

**WAC 208-556-040 Continuing operations.** Licensees shall maintain an adequate financial condition.

(1) Minimum capital (unimpaired paid-in capital, surplus, and undivided profits) shall be in the amount of five hundred thousand dollars or five and one-half percent of total assets, whichever is greater, or a greater amount should the director determine that applicant's business plan or economic conditions require a greater amount to conduct the business of a 7(a) lender. The director may consider and include the net worth of any corporate shareholder of the applicant if the shareholder agrees to unconditionally guarantee the liabilities of the applicant and that shareholder agrees to the reporting requirements set forth in WAC 208-556-060.

(2) Capital below the required amount precludes the presentation of additional loans to the SBA for guaranty without the written consent of the director.

(3) Licensees shall maintain a reserve for anticipated loan losses appropriate to its needs, based on the following factors:

(a) The volume and mix of the existing loan portfolio, including the volume and severity of nonperforming loans and adversely classified credits, as well as an analysis of net charge-offs experienced on previously classified loans.

(b) The extent to which loan renewals and extensions are used to maintain loans on a current basis and the degree of risk associated with such loans.

(c) The trend in loan growth, including any rapid increase in loan volume within a relatively short time period.

(d) General and local economic conditions affecting the collectibility of the licensee's loans.

(e) Previous loan loss experience by loan type, including net charge-offs as a percent of average loans over the past several years.

(f) The relationship and trend over the past several years of recoveries as a percent of previous year's charge-offs.

(g) Available outside information of a comparable nature regarding the loan portfolios of other such lenders.

[Statutory Authority: RCW 30.04.030 and 43.320.040. WSR 00-17-141, amended and recodified as § 208-556-040, filed 8/22/00, effective 9/22/00. Statutory Authority: 1989 c 212 § 3(1). WSR 90-01-001, § 50-56-040, filed 12/7/89, effective 1/7/90.]