



MEMO: Community Reinvestment Act – Loan Review Committee Members

B:Side Capital, a Colorado based non-profit corporation, appreciates the service of our SBA 504 Loan Review Committee Members. Our mission is to foster the economic growth of diverse small businesses. By serving on the B:Side Capital Loan Review Committee you are helping advance the mission of B:Side Capital as a US Small Business Administration Certified Development Company. One hundred percent of loans our Loan Review Committee will review are to “small businesses” as defined by the US Small Business, many with annual revenues totaling that of <\$1.0MM. Certified Development Companies such as B:Side Capital administer the SBA 504 program which primarily focuses on job creation and credit not otherwise available at similar terms.

As a Certified Development Company, all B:Side Capital borrowers and loans are required to meet the following specific qualifications:

SMALL UNDER SBA SIZE REQUIREMENTS

Be small under SBA Size Requirements (13 CFR Part 121). The Applicant may qualify under either the industry small business size standards or the alternative size standard.

1. Size Standards

- a. “Industry Size Standard.” The Applicant alone (without affiliates) must not exceed the small business size standard for the industry in which the Applicant is primarily engaged, and the Applicant when combined with its affiliates, must not exceed the size standard designated for either the primary industry (defined in 13 CFR § 121.107) of the Applicant alone or the primary industry of the Applicant and its affiliates, whichever is higher. SBA calculates annual receipts for both the Applicant and its affiliates based on Federal tax returns (13 CFR § 121.104). The table of size standards is found at 13 CFR § 121.201.
- b. “Alternative Size Standard.” The Applicant (including affiliates) must meet the following (Small Business Act, § 3(a)(5)):
 - i. The maximum tangible net worth may not exceed \$20 million; and
 - ii. The average net income after Federal income taxes (excluding any carry-over losses) for the 2 full fiscal years before the application date may not exceed \$6.5 million.
- c. The applicable size standards are increased by 25 percent when the Applicant agrees to use all of the financial assistance within a labor surplus area (labor surplus areas are designated by the Department of Labor). (13 CFR § 121.301(e))

Additionally, the loans that are reviewed through the SBA 504 Loan Review Committee must also show that credit is otherwise unavailable through conventional financing in the following manner:

DEMONSTRATE THE NEED FOR DESIRED CREDIT

Credit not available elsewhere - 13 CFR § 120.101

1. SBA provides business loan assistance only to applicants for whom the desired credit is not otherwise available on reasonable terms from non-Federal, non-State, and non-local government sources. Accordingly, SBA requires the Lender or CDC to certify or otherwise show that the desired credit is unavailable to the applicant on reasonable terms and conditions from non-Federal, non-State, and non-

local government sources without SBA assistance, taking into consideration factors associated with conventional lending practices, including: The business industry of the loan applicant; whether the loan applicant has been in operation two years or less; the adequacy of collateral available to secure the loan; the loan term necessary to reasonably assure repayment of the loan from actual or projected business cash flow; and any other factor relating to the particular loan application that cannot be overcome except through obtaining a Federal loan guarantee under prudent lending standards. Submission of an application to SBA by a Lender or CDC constitutes certification by the Lender or CDC that it has examined the availability of credit to the applicant, has based its certification upon that examination, and has substantiation in its file to support the certification.

2. The SBA Lender must certify and indicate that the Applicant does not have the ability to obtain some or all of the requested loan funds on reasonable terms from non-Federal, non-State, or non-local government sources, including from the SBA Lender or Third Party Lender, without SBA assistance.

Acceptable factors that support SBA Lender certification and demonstrate an identifiable weakness in the credit or exceed policy limits of the SBA Lender or the Third Party Lender include, among others:

- a. The business needs a longer maturity than the SBA Lender's/Third Party Lender's policy permits to reasonably assure the ability of the loan applicant to repay the debt from the actual or projected cash flow of the business (for example, the business needs a loan that is not on a demand basis);
- b. The requested loan exceeds the SBA Lender's/Third Party Lender's policy limit regarding the amount that it can lend to one customer;
- c. The collateral does not meet the SBA Lender's/Third Party Lender's policy requirements;
- d. The SBA Lender's/Third Party Lender's policy normally does not allow loans to new businesses (e.g., a business that has been in operation for a period of not more than 2 years) or businesses in the Applicant's industry;
- e. Any other factors relating to the particular credit that, in the SBA Lender's/Third Party Lender's opinion, cannot be overcome except for the guaranty. Examples of "other factors" may include business and personal credit history, management experience, leverage ratio, global cashflow, and loan size relative to the age of the business. The SBA Lender may cite the Applicant's inability to meet the SBA Lender's or Third Party Lender's conventional credit score policy as the sole reason that credit is not available elsewhere.

Given these requirements, please note that your services on the B:Side Capital SBA 504 Loan Review Committee services only those business that require the support of organizations such as B:Side Capital and the support of the US Small Business Administration to meet their capital needs.

In addition, bank financing related to a 504 project can qualify under CRA as Community Development if the financing meets both the SBA Size Standards as a small business and the purpose test. The purpose test requires that the financing activity must promote permanent job creation, retention and/or improvement for low-or-moderate income people or areas, or redevelopment by federal, state, local or tribal governments.

Thank you,

Jessica Stutz
Lending Director
jstutz@bside.org
303-657-0010 office