

§ 120.1821

basis SBA will review Pool Assembler Secondary Market activity and may designate additional broker-dealers as systemically important to the SBA Secondary Market.

§ 120.1821 What is the process to obtain designation as a Systemically Important Secondary Market Broker-Dealer?

(a) SBA will determine which Pool Assemblers are Systemically Important SBA Secondary Market Broker-Dealers (SISMBDs) and will notify each in writing.

(b) Once a Pool Assembler has been designated as an SISMBD, the designation will remain valid until February 16, 2011. After designation as an SISMBD, the Pool Assembler may apply for an SISMBD Loan following the procedures set forth in 120.1822 herein.

§ 120.1822 What is the process to apply for an SISMBD Loan?

(a) To apply for an SISMBD Loan, an SISMBD must submit an SISMBD Loan Application to the Director of the Secondary Market Lending Authority.

(b) The SISMBD Loan Application contains the following information:

(1) Information demonstrating the applicant is creditworthy and has the resources to repay the loan;

(2) A statement of the amount requested;

(3) Applicant's IRS tax identification number;

(4) A copy of applicant's most recent financial statements dated within 120 days of the application that was prepared by an accountant, including a copy of its most recent outside audit report, a balance sheet, an income and expense statement and a schedule of its secured debt obligations; and

(5) A narrative describing the efforts undertaken by the firm to obtain credit on reasonable terms from private sources. This narrative must include name of the institution and a contact person for each lender contacted and should also include term sheets provided by potential lenders.

§ 120.1823 Creditworthiness.

(a) Prior to approval of any SISMBD Loan Application or any advance under

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an SISMBD Loan, SBA shall consider the creditworthiness of the SISMBD. The SISMBD must be creditworthy in order to be approved for an SISMBD Loan or any advance under an SISMBD Loan.

(b) Specific evidence of a lack of creditworthiness includes but is not limited to: Insolvency as defined in the Bankruptcy Code, failure to adhere to the terms of a previous SISMBD Loan, excessive dependence on borrowed funds, violations of the SBA Secondary Market rules, regulations and procedures, the effect any affiliates of the SISMBD may have on the ultimate repayment ability of the SISMBD, or any other relevant factor indicating a less than satisfactory condition or lack of repayment ability. The presence of one or more of these characteristics will not necessarily mean that an SISMBD is not creditworthy but may cause the partial or complete denial of a SISMBD Loan application.

§ 120.1824 How will an SISMBD receive notice of an approval or denial of a loan or request for an advance under an SISMBD Loan?

(a) Applicants will receive notice of approval or denial of an SISMBD Loan or a request for an advance under such loan by SBA through written correspondence.

(b) If a loan request is approved, SBA will issue a Commitment Letter.

(c) Notice of a denial will include the specific reasons for the decision.

(d) SBA reserves the right to reject any request for a loan or an advance, in whole or in part, in its sole discretion.

§ 120.1825 May an SISMBD request reconsideration after denial?

(a) An applicant may request reconsideration of a denied loan request or a denied request for an advance within 30 days of receipt of a denial notice. All requests for reconsideration must be submitted to the Director of the Secondary Market Lending Authority. To prevail, the applicant must present written information to demonstrate that it has overcome all reasons for the denial of a loan request or advance request. After 30 days from receipt of a denial notice, a new loan application or

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advance request, as appropriate, is required.

(b) If the application is denied a second time, a second and final request for reconsideration may be submitted to the SBA Chief Financial Officer. The request must give specific reasons why the decline action should be reversed. All requests must be received within 30 days of the decline action.

(c) The decision of the SBA Chief Financial Officer is final.

§ 120.1830 What are the terms and conditions of an SBA loan to an SISMBD?

(a) *Loan structure.* Credit extensions under the SISMBD Loan Program will be in the form of revolving lines of credit loans that are fully collateralized by Guaranteed Portions and Certificates but with full recourse against the borrower. SISMBDs will obtain funds under the SISMBD Loan by requesting advances when needed to purchase Guaranteed Portions from SBA Lenders or Certificates from Registered Holders.

(b) *Loan amount.* There is no statutory limit to the maximum loan size for a loan to a SISMBD, subject to the discretion of the Administrator. SBA has determined that the minimum loan size will be \$10,000,000 and the maximum size of a SISMBD Loan at the time of loan approval will be equal to seventy-five percent (75%) of the total dollar amount of an SISMBD's purchases in the SBA Secondary Market during the twelve (12) month period of time immediately prior to SISMBD Loan Application receipt. The Director of the Secondary Market Lending Authority may approve a higher SISMBD Loan amount if he/she determines that additional lending capacity is essential to the continued participation of the SISMBD in the SBA Secondary Market in accordance with 120.1833(a).

(c) *Repayment terms.* The monthly payments of principal and interest on the Certificates that are pledged as collateral for the SISMBD Loan, any partial or full prepayments on such collateral, and any SBA Lender purchases of defaulted loans will be assigned by the SISMBD to SBA and will be paid by the Lender into a segregated account at the FTA under SBA's ownership and

control and applied to the SISMBD Loan. All proceeds from the sale of any pledged Collateral as described in §120.1880(b) in this Subpart K must be paid by the purchaser to SBA or its agent to reduce the loan balance before any collateral is released. To the extent that SBA is required to make a payment on its guaranty of a Certificate, SBA will reduce the SISMBD Loan balance by the amount of the guaranty payment.

(d) *Prepayments.* SISMBD Loans will be pre-payable in whole or in part at the option of the borrower.

(e) *Interest rate.* SISMBD Loans shall have variable interest rates not to exceed the Federal Funds target rate as established by the Federal Reserve Board of Governors plus 25 basis points. The first change may occur on the first calendar day of the month following the initial disbursement using the base rate of the Federal Funds rate established by the Federal Reserve Board of Governors in effect on the first business day of that month. After the initial interest rate change, changes may occur no more often than monthly on the first calendar day of each month.

(f) *Collateral.* All SISMBD Loans must be fully collateralized. As security for repayment of an SISMBD Loan, the SISMBD must pledge to SBA all Guaranteed Portions and Certificates (and the proceeds thereof) that it purchases with the SISMBD Loan proceeds and must grant SBA a first lien security interest in the Guaranteed Portions and Certificates (and the proceeds thereof). Additionally, the SISMBD must provide SBA with a collateral assignment, of the SBA Form 1086 (Secondary Market Participation Agreement) or SBA Form 1088 (Form of Detached Assignment for U.S. Small Business Administration Loan Pool or Guaranteed Interest Certificate) for all Guaranteed Portions and Certificates purchased with SISMBD Loan proceeds. The SISMBD must also assign to SBA the payment of amounts due under the Guaranteed Portions and Certificates. All collateral documents must be executed and recorded and the first lien position verified before SBA will disburse funds under the SISMBD Loan. Substitution of collateral during the term of the loan generally will not