

## CREDIT ELSEWHERE TEST

**NOTE: This test has three aspects that need to be addressed by the lender.**

Requirement for SBA Guarantee. Lenders are required to make the following certification when submitting an SBA loan application: *“Without the participation of SBA, to the extent applied for, we would not be willing to make this loan, and, in our opinion, the financial assistance approved is not otherwise available on reasonable terms.”*

The SBA SOP 50 10 requires Lenders to document their loan file as to why the loan could not be made without SBA’s guaranty and why the requested financing is not available from the principals of the borrower or from non-Federal sources (see SOP reference below). The following can be used to document your findings. **Place this document in your loan file.**

### **ITEM #1 TO ADDRESS**

**Check the applicable block(s) and provide an explanation in the comment section(s) stating the specific reasons that the SBA guaranty is needed.**

*Note: When applicable, please cite and provide a copy of the Lender’s loan policy to support use of the selected reason for credit elsewhere test, e.g., if the reason “business needs a longer maturity” is selected, cite and provide a copy of the Lender’s loan policy relating to maximum loan terms.*

### **The SBA Lender must include in its credit memorandum:**

Substantiate that credit is not available elsewhere by discussing acceptable factors that demonstrate an identifiable weakness in the credit. The SBA Lender must include in its credit memorandum the specific reasons why the Applicant does not meet conventional loan policy requirements, along with relevant supporting documentation. The SBA Lender may not 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.

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

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) Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

The requested loan exceeds the SBA Lender’s/Third Party Lender’s policy limit regarding the amount that it can lend to one customer (**Cannot be used as sole basis for credit not available elsewhere.**) Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

The collateral does not meet the SBA Lender’s/Third Party Lender’s policy requirements Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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 and/or Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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. These other factors must be specifically explained in the SBA Lender's credit memorandum, and relevant supporting documentation must be included in the loan file. 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 Specify: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**ITEM #2 TO ADDRESS**

Lender needs to make a determination that some or all of the loan is not available from the following sources:  
The liquidity of owners of 20% or more of the equity of the Applicant, their spouses and minor children, and the Applicant itself.

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**ITEM #3 TO ADDRESS**

Lender needs to make a determination that some or all of the loan is not available from any of the following sources:  
Conventional lenders or other non-Federal, non-State, or non-local government sources of credit. (Note: This includes any commitment by a third party to provide financial assistance to the Applicant business in the event of a delinquency or default on a payment (e.g., a commitment by a franchisor or licensor to provide financial assistance to the franchisee or licensee).)

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

E. DEMONSTRATE THE NEED FOR DESIRED CREDIT

(Credit not available elsewhere - 13 CFR § 120.101)

1. The SBA Lender must certify 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. If the Applicant's cash flow and collateral, including the adequacy of any third party guaranty, would cause the Applicant's loan to meet conventional credit standards of the SBA Lender or Third Party Lender, the Project is not eligible for an SBA Loan. Failure of the SBA Lender to adequately address the Applicant's need for the desired credit in the credit memorandum may result in SBA declining the application submitted under non-delegated processing or denying liability on the guaranty if the application is approved by a 7(a) Lender under its delegated authority or, in 504, the pursuit of a CDC Recovery Claim under 13 CFR 120.938 in the case of fraud, negligence, or misrepresentation by the CDC.
2. The SBA Lender must include in its credit memorandum:
  - a. A determination that some or all of the loan is not available from any of the following sources:
    - i. The liquidity of owners of 20% or more of the equity of the Applicant, their spouses and minor children, and the Applicant itself; or
    - ii. Conventional lenders or other non-Federal, non-State, or non-local government sources of credit including the SBA Lender, and for 504 loans, the Third Party Lender. Note: This includes any commitment by a third party to provide financial assistance to the Applicant in the event of a delinquency or default on a payment (e.g., a commitment by a franchisor or licensor to provide financial assistance to the franchisee or licensee).
  - b. Substantiate that credit is not available elsewhere by discussing acceptable factors that demonstrate an identifiable weakness in the credit. The SBA Lender must include in its credit memorandum the specific reasons why the Applicant does not meet conventional loan policy requirements, along with relevant supporting documentation. The SBA Lender may not 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. Acceptable factors that demonstrate an identifiable weakness in the credit or exceed policy limits of the SBA Lender or the Third Party Lender include, among others:
    - i. 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);
    - ii. The requested loan exceeds the SBA Lender's/Third Party Lender's policy limit regarding the amount that it can lend to one customer;
    - iii. The collateral does not meet the SBA Lender's/Third Party Lender's policy requirements;
    - iv. 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; and/or
    - v. 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. These other factors must be specifically explained in the SBA Lender's credit memorandum, and relevant supporting documentation must be included in the loan file. 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.
3. The SBA Lender/Third Party Lender may not rely on the following factors as the sole basis to demonstrate that the Applicant does not have credit available elsewhere:
  - a. For 7(a) loans, the fact that the liquidity of the SBA Lender depends upon the guaranteed portion of the loan being sold on the secondary market; or
  - b. SBA's participation will allow the SBA Lender/Third Party Lender to exceed its legal lending limit.
4. The SBA Lender may not rely in any manner on the following factors to demonstrate that the Applicant does not have credit available elsewhere:
  - a. The maintenance or improvement of the SBA Lender's/Third Party Lender's rating or performance evaluation under the Community Reinvestment Act (CRA) or its implementing regulations; or
  - b. The improvement of the SBA Lender's/Third Party Lender's collateral lien position.