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INSIGHT

Changes to Small Business Administration (SBA) Business Loan Program Policies in Early 2025

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On April 22, 2025, the Small Business Administration (SBA) announced changes to policies and procedures for its two largest small business loan programs, the 7(a) and 504 loan guarantee programs. The SBA released a new version of the loan origination standard operating procedures for those programs (SOP 50 10 8). The new SOP changes loan eligibility criteria, underwriting standards, and procedures, and becomes effective on June 1, 2025. This Insight reviews those changes, which generally limit eligibility in certain cases, tighten underwriting standards, and put more responsibility on participating lenders.

Loan Eligibility

The new SOP implements previously announced loan eligibility changes related to citizenship and immigration status (SOP pp. 27-31). SBA loans will be restricted to small businesses with 100% of direct and indirect owners, loan guarantors, and key employees (such as top-level managers) who are U.S. citizens, U.S. nationals, or lawful permanent residents (LPRs). None of these individuals may be an *ineligible person*: a foreign national, refugee, asylee, conditional LPR, visa holder (such as a work or student visa), Deferred Action for Childhood Arrival (DACA) participant, or an undocumented immigrant. Lenders must verify the documents and status of LPRs with immigration officials. Given a new six-month lookback requirement, no ineligible person may have been an owner or key employee six months prior to the loan application unless that person has permanently severed ties with the business. Additionally, while most ineligible persons may be regular (not key) employees of the business, a business that receives an SBA loan may not employ undocumented immigrants. This is a change from the previous long-standing policy in the programs, which allowed assistance to any business 51% or more owned by U.S. citizens, U.S. nationals, and LPRs.

The new SOP also tightens the "no credit elsewhere" requirement (pp. 38-39). By statute, the 7(a) program may not provide assistance "if the applicant can obtain credit elsewhere" (15 U.S.C. §636(a)(1)(A)(i)). Under previous procedures, lenders did not consider the personal resources of the owners (a formal personal resources test was eliminated in 2015). The new SOP reinstates a limited personal resources test—lenders must check if any owner has liquid resources to substitute for the loan, after providing allowances for savings for retirement, college, and future medical needs. Additionally, lender credit memoranda must now discuss "specific reasons" that no credit is available elsewhere, including "supporting documentation." Previously, the SBA encouraged lenders to select one or more designated reasons for why credit was not available elsewhere.

Other new loan eligibility modifications in the SOP include requiring lenders (instead of the SBA) to verify applicant eligibility (p. 13); reinstating pre-2023 guidance that removes eligibility for businesses with operations related to marijuana, hemp, and cannabidiol (CBD; pp. 21-22); removing the SBA's ability to waive ineligibility of individuals with losses on or who are delinquent on federal debt (pp. 24-26); and requiring lenders to verify that loans to certain unique business structures—for example, employee stock ownership plans (ESOPs), cooperatives, and rollovers as business start-ups (ROBS)—are compliant with all relevant regulations issued by other federal agencies (pp. 45-48).

Underwriting Standards

The SBA described the underwriting changes in the SOP as "restoring 7(a) underwriting criteria" to their pre-2023 level and "eliminating the 'do what you do' philosophy." (In this context, *underwriting* occurs when a lender evaluates a loan application and offers terms commensurate with the borrower's level of creditworthiness.) The new SOP will require collateral for almost all loans—the threshold for requiring collateral will be $50,000 (p. 171; down from $500,000). Borrowers will also be required to contribute an equity injection of 10% of project costs for start-up businesses and changes of ownership (p. 131; restoring pre-2023 requirements).

The threshold for 7(a) small loans will be lowered to $350,000 (p. 147; from $500,000). The minimum business credit score will rise from 155 to 165 (p. 166). Applications for small loans from borrowers who meet credit score criteria are eligible for expedited processing—lowering the dollar threshold and raising the minimum credit score will require more loans to undergo full underwriting.

The new SOP will also increase hazard and flood insurance requirements (pp. 92-95) and require life insurance on principals for businesses dependent on the principal's active participation (such as a sole proprietorship business; pp. 95-96).

Program Procedures

The new SOP will require lenders with delegated processing authority to use it for all loans with limited exceptions (pp. 141-142). Delegated processing authority allows lenders to approve loans on the SBA's behalf with limited oversight. Before the change, lenders with delegated processing authority might use nondelegated processing in unusual situations so that the SBA would be on the record as agreeing with the credit decision. The SBA explained that this change is intended to reduce the workload at the SBA office processing loan applications and to allow that office to focus on less-experienced lenders (lender webinar 30:26-36:53).

The new SOP reinstates the SBA franchise directory (p. 16). The franchise directory is a resource for lenders to know which business models are preapproved by the SBA. If a brand is not listed in the franchise directory, the brand is either ineligible or the lender must perform a detailed review of franchise, license, and management agreements to determine if the applicant is eligible. Under the new SOP, franchisors and distributors need to sign one master certification with the SBA; the master certification replaces the need for every loan applicant for that brand to include an SBA franchise addendum with the loan application. This new process becomes effective on August 1, 2025.

The new SOP will also make other procedural changes. Lenders will need to verify financial information (usually through IRS tax transcripts) for all loans (pp. 90-92). Loan applicants must provide information on at least 81% of direct and indirect ownership of the business (p. 30; the SBA encourages lenders to enter 100% of ownership, lender webinar 21:30), including the date of birth for all listed owners. Additionally, the SBA will prioritize processing applications from veteran-owned businesses, and encourages lenders "to give special consideration to veterans during application processing" (p. 109).

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