

Bank Notes

A Newsletter for Michigan Lenders

July 9, 2009

Issue 160

Servicing and Liquidation Authority of 7(a) Lenders

On April 12, 2007, SBA published regulations on liquidation and debt collection activities that amended 13 CFR Part 120 governing business loans. The new regulations became effective on May 14, 2007. Section 120.536 standardized across the various 7(a) loan programs the servicing and liquidation actions that require prior SBA approval, and reminded lenders to maintain in their loan files supporting documentation for actions taken in connection with a loan not requiring prior SBA approval.

This documentation is essential for SBA's review of the lender's handling of a loan if it is submitted for guaranty purchase and for SBA's determination as to whether the lender's actions were prudent, commercially reasonable (consistent with generally accepted commercial lending practices) and in accordance with loan program requirements.

SBA reminds all SBA 7(a) lenders that they are given the same authority previously held by PLP lenders to service and liquidate their loan portfolios. Therefore, lenders may use their unilateral authority in order to expeditiously address the needs of small business concerns in these difficult economic times. This unilateral authority includes, among other things, deferments and loan restructuring where needed to keep a small business open and operational.

The Servicing and Liquidation Actions Lender Matrix provides guidance for these actions in a handy chart format. This Matrix can be found on the Lenders Resource Page of the Michigan District Web site at:

www.sba.gov/localresources/district/mi/mi_lenderspage.html

Lenders can contact Allen Cook (ext. 221) or Ken Kolasa (ext. 228) at the Michigan District Office if they have any questions.

Fiscal 2009 Third Quarter Lending Report

Loan program activity through the third quarter of fiscal 2009 for the Michigan District Office is shown below. While the precipitous declines in all areas continue to be the largest, by far, in our experience, they do reflect some improvement compared to the previous quarterly report. Since implementation of both the temporary elimination of fees to the borrower and the 90% guaranty, our 7(a) loan approvals have jumped from 15 to 24 a week - an increase of 60%!

Providing credit to the small business community will be an essential part of our recovery in Michigan. As in past recessions, the value of an SBA guaranty should be a very advantageous asset to help you meet the needs of many small business customers.

	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Change</u>
504 Loans	176	86	-51%
SBA Express	1,134	418	-63%
PLP	281	158	-44%
Other 7(a) Loans	166	131	-21%
Total 7(a) Loans	1,581	707	-55%
7(a) Dollars	\$242,060,000	\$134,653,000	-44%
504 Dollars	\$86,438,000	\$42,661,000	-51%
Loans to Veterans	97	32	-67%
Loans to Women	304	90	-70%

Bank Notes Distribution

If you know someone who would like to receive future issues of Bank Notes, they will need to subscribe through SBA's Free Newsletter and Publication Subscription Center.

The process is easy. Simply go to Web page <http://web.sba.gov/list/>; scroll down and check the box entitled "Michigan Bank Notes Newsletter." Then scroll down and enter your name and e-mail address at the bottom of the page and hit the "Subscribe" button.

Dealer Floor Plan Financing Now Available

Through the Dealer Floor Plan financing pilot program, SBA offers government-guaranteed loans to finance inventory for eligible auto, recreational vehicle, boat, manufactured home and other dealerships. This pilot program runs through Sept. 30, 2010, at which time SBA will determine whether to extend the program.

Under the DFP, SBA provides loan guarantees for lines of credit through its 7(a) program. The loans are made through SBA lenders only for inventory that can be titled, such as autos, RVs, manufactured homes, boats and trailers. The minimum amount allowable is \$500,000 and the maximum is \$2 million, with a maximum repayment term of five years. The SBA guaranty of DFP loans will range from 60-75 percent, depending on the type of collateral and the applicable advance rate against the wholesale price of the inventory. Lenders may advance up to 100 percent of the wholesale price.

The DFP overview and FAQ Fact Sheets are being added to the Lenders Resource Page of the Michigan District Office Web site at:

www.sba.gov/localresources/district/mi/mi_lenderspage.html

ARC Loan Reporting

As published in Bank Notes #159, America's Recovery Capital Loan Program is a new temporary guaranteed-loan program authorized by the American Recovery and Reinvestment Act of 2009.

ARC Loans are made by participating SBA 7(a) lenders. ARC Loan funds are to be used for payments of principal and interest for up to six months on existing, qualifying small business loans. The disbursement period (up to six months) is followed by a 12 month deferral period with no repayment of the ARC Loan principal. After the deferral period, the borrower re-pays the ARC Loan principal over a five year period. ARC Loans are interest-free to the borrower, 100% guaranteed by SBA to the lender, and have no fees associated with them. SBA pays the interest to the SBA lender making the loan, currently at the rate of Wall Street Journal Prime plus two percent.

Section 6(c) of SBA's ARC Loan Program Procedural Guide, issued on June 8, 2009, states that SBA will issue separate instructions on 1502 reporting and interest payment processing for ARC Loans. SBA Information Notice 5000-1115 contains information for SBA lenders on 1502 reporting on ARC Loans and on ePayment of accrued interest to lenders for ARC Loans. Lenders can report ARC loans with their regular 1502 reports or complete a separate 1502 for ARC loans only. Attachment A must be completed every time for each ARC Loan.

Please go to this link for Instructions to Lenders for 1502 Reporting on ARC Loans: www.sba.gov/localresources/district/mi/mi_lender-info_notices.html

New Presentations are Available

The ARC loan presentation, the Dealer Floor Plan presentation, and the 504 Debt refinancing presentation are being added to Michigan's Lenders Resource Page. The basic fact sheets for the ARC and DFP programs are also being added.

Next ReadyTalk Session

The Lender Relations Staff of the Michigan District Office conducts a monthly ReadyTalk session for lenders on the first Thursday of each month at 10:00 a.m. The next session will be held on August 6. If you have any items you would like covered during one of these sessions, please send them to Al Cook at allen.cook@sba.gov

ReadyTalk is a Webinar program utilizing the Internet and a conference call system. To access the system:

From your computer:

1. Logon to www.readytalk.com
2. Login as a participant using the access code 3051501
4. Enter your name, e-mail address, and company name as requested

From your telephone:

1. Dial 866.740.1260
2. Enter the Access Code 3051501 & press #
3. Say hello!

If this is your first ReadyTalk Conference, we recommend that you test your browser compatibility and network connection prior to the conference by logging onto the ReadyTalk site and click on the "Test your Computer" button under the login.

Change to 504 Loan Program Regarding Debt Refinancing

As stated in SBA Policy Notice 5000-1108, the American Recovery and Reinvestment Act of 2009, P.L. 111-5 changes the Small Business Investment Act (SBI Act) to permit debt refinancing under certain circumstances as part of the 504 Certified Development Company Loan Program. SBA has amended its regulations to implement the new law.

(See Federal Register: June 23, 2009 (Volume 74, Number 119)).

The debt refinancing authorized by the Recovery Act is available for loan applications received by SBA on or after June 23, 2009, the effective date of the regulations. In addition, applications received or loans approved prior to that date may be modified to include debt refinancing provided that the related debenture has not been funded. The additional guidance announced in this Policy Notice is effective immediately, and will be incorporated into the Standard Operating Procedures with the next semi-annual revision.

For further information please go to this notice at: www.sba.gov/localresources/district/mi/mi_lender-info_notices.html

2010 Michigan SBA Lenders' Conference

Mark your Calendar! SBA's 12th Annual Michigan SBA Lenders' Conference will be held March 23, 2010 at the Kellogg Center at Michigan State University in East Lansing. Cosponsored by the Michigan Small Business and Technology Development Center, the conference will feature training sessions on a wide range of topics for a variety of bank personnel.

If you have any suggestions for this conference, please do not hesitate to call Allen Cook at (313) 226-6075, ext. 221 or e-mail allen.cook@sba.gov.