



Your Partner In Lending STRATEGIES

Properly Documenting SBA Loan Disbursements

Failure to properly document loan disbursements is one of the top reasons for a repair or denial of the SBA guaranty. I have seen it time and time again where small community lenders deposit loan funds into a borrower's account for them to purchase equipment or inventory, not ever knowing if the proceeds actually went for their intended use. Though this may be acceptable on a conventional loan for a borrower that has a close relationship with their lender, this type of disbursing is not acceptable under the SBA loan program. It is important to prove that loan proceeds were indeed used for an eligible loan purpose.

The first step the lender must do is make sure the use of proceeds outlined in the SBA Authorization is correct. If not, follow the proper steps to modify the use of proceeds.

Second, have the discussion with your borrower early in the process that all disbursements must be facilitated through you the lender. Ask they do not pay invoices themselves and submit for reimbursement, rather submit invoice to the bank to pay directly. If they are a start-up business, I strongly suggest they set-up their business account early and deposit funds to draw on. I do not recommend they

use their personal banking accounts for business purposes, this blurs the lines between items being a business or personal use. SBA has a strict policy that loan proceeds cannot be used to pay associates of the borrower, this includes reimbursement of expenses intended for the loan. If reimbursement is necessary, be sure to document your file with evidence that payment was been satisfied with the third party, either by a cancelled check, wire confirmation or paid receipt.

Third, if multiple categories or disbursements are involved, create a spreadsheet to properly track the use of proceeds by category. This will help you monitor compliance with the use of proceeds as outlined in your SBA Authorization.

Last, organize the disbursements with a copy of the bank check, wire transfer confirmation and a copy of the invoice.

When documenting construction loan disbursements, it is important to have a sworn construction statement to monitor they are on track with progress as compared to payments. Also, it is important to monitor lien waivers to insure all contractors and sub-contractors are being paid as agreed. A sworn construction statement will also help monitor change orders and cost over-runs, this will also allow

you time to address how those will be covered.

When documenting proceeds to payoff credit cards, it is important that the lender document the credit card balance was used for business related purposes and obtain a statement from borrower certifying that amounts were exclusively used for business purposes.

Furthermore, I would like to mention that an Eligible Passive Company is never allowed to receive working capital funds. So in the case whereas an EPC and OC are co-borrowers, make sure your documentation is very clear that any excess funds or working capital disbursed was paid directly to the operating company for their sole use. We recently had a situation where the title company only listed the EPC on the HUD and showed excess funds were disbursed to the borrower. This documentation over site almost resulted in a repair of the loan guaranty, however we were able to provide evidence that a check for those excess funds were made payable to the operating company and not the EPC, thereby saving the guaranty from a repair.

Lenders may disburse to borrower as working capital only, funds not spent for the listed purpose as long as those funds do not exceed 10% or \$10,000, whichever is less.

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In Other News...

The last week of October we attended the annual NAGGL conference with many SBA lenders, vendors and SBA associates. The week was filled with training, discussions with SBA gov't officials and breakout sessions on various industry topics. This conference gives us a chance to see what changes are happening in the SBA industry, what challenges lenders have and talk to members of SBA and other industry experts about ways to better the program, ask questions and learn from each other.

The conference slogan this year was "SBA Loans = Jobs". We heard from the International Franchise Association (IFA) about their efforts to help thousands of veterans returning home from active duty find jobs with supporting franchises. Please visit vetfran.com for more information on their efforts to support our soldiers.

On another positive note, SBA finished the fiscal year with record breaking #'s. Banks, credit unions and other SBA-certified lenders made \$30.5 billion of SBA backed loans to small businesses. This is the highest volume in the agency's 58-year history. Congratulations to all those lenders that contributed to helping our small businesses.

SBA Base Rates	
November 2011	
SBA LIBOR Base Rate	3.25%
SBA FIXED Base Rate	4.95%
SBA Peg Rate	3.13%
WSJP Rate	3.25%