A WIN-WIN FOR BUSINESSES AND BANKS: SBA PROPOSES HIGHER LIMITS FOR LOAN PROGRAMS

SBA Proposes Rule to Amend Size Standards for SBA 7(a) and CDC/504 Loan Programs

By Laurie Satel, Managing Attorney | August 1, 2023

On July 28, 2023, the Small Business Administration (SBA) published a proposed rule in the Federal Register to amend the alternative size standard for the SBA 7(a) and CDC/504 Loan Program (88 FR 48739) to account for inflation since the size standard was introduced in 2010.

The proposed changes to 13 CFR 121.301(b)(2) aim to increase the tangible net worth maximum from $15 million to $20 million, providing an additional $5 million in eligibility. Additionally, the size standards for tangible net income would increase from $5 million to $6.5 million, offering an additional $1.5 million in eligibility.

This move aligns with the SBA's ongoing efforts to streamline and modernize its programs, ensuring greater access to capital for small businesses across the United States. With the higher size standards, lenders should prepare for more businesses becoming eligible for SBA 7(a) and CDC/504 loans, potentially leading to increased loan demand and a higher volume of loan applications.

The adjustments mean that businesses that were previously ineligible for SBA 7(a) and CDC/504 loans due to exceeding the tangible net income or tangible net worth limits could now qualify under the new approach. This opens up new opportunities for a broader range of companies to access much-needed capital for growth and development.

The SBA has also proposed an adjustment to the applicable statutory limits for contract size under the Surety Bond Guarantee (SBG) Program, with further details yet to be specified.

Lenders may need to reassess their underwriting processes and risk assessments to accommodate the new pool of applicants. The risk profiles of borrowers could vary under the revised size standards, necessitating adjustments to credit evaluation and risk management strategies.

Overall, these proposed changes hold the potential to positively impact small businesses, providing them with enhanced access to vital funding opportunities for their growth and prosperity. Lenders are encouraged to review the proposed rule and provide feedback during the comment period to help shape these potential reforms.

In conclusion, the proposed changes could offer opportunities for lenders to expand their loan portfolios and attract new customers. However, it may also require careful evaluation and adaptation of their lending practices to effectively manage risks and serve the evolving needs of small businesses. As the proposed rule advances, lenders should monitor updates and stay informed about the final regulations to be fully prepared for any changes in their lending operations.

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