underwriting and approval decisions and holds lenders responsible for all actions taken by the lender's agents, including LSPs.

All this new information and tracking can be daunting. New programs with unfamiliar requirements introduce extra risks and failure points, and growing

[10] SBA FYE25 7(a) and 504 Activity Report
[11] SBA 7(a) Working Capital Pilot Program Guide 8/1/2024

pains can frustrate and disappoint borrowers. This program requires ongoing communication and coordination with borrowers to make sure that funds are available when needed.

What benefits are there for lenders? WCP can become a powerful new tool in the SBA toolbox, allowing a lender to find the SBA loan offering that works best with each borrower's business model. A WCP line of credit offers lenders a new way to help borrowers achieve their goals. The WCP offers many benefits to both borrowers and banks over conventional and existing SBA LOC options, including:

- higher advance rates, larger loan amounts, lower costs, and longer terms,
- new markets for lenders to service,
- potential fee income, and
- the security of a 75% SBA guarantee.

This program also works hand in hand with the SBA focus on American Manufacturing. With WCP financing, manufacturers can offer larger product runs, longer payment terms or more flexible financing structures to their customers, opening new markets and opportunities for growth.

In addition, regular communication encouraged by the program builds strong relationships with borrowers. When a bank uses a creative program to successfully help borrowers grow and succeed in new ways, those borrowers can become cheerleaders for the lender, bringing additional new relationships through referrals. Although the program is only in its pilot stages, the benefits to borrowers are already crystal clear. Lenders with knowledge of this program will set themselves apart in a crowded marketplace.

Fueling Growth: How SBA Lending Powers Business Expansion

Emily Mahan | First Service Bank

Business owners are continually seeking opportunities to grow and strengthen their operations. Individuals may begin their entrepreneurship with a new idea or an existing one that results in a start-up operation or the purchase/acquisition of a business. SOP 50 10 8[12] defines a "*New Business*" as one operating for 2 years or less. A business operating more than 2 years may still be classified as a new business if there is a change of ownership, and that change includes unproven ownership or management. An acquisition occurs when an existing business is purchased by a different owner. Examples include purchasing a competing business/firm or buying out a business from an owner who may be retiring. SBA defines a *"Start-Up Business"* as a business that has been in operation (generating revenue from intended operations) for 1 year or less. [13]

Because SBA also considers a new business to include a change of ownership that results in new, unproven ownership and/or management and increased debt unrelated to the ongoing operations, SBA mandates an equity injection to mitigate risk. In contrast, once an entrepreneur is established, growth can often be achieved by expansion. SBA has carved out opportunities and more flexible terms when a business is looking to expand.

Projects in the start-up or acquisition category financed under the SBA 7(a) Loan Program must meet specific requirements related to equity injection, repayment ability, and collateral support. SBA mandates a minimum 10% equity injection for start-ups and complete changes of ownership.

However, when a loan is determined to be a business expansion, borrowers may benefit from more flexible equity requirements. In many cases, expansion projects may not require the borrower to contribute the typical 10 percent equity injection that is commonly required for start-up businesses or a complete change of ownership. SBA considers a business expansion to be when an existing business starts or acquires another business that has an identical 6-digit NAICS code and identical ownership as the acquiring entity.

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[12] SOP 50 10 8, p. 408

[13] SOP 50 10 8, p. 411

[14] If both of these conditions are not met, then the transaction is not considered a business expansion.

By expanding, small businesses can introduce their products and services to new markets, reach additional customers, and broaden their overall business footprint.

From a lending perspective, expansion projects typically involve established businesses with proven operating histories. Lenders examine a business's historical financial data to determine whether the business can handle a business expansion and the additional debt service requirements. Additionally, applicants can provide supporting documentation showing how the expansion is expected to enhance revenue, increase efficiency, or strengthen market position.

What does SBA consider to be a business expansion?

SBA considers business expansion to be when an existing business starts or acquires another business that has an identical 6-digit NAICS code and ownership as the acquiring entity. If the NAICS code is not identical to the existing business, then the transaction is not considered a business expansion[15]. For example, if John Smith currently owns and operates a jewelry store and chooses to open a second jewelry store, SBA considers this to be a business expansion, and not a new business. If the entity purchased remains operational, rather than becoming a second location of the purchasing entity, it is an SBA requirement that both businesses must be co-borrowers. [16]

Understanding how the SBA defines and evaluates business expansion is important for business owners seeking financing, as eligibility requirements, loan structuring, and documentation standards may vary depending on how the project is classified.

Consider the example of Joe Brown, who currently owns and operates a poultry farm. If John chooses to purchase or construct a second poultry farm, SBA considers this to be a business expansion. While the second farm may involve new poultry houses, equipment, and a different operating location, the ownership structure remains unchanged, and the business continues to operate within the same industry classification as the existing farm. For the lender financing the expansion, operational success has been proven. The

[14] SOP 50 10 8, page 131
[15] SOP 50 10 8, page 131
[16] SOP 50 10 8, page 134

lender has verified the success of the existing farm and is able to provide reasonable justification for financing a second farming operation.

Conversely, not all new ventures qualify as business expansions. For instance, if Jane Wright owns a coffee shop and decides to open a clothing boutique with her sister, the new boutique would not meet the SBA's definition of expansion because the two operating companies are not in the same 6-digit NAICS code and because the ownership is not identical. The ownership structure would change with the addition of a new partner, and the business activity would fall under a different industry classification. In this situation, the project would be treated as a start-up or new business venture, which would involve different eligibility standards and an equity injection to mitigate the inherent risks of a new operation.

Equity Injection Requirements in Expansion Transactions

A common question in expansion transactions is whether an equity injection is required. If a loan truly meets the SBA's definition of a business expansion, i.e., it operates in the same 6-digit NAICS code, has identical ownership, and co-borrower requirements are met, SBA does not require an equity injection unless the lender independently determines one is necessary. However, it's important to ensure that the loan will meet SBA's minimum credit requirements, including that the business must be creditworthy, the loan must be so sound as to reasonably ensure repayment, and that the business has enough equity and cash to operate. Additionally, SBA requires that lenders use appropriate and prudent generally acceptable commercial credit analysis and procedures consistent with those used for their similarly sized, non-SBA guaranteed commercial loans.

Business expansion using 7(a) financing is a helpful tool to grow entrepreneurship. Properly identifying a business expansion requires prudent analysis of ownership, industry classification, and determining prudent equity requirements. Understanding these factors allows for lower risk financing opportunities for both Lenders and borrowers to support growth, while also maintaining eligibility. Applying and understanding the guidelines for expansion allows lenders to structure sound and successful credits with business owners while utilizing the 7(a) loan program.

Prudent Lending for Business Acquisitions

Joseph Marciano | Western Alliance Bank

The SBA 7(a) loan program can be a powerful vehicle for lenders to finance business acquisitions. When credit is not available elsewhere through conventional financing, the 7(a) loan program allows lenders to finance acquisitions for eligible applicants, making it an attractive product for both lenders and borrowers. The SBA approved a record of more than 77,000 SBA 7(a) loans totaling $37 billion in fiscal year 2025[17]. According to a report from the McKinsey Institute for Economic Mobility, baby boomers own approximately six million small- to medium-sized businesses valued at an estimated $5 trillion that are expected to change hands over the next decade[18]. Given the growth of the 7(a) loan program in recent years and the number of businesses projected to change ownership, it is reasonable to assume lenders will increase their use of the program to finance acquisitions. For lenders to succeed in the 7(a) space, ensuring compliance with SBA requirements is a starting point, but implementing prudent lending practices can support long-term performance.

The 7(a) loan program allows lenders to offer applicants favorable terms, including longer repayment periods and lower down payment requirements. For complete changes of ownership, SOP 50 10 8 generally requires a minimum equity injection of 10% of total project costs (subject to specific exceptions described in the SOP).[19] Lenders must also ensure the business is eligible under 7(a) loan program requirements, is a for-profit entity, demonstrates adequate repayment ability, and conforms to all 7(a) loan program requirements. While many lenders use debt service coverage ratio (DSCR) thresholds in underwriting, the applicable DSCR standard should be documented in the lender's credit analysis consistent with SBA policy and the lender's own prudent lending standards. Once a lender confirms the general eligibility requirements have been met to finance a business acquisition via

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[17] U.S. Small Business Administration, SBA 7(a) loan program fiscal year 2025 lending statistics

[18] Ken Yearwood and Shelley Stewart III with Nathan Marks and Nick Noel, "The Great Ownership Transfer: A New Era of Business Stewardship," *McKinsey Institute for Economic Mobility* (February 26, 2026)

[19] SOP 50 10 8, Section B, Chapter1, Equity Requirements and Section B, Chapter 2, 7(a) Small Equity Requirements

the 7(a) loan program, it should implement prudent lending practices to support a successful transition and ongoing repayment.

Lenders should emphasize buyer qualifications, as applicants with direct industry experience may present reduced default risk. Lenders can evaluate this through resumes, prior ownership experience, and relevant or transferable skills. Lenders should also review the business plan to confirm a transition plan is in place and assess whether the incoming ownership has the capability to execute it—ideally early in the sales process. This analysis should include an evaluation of character through a review of the guarantors' credit history. Do the guarantors have a history of honoring their obligations and adequate experience in the industry? If so, lenders can proceed with cautious optimism in continuing to evaluate the request.

In addition to the buyer's qualitative qualifications, lenders should evaluate quantitative measures of post-acquisition viability, including post-closing liquidity. For change-of-ownership transactions, SBA expects financial projections to be supported by reasonable assumptions and to reflect the post-transaction capital structure and operating plan. Lenders can use these projections to assess post-closing liquidity to determine the borrower's ability to meet working capital needs after closing.

One metric lenders can use to evaluate post-closing liquidity is the current ratio, which measures a company's ability to pay short-term obligations (due within one year or operating cycle) using current assets, which are the assets that are expected to be converted into cash within one year or operating cycle. A post-closing current ratio of less than 1.00x indicates the business may not have sufficient current assets to cover current liabilities over the upcoming year. Another practical metric is confirming the applicant has enough cash (or readily accessible funds) to cover approximately one to six months of fixed operating expenses.

Lenders may consider a revolving line of credit (including, where eligible, SBA Express) in connection with an SBA 7(a)-financed business acquisition when additional working capital is needed. Seasonal trends may also factor into whether a revolving line is appropriate. A line of credit can be a prudent tool to help mitigate insufficient working capital post-closing and to support long-term repayment ability. If additional financing is included in the project, lenders must ensure equity injection requirements are met for the overall project, consistent with SOP 50 10 8. Lenders can also ask the applicant whether the seller is willing to provide concessions that enhance post-closing liquidity or otherwise strengthen the transaction.

Negotiating for additional post-closing liquidity from the seller is a viable alternative to a revolving line of credit. Often, a selling owner may agree to such a request in exchange for consideration (for example, an increase in purchase price), which should be supported, as applicable, by an independent third-party business valuation. A lender may also deem it prudent for the selling owner to participate in the transaction's financing if the applicant can successfully negotiate seller participation.

A selling owner willing to finance a portion of the purchase price through a seller note can demonstrate confidence in, and a vested interest in, the business's continued success. It can also benefit the lender by reducing loan-to-cost and overall exposure. If seller financing is included, it may be prudent to include subordination language that allows the lender to suspend payments on the seller note if certain criteria are met. Seller financing (and other prudent practices) is not foolproof, but it can improve the likelihood of a successful transition and repayment. If the seller note is used as part of the SBA-required equity injection, SOP 50 10 8 requires it to be on full standby (no principal or interest payments) for the life of the 7(a) loan, and it may count for no more than 50% of the SBA-required equity injection.

In a space expected to grow, it is imperative that lenders not only ensure 7(a) loan program requirements are met but also implement prudent practices when evaluating acquisition financing requests. Emphasizing buyer qualifications (including relevant industry experience), post-closing liquidity metrics, and potential seller participation are all prudent ways to increase the probability of successful repayment. Consistently applying these practices when evaluating business acquisition requests can benefit both lending institutions and applicants while maintaining the integrity of the SBA 7(a) loan program.

Utilizing AI for Underwriting 7(a) Loans

Matt Moore | Old National Bank

Historically, SBA underwriting has been time-consuming, document-intensive, and heavily dependent on human judgment. Loan files often require extensive documentation review, financial analysis, eligibility verification, and narrative justification. This article explores how AI can be responsibly integrated into the 7(a) loan underwriting process to increase efficiency, strengthen adherence to risk management guidelines, and improve the overall experience for underwriters and borrowers, without replacing human decision-making. The most effective use of AI in 7(a) loan underwriting is as a decision-support mechanism, not a decision-maker.

Although integrating AI into a lender's workflow can be a helpful tool, lenders are ultimately responsible for certifications and documentation and SBA places that responsibility on the lender for all work produced and performed in the 7(a) lenders name.

The integration of artificial intelligence into banking operations is evolving at an unprecedented pace. New tools, vendors, and technological capabilities are emerging almost daily. Despite this rapid advancement, SBA guidance and requirements do not specifically address AI usage, particularly within the underwriting function. As a result, implementation standards, risk tolerances, and oversight practices are largely being defined at the institutional level rather than through uniform industry guidance.

For most financial institutions, adopting AI represents varying degrees of operational and cultural change. Larger or more technologically advanced institutions may already utilize AI for fraud monitoring, transaction analysis, or document recognition. Others remain cautious due to regulatory uncertainty, reputational risk, data privacy concerns, or limited internal expertise. Regardless of the adoption stage, institutions must recognize that AI implementation is not simply a technological decision, it is a risk management, compliance, and governance decision.

The lender's decision process for underwriting 7(a) loans must account for several critical components including but not limited to:

- SBA eligibility determination
- Cash flow and global debt service analysis
- Collateral evaluation and risk mitigation

- Narrative and Credit Memo

AI can be deployed strategically to support each of these areas.

Eligibility Screening

By applying rule-based logic, these systems may help identify:

- Ineligible industries
- Prohibited use of proceeds
- Ownership structures that conflict with SBA guidelines
- Affiliation concerns
- Size standard violations

Rather than replacing eligibility determinations, AI acts as an early screening mechanism, reducing oversight risk and ensuring consistency in application of rules.

Financial Analysis

AI models can evaluate multi-year historical financial performance, identify trends in revenue, margins, and expenses, and flag inconsistencies between tax returns and financial statements. Systems can automatically calculate global debt service coverage ratios, liquidity measures, leverage ratios, and working capital trends. Stress testing scenarios, such as revenue declines or interest rate increases, can be modeled quickly. This allows underwriters to focus more attention on qualitative assessments such as management strength, market conditions, and business sustainability.

Collateral Evaluation

AI streamlines collateral evaluation by automatically collecting and analyzing real-time data on property records, equipment values, and comparable sales. Machine learning models can identify valuation trends, flag inconsistencies in borrower-reported assets, and estimate liquidation values under various market conditions. This improves accuracy, speeds up underwriting, reduces manual appraisal costs, and helps lenders make more consistent, data-driven collateral decisions while maintaining compliance with SBA guidelines. AI tools may supplement data gathering and risk review but do not replace SBA-required appraisals or collateral valuation standards under SOP 50 10.

Narrative and Credit Memo Drafting Support

Clear and well-documented credit narratives are a cornerstone of 7(a) underwriting. AI can assist by:

- Generating a first-draft credit memoranda based on extracted financial and eligibility data
- Summarizing multi-year financial trends in a structured format
- Highlighting strengths, weaknesses, and mitigating factors
- Ensuring consistency in terminology, formatting, and grammar

Underwriters remain responsible for validating all conclusions, adding qualitative insight, and making final recommendations. However, AI can significantly reduce drafting time and promote standardization across credit presentations.

Beyond these core underwriting components, AI drives broader institutional benefits across speed, pattern recognition, and compliance.

Speed and Efficiency

SBA loan files can contain hundreds if not sometimes thousands of pages, including tax returns, financial statements, personal financial statements, business plans, leases, appraisals, environmental reports and legal documents. Automated tools significantly streamline the front end of underwriting by:

- Automatically classifying uploaded documents
- Identifying missing, outdated, or inconsistent items
- Standardizing data across varying formats (PDFs, scans, spreadsheets)
- Extracting key data fields such as revenue, expenses, debt obligations, and ownership percentages

This reduces manual data entry, minimizes clerical errors, and accelerates file preparation.

Risk Pattern Recognition

For existing borrowers, AI may help analyze historical loan performance, payment trends, and industry-specific performance indicators. It can also compare borrower data against aggregated industry benchmarks to highlight potential risk concentrations or emerging sector weaknesses. This broader context enhances risk awareness without removing human oversight.

Oversight and Compliance

Regulatory transparency is critical. SBA lenders must be able to clearly explain how credit decisions are reached, both internally and to external regulators or auditors. Therefore, AI tools used in underwriting should prioritize explainability over complexity.

Best practices include:

- Utilizing transparent, rule-based, or interpretable models
- Maintaining detailed documentation of AI inputs, outputs, and decision-support processes
- Prohibiting fully autonomous approval or denial decisions
- Conducting regular validation testing for accuracy, bias, and fair lending compliance
- Implementing periodic audits and model performance reviews

Governance

Successful AI deployment requires a comprehensive governance framework. This includes:

- Formal policies defining acceptable AI use across all departments
- Clear delineation of roles and responsibilities
- Vendor risk management and third-party oversight
- Ongoing performance monitoring and model validation
- Data privacy and cybersecurity controls
- Employee training on interpreting and challenging AI outputs

Governance must extend beyond underwriting to ensure consistency across the institution. AI should be embedded within existing risk management frameworks rather than operating as a standalone tool.

AI can efficiently handle data ingestion, document classification, financial calculations, pattern recognition, and initial drafting. This allows underwriters to dedicate more time to judgment, exceptions, compliance considerations, and borrower engagement.

When implemented responsibly, AI offers a meaningful opportunity to modernize SBA underwriting by improving efficiency, consistency, and analytical depth, while preserving the human expertise and regulatory discipline that defines sound lending practices.

If utilized properly, with strong controls in place, AI can be a very valuable and time-saving tool used in reaching overall underwriting loan decisions. The overall goal of this article is to focus on how important it will be for SBA leaders and managers to implement the use of these tools as the industry as a whole is looking to adopt this technology.

Navigating Dual Agent Compensation in 7(a) Loans

Kasey Polk-Ferguson | Port 51 Lending

The responsible and ethical use of Agents in the 7(a) loan process presents one of the greatest compliance challenges SBA lenders face. Agents can be a helpful third party to assist in loan origination and closing, but they also can be a frustrating point of miscommunication and unrealistic, borrower expectations. An added layer of complication for lenders is the growing trend by agents to collect multiple fees from both the borrower and lender in a single transaction. Lenders struggle to understand whether this is permitted and if so, what fee disclosure requirements and fee prohibitions set forth in the SOP 50 10 8 apply.

SBA defines “Agent” as an “authorized representative, including an attorney, accountant, consultant, packager, lender service provider, or any other person representing an Applicant or Participant by conducting business with SBA.” Agents often assist in the preparation of the transactional documents for the transaction, business plan, cash flow projections, and other documentation required by the lender for the application. A single Agent may serve multiple roles in a 7(a) loan transaction under SOP 50 10 8 including, but not limited to, both Referral Agent and Packager.

The SOP permits an Agent to be a Referral Agent for a lender and a Packager for an applicant, provided both the applicant and the lender are fully informed of the dual relationships, and the Agent does not receive a referral fee from the applicant or a packaging fee from the lender.. This is the only situation where an Agent can receive compensation from both the lender and the applicant. p. 70. The purpose of this article is to provide Lenders with clarity on what to do [This article is intended to provide lenders with practical guidance on how to address] in the event they are notified that the Agent is charging the Lender a Referral Fee and Borrower a Packaging Fee.

Under the SOP 50 10 8, a Referral Agent is “a person or entity who identifies and refers an Applicant to a lender or a lender to an Applicant. The Referral Agent may be employed and compensated by either an Applicant or a lender” SBA permits the referral agent to be employed and compensated by either an applicant or a lender, but not both. The referral fee must be disclosed on the SBA Form 159 which must be signed by the referral agent, borrower, and lender. SBA Form 159 requires supporting documentation for the referral fee such as an invoice. Form 159 must be completed regardless of whether the fees are financed or paid outside of closing, and all fees paid to an agent, regardless who pays or the amount, must be disclosed on Form 159. This is in contrast to fees that lenders pay that only must be disclosed on 159 if they are greater than $2,500.

A packager is “an Agent who is employed and compensated by an Applicant or Lender to prepare the Applicant’s application for financial assistance from SBA.”[20] A packaging fee can be charged to the applicant by either the agent or lender, but not both. A packaging fee charged by a third-party agent must be disclosed on SBA Form 159 which must be signed by the referral agent, borrower, and lender. SBA Form 159 requires supporting documentation such as an invoice. For packaging services exceeding $2,500.00, the invoice must contain an itemization including (1) a detailed explanation of the work performed, (2) whether the compensation is based on an hourly rate or on a percentage of the Loan amount, and (3) if the compensation is based on an hourly rate, the hourly rate and the number of hours spent working on each service performed. [21]
The SOP has specific fee limitations for packaging fees. SBA does not permit standard or flat fees charged to all borrowers, contingency fees, or charges for services that are not reasonably necessary in connection with an application. . There is no maximum limitation if an agent is charging a borrower a packaging fee based on an hourly rate. However, the fees must be reasonable and customary for the services performed. The hourly rate and time spent on each service must be documented. Packaging fees based on a percentage of the loan amount do have maximums. Specifically, the fee may not exceed: (1) 3 percent on loans of $50,000 or less; (2) 2 percent for loans between $50,000 and $1,000,000; and (3) 0.25 percent on the portion over $1,000,000. Additionally, the maximum fee that may be charged in the aggregate to an Applicant on a percentage basis is $30,000.

SBA expects lenders to exercise prudent oversight of agents. Lenders have a responsibility to review all services performed and related fees charged to the lender or the borrower by a third-party agent to ensure such fees are necessary and reasonable, particularly in the event of a borrower complaint. It can be difficult for lenders to navigate this obligation when they did not engage the agent for packaging services. An added layer of complexity is if the

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[20] SOP 50 10 8, p. 71
[21] Pg. 1 of the SBA Form 159

borrower requests that the third-party agent's packaging fee be financed with 7(a) loan proceeds.

Lenders should have written policies on how to handle dual agent compensation. It is vital for lenders to identify whether the referral agent will be charging a packaging fee early in the process to avoid last-minute changes or challenges in the loan process. If a lender has agreed to finance the third-party packaging fee, then it should include a specific description and approval of the same in its Credit Memo, including but not limited to the amount to be paid and source of funds. Otherwise, the borrower should bring funds to the closing to pay the packaging fee. Lenders must additionally review the packaging fee amount to confirm it aligns with the fee limitations, scrutinize the support documentation (i.e. invoice), and obtain the competed SBA Form 159.

By implementing these best practices, lenders can better ensure compliance with SOP 50 10 8 while effectively managing the growing trend of dual agent compensation to address this growing, industry trend in compliance with SOP 50 10 8.

Where Construction Risk Meets SBA Reality: Building a Framework That Actually Works

Jimmy Williams | Regions Bank

Construction lending can be a very complex and frequently misunderstood area of SBA 7(a) lending. Lenders may avoid it altogether, citing uncertainty, monitoring challenges, and concern that a single misstep could jeopardize the SBA guaranty. Others see opportunities but struggle to build a framework capable of managing the various moving parts. Regardless of where a department stands today, whether deeply involved in construction lending or just beginning to explore it—success consistently rests on three high-level principles: **establishing comprehensive policies and procedures, insisting on clear and consistent communication, and maintaining the ability to adapt**.

Stephanie Goins, Executive Vice President and Partner at CMR Partners, summarizes it well: “In my 30 years of experience, the projects that consistently run into trouble are the ones with little front-end analysis and weak third-party monitoring. Effective construction risk management identifies potential problems early, long before they become major issues.”

At its core, prudent underwriting mitigates some of the construction risk, while the construction management function is responsible for carrying that risk safely to the finish line. The following principles form the blueprint.

1. Build Comprehensive Policies and Procedures

A lender’s construction risk management framework must begin with strong, intentionally crafted policies and procedures (P&Ps). These should be updated over time to reflect new experiences, industry developments, and changes to bank or SBA requirements. Well-designed P&Ps provide continuity, define expectations, and reduce the likelihood that a project veers off course. Effective construction P&Ps generally address at least four essential categories:

Pre-Closing Due Diligence

Pre-closing is more than a checklist; it is the foundation of the entire project. A complete and accurate Project Cost Report (PCR), a fully vetted contractor package, required permits, and finalized plans and specifications establish realistic expectations before construction begins. In 7(a) lending, weaknesses in pre-closing documentation could be factors in guaranty repair or denial issues when projects encounter trouble later.

Draw Process Management

Once construction begins, the draw phase introduces the highest level of active risk. Even minor changes in schedule, budget, or plans can escalate into significant issues if not identified and addressed promptly. Tightly managing draw timing, documentation, approvals, inspections, and evidence of work completed is essential to maintaining program eligibility and overall project stability.

Funds Control

Funds control is where operational precision intersects with SBA compliance. Delayed payments, unclear disbursement practices, or insufficient lien protection can place both the borrower and the lender at risk. A clear plan for processing draws, verifying subcontractor payments, collecting lien waivers, and documenting disbursements protects the project and supports preservation of the SBA guaranty.

Independent Project Oversight

Many SBA departments do not maintain in-house construction expertise sufficient to manage more complex projects. In those cases, third-party construction monitoring firms can fill critical gaps. Beyond plan and cost reviews or periodic inspections, the most effective firms proactively flag market conditions, answer technical questions, and provide cost-per-square-foot and timeline analysis. These insights strengthen lender decision-making and allow management teams to maintain discipline within their construction risk framework. Strong partners also support internal training and process refinement—an important benefit in an industry where conditions evolve rapidly.

As Goins notes, the absence of strong policies exposes lenders unnecessarily: “Lenders without clear protocols see projects fall into trouble quickly, and often irreversibly. Without defined roles and consistent oversight, it becomes a ‘fox in the henhouse’ situation.”

2. Insist on Clear, Consistent Communication

Even the strongest policies and procedures will fail without disciplined communication. Construction involves numerous parties: the borrower, general contractor, subcontractors, architect, inspector, third-party monitoring firm, closing team, construction administration staff, and servicing. Miscommunication remains one of the most common root causes of delays, disputes, and cost overruns.

An effective communication tool is the **pre-construction call**, ideally held just before or immediately after loan closing. This call aligns all participants and establishes clear expectations for how the project will be managed and funded. Topics commonly addressed include:

- Communication channels and expected response times
- Borrower equity injection timing
- Draw request timing and required documentation
- Inspection and site visit expectations
- Change-order procedures
- Any additional lender requirements (e.g., date-down endorsements, surveys)
- Retainage payment expectations at project completion

Proactive communication ensures that deviations from the original plan are identified and addressed early, protecting both the project and the SBA guaranty. In this context, communication is not merely a courtesy; it is a core risk-mitigation tool.

3. Maintain the Ability to Adapt

Construction projects are dynamic by nature. Despite solid planning and thorough analysis, challenges will arise—weather delays, cost overruns, contractor substitutions, supply-chain disruptions, or unexpected site conditions. Policies and procedures establish guardrails; adaptability keeps the project moving safely within them.

A common example involves construction documentation. While many lenders prefer AIA-standard contracts, general contractors—particularly local or smaller builders—often use alternative forms. Effective construction teams focus on **substance over form**. If the contract clearly defines scope, pricing, schedule, change-order procedures, warranties, and responsibilities, it may still be acceptable even if it does not match an internal template. The key is having trained staff who can evaluate and interpret variations rather than rejecting them outright.

A Brief Case Example

A regional SBA lender recently financed a restaurant construction project that began to fall behind schedule. Because the lender had established strong construction management processes, the construction team quickly identified two developing issues: a subcontractor who had abandoned the job and a cost overrun related to changes in kitchen equipment specifications.

Due to requirements for documented change-order approvals, third-party monitoring, and regular construction status reporting, the lender was able to:

- Identify the subcontractor issue early
- Coordinate with the general contractor to secure a qualified replacement
- Document the borrower's ability to inject additional equity to cover the cost overrun
- Preserve the SBA guaranty

The project ultimately reached substantial completion only three weeks behind schedule, and the loan remained fully compliant.

Conclusion

Construction projects are undeniably challenging. Some lenders view them as transactions to avoid at all costs. However, with the right departmental framework, construction lending can be both manageable and rewarding. By establishing strong policies and procedures, insisting on clear and consistent communication, and maintaining flexibility to adapt as conditions change, SBA lenders can navigate construction risk while protecting both the borrower and the SBA guaranty. No framework eliminates all risk—but the right one makes construction lending not only possible, but successful.

Stephanie Goins (personal communication, 2026), Executive Vice President and Partner, CMR Partners.

What The Three Little Pigs Teaches Us About Government-Guaranteed Lending

Leo Story | FLL Mentor

The Three Little Pigs is a classic children's story that teaches us the importance of building a strong foundation for when the wolf comes knocking at the door. The third pig built his home out of brick, so the wolf was unsuccessful in blowing the house down. In the same way, SBA lending relies on a solid foundation to ensure the guaranty is protected when an adverse event comes knocking.

Foundation

Like the third pig, the lender needs to build a strong foundation for its loan package. The foundation includes prudent underwriting, with a focus on character, capital, and collateral, all of which impact the success of the business and the loan. SBA may periodically change requirements, but at its core, prudent lending practices always take center stage. The credit and underwriting teams ensure that adequate capital is injected into the project, the obligors have sufficient industry and management experience, and the lender has secured the loan with all available collateral. Many asset classes increase in value over time, so although a second mortgage on real estate may not add value at inception, it could be critical should liquidation become the means of recovery. Proper and prudent underwriting is the first step toward building a wolf-proof loan package.

Walls

After the underwriting team mitigates risk, the closing and disbursement team builds strong walls attached to the foundation. The E-Tran Terms and Conditions document provides the framework for the closing and disbursement process. Whether the loan is approved under unilateral authority or processed under non-delegated authority, the lender must follow the approval precisely. If changes need to be made, they must be approved in writing. If the construction process changes, the lender should follow the necessary steps to ensure the project is completed according to applicable local and state standards. Lastly, if the borrower does not use all the intended funds or needs additional money to complete the project, it is best to return to the foundation source for a revised underwriting package. These sturdy walls will help support the servicing and liquidation department as it manages the relationship.

Roof

When the wolf could not blow down the brick house, he went down the chimney. We all remember what happened then. The third pig was prepared for all variables. The servicing and liquidation department serves as the roof system for the loan relationship. This group completes site inspections and meets with the borrower, analyzes ongoing financials to identify potential issues, and proposes modifications when necessary. All these actions must be documented and tracked, and when required, approved by the SBA. The lender should closely monitor any changes in collateral or other liabilities to ensure the borrower is supporting its debt through cash flow, not additional borrowing. Quick interaction by the servicing team may prevent transfer to liquidation status. Should liquidation become necessary, engaging local counsel helps ensure compliance with various state-specific collection laws. All collateral must be identified and, if within SBA's recoverable value requirements, liquidated, and the obligors pursued when appropriate.

House Completed

Most businesses experience highs and lows, and some businesses fail because of changes in the marketplace or economic conditions. If the lender ensures that underwriting is prudent and meets commercially reasonable standards, the closing and disbursement teams follow the E-Tran Terms and Conditions, and the servicing and liquidation team is active in portfolio management, the SBA team has built a sound structure. When the wolf comes knocking at the door, the lender will be prepared with a complete, well-supported purchase package submission built on a strong foundation, sturdy walls, and a reliable roofing system.