

**504 Risk Based CDC Review
Work Paper
504 File Review**

| | | | |
|---|------------------------------------|---------------------------------------|--|
| Loan Name | | | |
| Loan Number | | Total Project Amount | \$ |
| CDC Name | | Gross Debenture | \$ |
| | | Approval Date | |
| First Lienholder | | First Lien Amount | \$ |
| Reviewer Name | | Funding Date | |
| Check any of the following that apply to this loan | | Review Date | |
| <input type="checkbox"/> Processing | <input type="checkbox"/> Servicing | <input type="checkbox"/> Liquidation | <input type="checkbox"/> Change in Ownership |
| <input type="checkbox"/> EPC/OC | <input type="checkbox"/> Franchise | <input type="checkbox"/> New Business | <input type="checkbox"/> Existing Business |
| Use of Proceeds | | | |
| | Purchase R/E | | Leasehold Improvements |
| | Other | | Other |
| | | | Machinery/Equipment |
| | | | Other |

1. SBA Form 912, "Statement of Personal History" obtained on each applicable loan participant, and all loan applicants are Associates are eligible and of good character. (13 CFR §§120.110(n), 150(a), 191)

- ✓ Personal histories required from all principals; (13 CFR §120.150(a) and 191; SOP 50 10 (4)e, Subpart A, Chapter 6, Paragraph 4.d.); and
 - ✓ No Associate is incarcerated, on probation, or parole, or indicted for specified crime(s). (13 CFR §120.110(n); SOP 50 10 (4)e, Sub A, Chap 2, Para 8.n.)

Yes

No
2. Size determinations were correct and analyzed according to SBA policy. Business, together with affiliates, meets one of the following size standards:(13 CFR §120.100(d))

- ✓ Business is small via size determination as of the date of the CDC's approval of the loan and any possible affiliation has been identified (primary industry of SBC, NAICS code, size standard, annual receipts or employees of SBC, size conclusion). (SOP 50 10 (4)e, Sub A, Chap 2, Para 2.f., Sub A Chap 3).
 - ✓ Business, together with affiliates, meets ordinary size determination or has both a tangible net worth of \$7.5 million or less and an average net income after taxes of \$2.5 million or less (excluding loss carry-forwards). (13 CFR §120.301; SOP 50 10 (4)e, Sub H, Chap 11, Para 4)

Yes

No
3. Written evidence that credit is not otherwise available on terms not considered unreasonable without guarantee provided by SBA (Sub A, Chap 2, Sec 3) (p 12).(13 CFR §120.101; SOP 50 10 (4)e, Sub A, Chap 2, Para 3)

Yes

No
4. Personal resources test was applied and enforced according to SBA policy: (13 CFR §120.102; SOP 50 10 (4)e, Sub A, Chap 2, Para 4)

- ✓ (including gross liquid assets of each proprietor, general partner, limited partner owning 20% or more of business, each limited liability company owner, each stockholder with 20% or more ownership, and owner spouse(s)) (Sub A, Chap 2, Sec 4)

Yes

No

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5. Business is a for-profit, domestic operation (13 CFR §120.110(a); SOP 50 10 (4)e. Sub A, Chap 2, Para 2) Yes No
 ✓ The following businesses are **not eligible**, unless certain exceptions have been met: Non-Profit (13 CFR §120.110(a)); Engaged in lending (§120.110(b)); Passive holder of real and/or personal property (§120.110(c)); Life insurance company (§120.110(d)); Located in a foreign country (§120.110(e)); Pyramid sales distribution plan (§120.110(f)); Engaged in gambling (§120.110(g)); Illegal (§120.110(h)); Restricted membership (§120.110(i)); Government-owned (§120.110(j)); Engaged in promoting religion (§120.110(k)); Consumer or marketing cooperative (§120.110(l)); Engaged in loan packaging (§120.110(m)); CDC ownership (§120.110(o)); Sexually prurient in nature (§120.110(l)); With associate engaged in political or lobbying activities (§120.110(r)); or Speculative (§120.110(s)).
6. No prior loss to the Government from prior federal financial assistance demonstrated by loan applicant(s). (13 CFR §120.110(q); SOP 50 10 (4)e, Sub A, Chap 2, Sec 8.q.) Yes No
7. All EPC/OC conditions have been met. (13 CFR §120.111; SOP 50 10 (4)e, Sub A, Chap 2, Para 9) Yes No N/A
 ✓ Written lease plus options for term of loan, and subordinated to loan; (§§120.111(a)(3), 111(a)(4))
 ✓ Assignment of rents paid; (§120.111(a)(3))
 ✓ OC is co-borrower or guarantor, and, if loan includes working capital, OC must be a co-borrower; (§120.111(a)(5))
 ✓ Each 20% or more owner of EPC or OC is personal guarantor (trustee executes on behalf of trust); (§120.111(a)(6))
 ✓ Lease payment is no greater than debt payment plus reasonable property maintenance; (§120.110(c) investment property prohibition)
 ✓ 100% of space is leased by OC directly from EPC; (§120.110(c) and SOP 50 10 4e, Sub A, Chap 2, Para 9) and
 ✓ If EPC is a trust, additional conditions have been met. (§120.111(b))
8. Project meets one of the required Job Opportunity standards: Yes No
 1. Creates/retains one Job Opportunity per \$50,000 of CDC total portfolio of funded and unfunded debentures, or project achieves one of the specified community development or public policy development objectives and overall CDC Job Opportunity average of 1-to-\$50,000 is met or exceeded for the portfolio of funded and unfunded debentures. (13 CFR §§120.860, 861, 862; SOP 50 10 (4)e, Sub H, Chap 10, Para 2, 3, 4) (As of August 23, 2006 1 job for every \$50,000 guaranteed by SBA except 1 job for every \$100,00 guaranteed by SBA for small manufacturers)

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9. Project is ***not***: Yes No
 Relocation of any of the operations of a small business which will cause a net reduction of one-third or more in the workforce of a relocating small business or a substantial increase in unemployment in any area of the country, unless the CDC can justify the loan because: (13 CFR 120.881; SOP 50 10 4e, Sub H, Chap 11, Para 5);
- ✓ The relocation is for key economic reasons and crucial to the continued existence, economic wellbeing and/or competitiveness of the applicant; and
 - ✓ The economic development benefits to the applicant and the receiving community outweigh the negative impact on the community from which the applicant is moving
- For construction of a new building **with** residential and/or rental space, the borrower/OC (Procedural Notice 5000-703):
- or
- In foreign countries (loans financing real or personal property located outside the United States or its possessions).** (13 CFR 120.881(b); SOP 50 10 4e, Sub H, Chap 11, Para 5)
10. All occupancy percentage and proceed requirements are met when the loan proceeds were used to acquire, build or renovate real property and borrower does not occupy 100%. (13 CFR §120.131) Yes No N/A
- ✓ For construction of a new building **with** residential and/or rental space, the borrower/OC: (13 CFR §120.131(a); Procedural Notice 5000-703)
 - Can occupy at least 60% of the rentable property immediately and must continue to occupy no less than 60% of the rentable property for the term of the loan;
 - Can lease long term, no more than 20% of the rentable property to 1 or more occupants; and
 - Must plan to occupy within 3 years some of the remaining rentable property not immediately occupied or leased long term and occupy within 10 years all of the rentable property not leased long term.
 - ✓ For acquisition, renovation or reconstruction of an existing building **with** residential and/or rental space, conditions: (13 CFR §120.131(b))
 - Allow the borrower/OC(s) to lease out up to 49% of rentable property; and
 - Do not allow proceeds to be used to remodel or convert the space to lease out.
11. Franchise is eligible by SBA requirements (13 CFR §120.103(e); SOP 50 10 (4)e, Sub A, Chap 5, Para 6.) Yes No N/A

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12. Principal(s) are eligible citizens or have eligible non-citizen status, exclusive of 912 issues already cited (13 CFR §120.110(e), SOP 50 10 (4)e, Sub A, Chap 2, Para 15.h.) Yes No
 ✓ Status is U.S. citizen, Naturalized Citizen, or one of the following:
 ✓ Legal Permanent Resident (LPR or immigrant, also known as Permanent Resident Alien) with current/valid INS documents in file for any alien who owns 20% or more of the business (primary document evidencing INS status is INS Form I-551); and evidence that CDC has verified INS status of each alien with INS Form 845; (Para 15.h.(3) and (4))
 ✓ Non-Immigrant Aliens, (persons admitted to the U.S. for a specific purpose & for temporary period of time) with current/valid INS documents in file permitting them to reside in the U.S. legally; evidence that CDC has verified INS status of each alien; evidence that separate continual & consistent management (in addition to the owners) exists & will continue indefinitely (management must be U.S. citizenship or verified LPR status): management must have operated the business for at least one year prior to the application date; and pledge collateral within the jurisdiction of the U.S. sufficient to pay the loan any time during its life; or (Para 15.h.(6) and (7))
 ✓ Foreign Nationals (non-citizens who reside outside the U.S.) or Foreign Entities (businesses, organizations, etc. based in another country) (p 70-3 & 70-5) that operates primarily within the U.S.; pays taxes to the U.S.; and uses American products, materials, and labor; evidence that separate continual & consistent management (in addition to the owners) exists & will continue indefinitely (management must be U.S. citizenship or verified LPR status); management must have operated the business for at least 1 year prior to the application date; and pledge collateral within the jurisdiction of the U.S. sufficient to pay the loan any time during its life. Para 15.h.(5) and (7))
13. No actual or apparent conflicts of **borrower and/or CDC** interest were detected (13 CFR §§120.140, 855; SOP 50 10 (4)e, Sub A, Chap 5, Para 2). Yes No
14. The CDC has followed prudent lending practices or other requirements (504 lending, etc.) in **evaluating and acquiring** available collateral. (13 CFR §120.934; SOP 50 10 (4)e, Sub H, Chap 14, Para 2) Yes No
 The 504 project collateral is sufficient if the applicant:
 ✓ Has a strong, consistent cash flow that is more than adequate to support the new debt;
 ✓ Has proven management;
 ✓ Is an existing business; and
 ✓ The project is a logical extension of the applicant's current operations.
15. As applicable, personal or corporate guaranties have been obtained in accordance with SBA policy. (13 CFR §120.160(a); SOP 50 10 (4)e, Sub A, Chap 5, Para 2) Yes No N/A

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16. CDC has retained evidence of all sources of borrower contribution as listed on the “Use of Proceeds” Form, SBA Form 1429, a closing document. (Examples may include cleared checks & bank statements with applicable contribution balance dated prior to interim loan closing, evidence of business account balance with sufficient funds prior to interim loan closing, HUD-1 with applicable supporting documentation, third-party Title Company or Title Attorney certification of required contribution and that evidence was provided to CDC, paid invoices, or other supporting documentation **demonstrating that the contribution was used in the project**, etc.) (13 CFR §120.910; 13 CFR §120.912, SOP 50 10 (4)e, Sub H, Chap 13, Para 2)
- Yes No
- ✓ If borrower borrows its cash contribution from the CDC or third party the interest rate must be reasonable. Any security lien must be subordinate to the liens security the 504 loan, and cannot be repaid faster than the 504 loan without SBA prior approval.
 - ✓ Repayment terms of any third party loans must be at least 7 years when the 504 loan is 10 years maturity, and at least 10 years when the 504 loan is 20 years maturity.
 - ✓ Third party loan must be subordinate to CDC/SBA lien regarding any prepayment penalties, late fees, other default charges and escalated interest after default.
 - ✓ If borrower contribution consists of land, the value of the land will be at cost if acquired within two years of application. If acquired prior to that time, the value will also be at cost unless a professional appraisal acceptable to SBA establishes a different value.
17. The amount of Borrower Contribution is appropriate to the Project. (13 CFR §120.910, SOP 50 10 (4)e, Sub H, Chap 13, Para 2)
- Yes No
- ✓ At least 15% if borrower has operated for two years or less (13 CFR §120.910(a)(1);
 - ✓ At least 15% if the Project involves a single purpose building or structure (13 CFR §120.910 (a)(2);
 - ✓ At least 20% if the Project is single purpose and the borrower has operated for two years or less (13 CFR §120.910(a)(3);
 - ✓ At least 10% in all other circumstances (13 CFR §120.910(a)(4).
18. Any required appraisals and environmental assessments on primary collateral have been obtained and meet conditions outlined in authorization and/or credit memo (13 CFR §120.160(b); SOP 50 10 (4)e, Sub A, Chap 5, Para 3, 7)
- Yes No N/A
19. Flood insurance determination has been made via FEMA Form 81-93, and flood insurance obtained when necessary. (13 CFR §120.170; SOP 50 10 (4)e, Sub A, Chap 5, Para 6(b))
- Yes No N/A
20. All OTHER required insurance has been obtained and maintained. (13 CFR §120.160(c); §120.970(c), SOP 50 10 (4)e, Sub A, Chap 5, Para 4 and 6).
- Yes No N/A

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| 21. | Evidence that all required IRS tax transcript(s) have been obtained and reviewed (13 CFR §120.191; SOP 50 10 (4)e, Sub A, Chap 6, Para 4.f., Notice 5000-753, SOP 50 10 (4)e, Sub H, Chap 18, Para 1) CDC has followed SBA policy to obtain IRS tax transcript(s) when applicable, and IRS tax transcript(s) and borrower's or seller's tax return or financial statements have been compared to verify that no substantial discrepancies exist | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 22. | Evidence that all required SBA Form(s) 159, "Fee Disclosure Form and Compensation Agreement" have been obtained and executed. (SOP 50 10e, Sub A, Chap 6, Para 4 and Policy Notice 5000-976 dated October 19, 2005) ✓ Broker execution of revised Form 159 only required for loan applications submitted to SBA beginning or after November 21, 2005. | Yes <input type="checkbox"/> | No <input type="checkbox"/> | |
| 23. | Was the SBA Form 1506 Servicing Agent Agreement in file and completed correctly by borrower and CDC to accept Colson as Servicing Agent? (13 CFR § 120.960; SOP 50 10 (4)e, Sub H, Chap 22, Para 3.d.(4)) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | |
| 24. | Stand-by agreements have been obtained and properly executed, when applicable. (13 CFR §120.410(a)) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 25. | Evidence that CDC performed a site visit or engaged in other intensive servicing activities when loan became 60 days past due or otherwise indicated reasons for elevated concern. (13 CFR §120.410(a)) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 26. | CDC had prior written SBA approval for the following servicing & liquidation actions: (72 FR 18361, 13 CFR §§120.545,848(a)) ✓ Any increase in principal amount of loan; (72 FR 18361) ✓ Any action that would confer a Preference on CDC or engages in an activity that creates a conflict of interest; (72 FR 18361, 13 CFR §§120.453; SOP 50 10 (4)e, Sub D, Chap 3, Para 9; SOP 50 51 (2)a, Chap 10, Para 5.b.(1)) ✓ Acceptance of a compromise settlement of the principal balance of a loan; (72 FR 18361, SOP 50 10 (4)e, Sub D, Chap 3, Para 9; SOP 50 51 (2)a, Chap 10, Para 5.b.(2)) ✓ Taking title property in the name of the Agency; (72 FR 18361, 13 CFR §120.453; SOP 50-51 (2), Chap 10, Para 5) or; ✓ Taking title to environmentally contaminated property, or takes over operation and control of a business that handles hazardous substances or hazardous wastes; (72 FR 18362) ✓ Transfer of the loan to another CDC; (SOP 50-50 (4) 6-4 & SOP 50-51(2) 10-11) ✓ Taking any action for which prior written consent is required by a Loan Program Requirement; (72 FR 18362) ✓ Before proceeding with any Non-Routine Litigation as defined in 13 CFR § 120.540(c)(1); (72 FR 18362) Incurring litigation legal fees exceeding \$10,000; (72 FR 18362 for threshold amount, and SOP 50-50 (4), Chap 4, Para 11.b., SOP 50-51 (2), Chap 10, Para 5.f.) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 27. | CDC has provided notice to SBA upon classification of the loan into "liquidation". (SOP 50-51 (2), Chap 10, 5.C(1); Chap 8, Para 5) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 28. | CDC has a written liquidation plan. (72 FR 18362, SOP 50 51 (2), Chap 10, 5, f (1)) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

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| 29. | Evidence that, upon placing the loan in liquidation, CDC performed timely site visits and took reasonable steps to secure the collateral. (SOP 50 51 (2), Chap 10, Para 5.d.(2), Chap 8, Para 8) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 30. | Current appraisals were used by the CDC to evaluate liquidation collateral. (SOP 50 51 (2), Chap 16, Para 3(b)) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 31. | If a liquation case where title of property was taken, was an environmental review done prior to the acquisition of title? (SOP 50 51 (2), Chap 6, 2(h); Chap 15, Para 16) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 32. | CDC has forwarded all recoveries on repurchased debentures within 15 days of receipt. (SOP 50 51 (2), Chap 10, Para 5.j.(3)(a)) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 33. | The Wrap-Up Report has been completed and submitted to SBA when CDC has determined the loan will not be fully repaid after all worthwhile collateral has been liquidated and no further recoveries are anticipated within a reasonable time. (SOP 50 51 (2), Chap 10, Para 5.n.(1), Chap 10, Para 1.p.(1)) | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

DESCRIBE/EXPLAIN ANY “NO” COMPLIANCE ANSWERS.

ATTACH ADDITIONAL PAGES AS NECESSARY.

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34. **Repayment assessment.** (13 CFR §§120.150(a), (c)-(e), (i), 848(c))

DSC Ratio _____ Credit Score(s) _____

Describe and assess CDC's evaluation of repayment ability.

Was CDC's repayment decision reasonably sufficient?

Yes No

Fully explain any "No" answer. (13 CFR §120.848(a))

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35. **Capitalization assessment.**(13 CFR §§120.150(a), (c)-(e), (i), 848(c))

Describe and assess CDC’s approach to evaluation of business capitalization.

Was CDC’s capitalization decision reasonably sufficient and satisfactory? Fully explain any “No” answer. (13 CFR §120.848(a))

Yes No

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36. **Management assessment.** (13 CFR §§120.150(a), (c)-(e), (i), 848(c))

Describe and assess CDC's approach to evaluation of management ability.

Was CDC's management ability decision reasonably sufficient?
Fully explain any "No" answer. (13 CFR §120.848(a))

Yes No

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37. **Collateral perfection/closing requirements.** (13 CFR §§120.150(a), (c)-(e), (i), 848(c))

Describe and assess CDC's closing and collateral perfection activities.

**Were CDC's closing activities reasonably sufficient?
Fully explain any "No" answer.** (13 CFR §120.848(a))

Yes No

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38. **Monitoring current creditworthiness** (within the last 12 months). (13 CFR §§120.150(a), (c)-(e), (i), 848(c))

Describe and assess CDC’s approach to monitoring borrower’s current creditworthiness.

Was CDC’s monitoring of continued creditworthiness reasonably sufficient? Fully explain any “No” answer. (13 CFR §120.848(a))

Yes No

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39. **When authorized by SBA, intensive servicing/liquidation activities** (as applicable)(13 CFR §§120.150(a), (c)-(e), (i), 848(c)) .

Describe and assess CDC’s approach to intensive servicing or liquidation.

Were CDC’s intensive servicing/liquidation activities reasonably sufficient and satisfactory? Fully explain any “No” answer. (13 CFR §120.848(a))

| | | |
|--------------------------|--------------------------|--------------------------|
| Yes | No | N/A |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |