

# SBA Fresno Commercial Loan Servicing Center Presents



## **GUIDANCE ON COMMERCIAL LOAN SERVICING**

**MICHELLE SERRANO  
ASSISTANT CENTER DIRECTOR FOR SERVICING**

# Commercial Loan Service Centers

## **Fresno Commercial Loan Service Center**

**2719 N Air Fresno Drive, #107**

**Fresno CA 93727**

**Tel: 559 487-5136**

**Fax: 559-487-5803**

**General e-mail: [fsc.servicing@sba.gov](mailto:fsc.servicing@sba.gov)**

## **Little Rock Commercial Loan Service Center**

**2121 Riverfront #100**

**Little Rock, AR 72202**

**Tel. 501-324-5871**

**Fax: 501-324-6072**

**General e-mail: [lrsc.servicing@sba.gov](mailto:lrsc.servicing@sba.gov)**

# Role of the Servicing Centers

- **Three main functions:**
  - **Loan Servicing**
    - **Goal: Loan servicing requests are completed (including response) within 3 to 10 business days.**
  - **SBA Express purchase and liquidation**
    - **Goal: Express loans are purchased within 45 calendar days of receipt of purchase demand package (purchase demand kit).**
  - **504 loan purchase and liquidation**
    - **Goal: 504 loans in liquidation status are resolved/charged off within 270 calendar days.**

# Centralization of Servicing

- **As of 10/01/08, any loan processed by the 7a Loan Processing Center (non-delegated/PLP) is stored electronically and no longer shipped to CLSC. Loan transferred electronically to CLCS within days of approval.**
- **Express loans are electronically assigned to the CLSC within days of approval.**
- **Loans submitted by the lender via E-TRAN are electronically assigned to the CLSC immediately after approval.**
- **504 loans are shipped to the CLSC once the debenture has funded.**

# Loan Transfer from the CLSC to the National Guaranty Purchase Center (Herndon) if....

- Loan becomes 60 days or more past due without a workout plan.
- Loan enters liquidation or litigation.
- Other adverse change.

A general e-mail informing the CLSC of the change to liquidation status may be sent to [fsc.servicing@sba.gov](mailto:fsc.servicing@sba.gov) . For loans made under the SBA Express umbrella, liquidation/purchase are handled by the respective CLSC.

# **SBA Form 1502 Reporting**

## **SOP 50-10(5), Subpart B, Chapter 8, Paragraph 4**

- **Mandatory on all 7a loans with an outstanding SBA guaranty, regardless of payment activity.**
- **Promptly notify SBA of cancelled or withdrawn loans.**
- **Reporting period includes the first calendar day through the last calendar day of the prior month.**

# SBA Form 1502 Continued

- Lenders must compute and remit with the Form 1502 either the payment owed if the guaranteed portion has been sold on the secondary market or the ongoing guaranty fee if the guaranteed portion is not been sold
- Lenders must submit the form to Colson using one of the following delivery methods:
  - E-mail: (includes diskette): [1502@colsonservices.com](mailto:1502@colsonservices.com)
  - Mail: Colson Services, PO Box 54, Bowling Green Station, New York, NY 10274
  - Fax: 718-315-5170
- Further information on 1502 field descriptions and instructions
  - Please see SOP 50-10(5), Subpart B, Chapter 7 Paragraph 4



# On form 1502, watch for these common errors

- **If a loan is transferred from one lender to another, be sure to report as a status code 7 “transferred” and not a status code 6 “paid in full”**
- **If you repurchase a loan from the secondary market for the purposes of doing a payment modification (eg., loan not paid in full) do not report as “paid in full”**
- **On revolvers with 0 balances, do not report as “paid in full”. Report the 0 balance with the interest paid to date. If this type of loan “errors” on subsequent 1502, advise the CLSC.**
- **When terming out revolvers, if unavailable funds remain, advise the CLSC if you intend to cancel those funds.**
- **At four years from the date of approval, if any undisbursed funds remain, SBA will automatically cancel said funds. Inform SBA of any extensions you do to the final disbursement date.**

# SBA Form 1502 – Status Code Descriptions

- **Current** - interest paid-to-date is less than 31 days from the month ending date. For example, loan's interest is paid to 3/2/YY for the period ending 3/31/YY. Leave Status Code column blank.
- **31-60 Days Past Due** - interest paid-to-date is 31-60 days from the month ending date. For example, loan's interest is paid to 2/12/YY for the month ending 3/31/YY. Leave Status Code column blank.
- **Over 60 Days Past Due** - interest paid-to-date is over 60 days from the month ending date. For example, loan's interest is paid to 1/3/YY for the month ending 3/31/YY. Leave Status Code column blank.
- **Status 4: Deferred** - principal or principal and interest (P&I) payments have been deferred. For example, loan's P & I payments are deferred and are to resume on 5/1/YY. Report Next Installment Due Date as 5/1/YY, Status Code 4, Interest To date and Guaranteed Portion Closing Balance as of last payment received.
- **Status 5: In Liquidation** - if SBA is liquidating the loan, report loan one time as Status Code 5, with an Interest To date and Guaranteed Portion Closing Balance. If lender is liquidating loan, report loan monthly as Status Code 5 with an Interest To date and Guaranteed Portion Closing Balance until the liquidation is complete.
- **Status 6: Paid-in-Full** – The borrower has made the final payment. Report one time as Status Code 6, with an Interest To date as of the payoff date and a Guaranteed Portion Closing Balance of \$0.00. Note - If the loan is a secondary market loan, do not report the loan as Status Code 6 on the 1502 remittance containing the secondary market payoff; the Status Code column should be left blank. Instead, report the loan as Status Code 6 at month end.

# SBA Form 1502 – Status Code Descriptions, cont.

- **Status 7: Transferred** - loan that has been transferred to another lender. Transferring (selling) lender reports one time as Status Code 7 with an Interest To date and Guaranteed Portion Closing Balance as of the transfer date.
- **Status 8: Purchased by SBA** - loan that has had its guaranteed portion purchased by SBA from the lender or secondary market. Report one time as Status Code 8 with an Interest To date and Guaranteed Portion Closing Balance as of the purchase date. Sold loans - if lender repurchased the guaranteed portion from the secondary market, but SBA has not purchased the guaranteed portion from lender, the lender must continue to report on the loan monthly. The reported Status Code for the loan would be blank, 4, 5, or 7 depending on the loan's situation, until the SBA purchase takes place. Should the Borrower pay off the loan prior to SBA's purchase, the loan should be reported as a Status Code 6.
- **Status 9: Fully Undisbursed** - loan that has not had any disbursements made to the borrower. Report Status Code 9 and indicate the Amount Undisbursed on Total Loan, until such time that the loan is disbursed. Revolving loans - once the first disbursement takes place, the loan must not be reported as Status Code 9 again, even in instances where the full amount of the credit line is replenished by the Borrower.

# SBA Form 1502 reporting (cont.)

**Colson Customer Service**

**(877) 245-6159**

**E-mail: [info@colsonservices.com](mailto:info@colsonservices.com)**

# Guaranty Fee

- **Paid by Lender. No extension time!**
- **Paid via ACH wire transfer, or by making a secure electronic payment online at [www.pay.gov](http://www.pay.gov).**
- **Refundable if NO disbursements made on the loan.**
- **Not refundable if loan is set up for a term of 12 months or less.**
- **Loan will be automatically cancelled by SBA if not paid.**
  - **For loans with terms in excess of 12 months, due within 90 days.**
  - **On the 120th day, the loan will be cancelled if the fee is not paid.**
  - **For loans with terms less than 12 months, due with application**
  - **On the 15th day, the loan will be cancelled if the fee is not paid.**

# Guaranty Fee (continued)

- Can be difficult to compute, especially if companion loans (loans made within 90 days) are involved.
- E-mail the CLSC at [fsc.servicing@sba.gov](mailto:fsc.servicing@sba.gov) for a loan guaranty fee calculator.
- The E-TRAN loan servicing module also contains a loan guaranty fee calculator.
- Call the Fresno CLSC at 1-800-347-0922 and follow the lender liaison option. A senior loan processor can provide the necessary training in computing guaranty fees.

# **Important note regarding additional loan guaranty fees as they pertain to some loan extensions**

- **The CLSC processes a large volume of extensions of short term loans (less than 12 months) to long term loans (loans with terms in excess of 12 months) on a monthly basis. The guaranty fee structure changes when a loan is converted from short term to long term. Therefore:**
  - **If the extension is requested within 90 days of loan approval, the CLSC will process the request without the additional guaranty fee in hand.**
  - **If the extension is requested after 90 days from the date of approval, CLSC must receive confirmation additional loan guaranty fee has been remitted to our Denver Finance Center (DFC). By policy, we are unable to proceed with the increase until this confirmation is received. If lender makes this change in E-Tran, DFC will have to receive the fee within 10 days of the change or the loan will revert back to 12 months.**

# Changes to Loan Authorizations before disbursement

- For loans made under the PLP and SBA Express Programs, the SBA must approve of the following actions using and lenders must submit SBA Form 2237

[http://www.sba.gov/idc/groups/public/documents/sba\\_homepage/sba\\_forms\\_2237.doc](http://www.sba.gov/idc/groups/public/documents/sba_homepage/sba_forms_2237.doc)

- An increase or decrease in the loan amount.
- An increase or decrease in the guaranty percentage.

# Changes to Loan Authorizations before disbursement (continued)

- **Standard 7A Lenders (non-delegated) may also submit SBA form 2237. However, some actions will require SBA approval\*:**
  - **Cancellation of the entire loan.**
  - **Change in the maturity date/maturity months.**
  - **Decrease/Increase to loan amount.\***
  - **Change in the legal name of the business.**
  - **Change in the trade name of the business.**
  - **Change in the borrower's business address.**
  - **Change in the final/initial disbursement date.**
  - **Any other transaction which affects the SBA database (eg., change in Tax ID #, change of loan from revolver to non-revolver, etc.)**

# Changes to Loan Authorizations before disbursement (continued)

- For loans made under the Standard 7(a) and CLP programs, lenders must submit their request along with supporting financial statement and/or other documentation for approval to:
  - 7a loan processing center if within 7 days of approval
  - To the appropriate CLSC if after 7 days of approval.
- The 7a loan processing center forwards files to the appropriate CLSC 7 days after approval, unless the file is being held for appraisal, franchise or environmental review. If the file is not being held, any change requests submitted after 7 days must be submitted to the appropriate CLSC.

# If a loan is inadvertently cancelled.....

- The CLSC's are typically requested to reinstate 50+ cancelled loans on a monthly basis. A special template which lender may complete and submit to SBA for consideration of reinstatement can be found on the CLSC website at:

<http://www.sba.gov/aboutsba/sbaprograms/elending/clc/servicing/index.html>

# Loan Servicing Regulations

- **Agency regulations set forth at 13 CFR 120.535 and 120.536 provides the new standards for the lender loan servicing.**

# Loan Servicing Standards

- **As set forth at 13 CFR 120.535, lenders must service their loans based upon the following standards:**

**Service using prudent lending standards. Lenders must service 7(a) loans in their portfolio no less diligently than their non-SBA portfolio, and in a commercially reasonable manner, consistent with prudent lending standards and in accordance with Loan Program Requirements. Those lenders that do not maintain a non-SBA loan portfolio must adhere to the same prudent lending standards for loan servicing followed by commercial lenders on loans without a government guarantee.**

# Unilateral Actions

**Each month, the commercial loan service center receives hundreds of loan servicing actions which can be processed under the lenders' delegated, unilateral servicing authority. Many common unilateral servicing actions do not require any sort of submission to SBA.**

# Unilateral Actions which require submission to SBA

Because these unilateral actions require an update to SBA's accounting records, they require submission to the SBA:

- **Loan cancellations .**
- **Decrease in loan amount.**
- **Changes of maturity.**
- **Change of legal/trade name or address.**
- **Extension of disbursement period.**
- **Other: (eg., a loan assumption in which a change in guarantor/SSN/business Tax ID# is involved or change on loans sold on the secondary market).**

**SBA approval of these items is not necessary. Upon completion of the request, SBA will not respond back to the lender.**

# Documentation Requirements for Actions taken within Lenders' Unilateral Servicing Authority

When taking any servicing/liquidation actions not requiring SBA's prior written consent, please take great care to document the justifications for your decisions and retain these and supporting documents in your file. Such documentation will be crucial to SBA's review of your handling of the loan and for SBA's determination as to whether your actions were prudent, commercially reasonable, and complied with all Loan Program Requirements. This same documentation and justification is also crucial to facilitate the comprehensive SBA review of purchase packages and liquidation wrap-up reports which Lenders must submit to SBA at the completion of liquidation.



# Servicing and Liquidation Actions

## 7(a) Lender Matrix

**Note: Please see Footnotes at end of document. Also, all lender actions must comply with loan program requirements.**

<b>Use E-Tran</b>	<b>Unilateral Actions Notify SBA?</b>		<b>Requires prior SBA Approval</b>	<b>Form 2237 <sup>12</sup></b>
	<b>Yes</b>	<b>No</b>		

**Prior to Initial Disbursement - Loans in Approval Status - See SOP 50 10 5, Subpart B**

Increase / decrease loan amount or guaranty percentage				<b>X</b>	<b>X</b>
Change initial disbursement date		<b>X</b>			
Change maturity date	<b>X</b>	<b>X</b>			<b>X</b>
Change interest rate <sup>1</sup>		<b>Not permitted</b>			
Other changes to loan authorization:					
Loan submitted and approved under delegated authority <sup>2</sup>			<b>X</b>		
Loan approved by the Standard 7(a) Loan Guaranty Processing Center				<b>X</b>	
Change EIN or SSN		<b>X</b>			
Change borrower's address or legal/trade name of business	<b>X</b>	<b>X</b>			<b>X</b>
Cancel loan	<b>X</b>	<b>X</b>			<b>X</b>

***Actions after Initial Disbursement - Loans in Servicing or Liquidation Status***

*See SOP 50 50, SOP 50 51 and 13 CFR 120.535 and 120.536*

	Use E-Tran	Unilateral Actions Notify SBA?		Requires prior SBA Approval	Form 2237 <sup>12</sup>
		Yes	No		
SBA Approval Required				X	
	Increase / decrease SBA's guaranty percentage			X	
	Confer preference <sup>3</sup> on lender or engage in activity that creates conflict of interest			X	
	Release borrower or guarantor			X	
	Compromise principal balance owed <sup>4</sup>			X	
	Assumption of loan with release of original borrower / guarantor			X	
	Take title to any property in the name of SBA			X	
	Take title to environmentally contaminated property, or take over operation and control of a business that handles hazardous substances or hazardous wastes			X	
	Emergency purchase from secondary market			X	
	Determination of involuntary prepayment / subsidy recoupment fee			X	
	Reinstatement of SBA guaranty			X	
	Increase loan amount			X	X
	Transfer or sell <b>more than 90%</b> of a loan			X	
SBA Notification Required		X			
	Transfer or sell <b>90% or less</b> of a loan		X		X
	Decrease loan amount		X		X
	Extend final disbursement date		X		
	Cancellation of SBA guaranty before guaranty purchase		X		
	Extend maturity (action done prior to stated maturity) <sup>5, 6</sup>	X	X		X
	Reamortize / restructure loan <sup>6</sup>		X		
	Change interest rate <u>within loan program guidelines</u> <sup>1, 6</sup>		X		
	Change EIN or SSN		X		
	Change borrower's address or legal/trade name of business	X	X		X
	Transfer loan into liquidation status		X		
	Return loan to regular servicing status		X		
	Change a loan to PIF status		X		
Assumption of loan without release of original borrower / guarantor		X			
Change loan from revolver to non-revolver	X	X			



# Servicing and Liquidation Actions

## 7(a) Lender Matrix

	Use E-Tran	Unilateral Actions Notify SBA?		Requires prior SBA Approval	Form 2237 <sup>12</sup>
		Yes	No		
<b>No Approval or Notification</b>	Change in borrower's legal structure <sup>7</sup>		X		
	Subordinate / release lien		X		
	Defer payments <sup>6</sup>		X		
	Release / substitute collateral		X		
	Accept prepayments (subsidy recoupment fee may apply)		X		
	Changes to loan authorization		X		
	Correct typographical errors in loan documents		X		
	Make loan that does not adversely affect collateral position of SBA guaranteed loan		X		
Change flood, life or hazard insurance requirements <sup>8</sup>		X			

**7(A) LOAN POST APPROVAL ACTION CHECKLIST**  
(This form to be used only for those actions identified below)

TO:  Fresno Commercial Loan Service Center      FAX: 559.487.5803      E-mail: [fsc.servicing@sba.gov](mailto:fsc.servicing@sba.gov)  
 Little Rock Commercial Loan Service Center      FAX: 202.292.3878      E-mail: [lrcs.servicing@sba.gov](mailto:lrcs.servicing@sba.gov)  
 Office of International Trade      FAX: 202.481.4842      E-mail: [patrick.tunison@sba.gov](mailto:patrick.tunison@sba.gov)

RE: SBA Loan Name: \_\_\_\_\_ SBA Loan No. \_\_\_\_\_

FROM: Lender Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
Loan Officer's Name: \_\_\_\_\_  
Phone: \_\_\_\_\_ E-mail: \_\_\_\_\_ Fax: \_\_\_\_\_

**For SBA loans that have not been closed or initially disbursed. The Lender certifies that this request complies with SOP 50 10 and/or any applicable program guide:**

- Request that SBA approve an increase in the loan amount from \$ \_\_\_\_\_ to \$ \_\_\_\_\_. (Additional guaranty fee in the amount of \$ \_\_\_\_\_ is attached/has been forwarded to Denver.)
- Request that SBA approve an increase in guaranty percentage from \_\_\_\_% to \_\_\_\_%. (Additional guaranty fee in the amount of \$ \_\_\_\_\_ is attached/has been forwarded to Denver). *Not applicable to Export Working Capital Program (EWCP) loans.*
- Request that SBA approve a decrease in the loan amount from \$ \_\_\_\_\_ to \$ \_\_\_\_\_. (For loans with a maturity greater than 12 months, SBA must approve the decrease prior to the lender closing and initially disbursing the loan in order for the guaranty fee owed to be decreased. For loans with a maturity of 12 months or less, there is no adjustment due to any decrease or cancellation.)
- Request that SBA approve a decrease in the guaranty percentage from \_\_\_\_% to \_\_\_\_%. (For loans with a maturity greater than 12 months, SBA must approve the decrease prior to the lender closing and initially disbursing the loan in order for the guaranty fee owed to be decreased. For loans with a maturity of 12 months or less, there is no adjustment due to any decrease or cancellation.)
- Inform SBA that the entire loan has been cancelled.
- Inform SBA that the loan maturity has been changed from \_\_\_\_ months to \_\_\_\_ months. New maturity is \_\_/\_\_/\_\_. If the extension goes from a 12 month maturity to a maturity longer than 12 months, the additional guaranty fee of \$ \_\_\_\_\_ is attached/has been forwarded to Denver.

For SBA loans that have been closed and initially disbursed. The Lender certifies that this request complies with SOP 50 10, SOP 50 50 and/or any applicable program guide:

- Request that SBA approve an increase in the loan amount from \$ \_\_\_\_\_ to \$ \_\_\_\_\_ (Additional guaranty fee in the amount of \$ \_\_\_\_\_ is attached/has been forwarded to Denver.) For SBAExpress, Community Express and Patriot Express, *for any increase more than 33 percent, the lender certifies that the request is for the original purpose of the loan, the lender has analyzed the repayment ability of the borrower using current financial information and repayment ability exists.*  
\_\_\_\_\_ (initials)
- Inform SBA that \$ \_\_\_\_\_ of the approved loan has been cancelled. (No adjustment in guaranty fee permitted.)
- Inform SBA that the loan maturity has been changed from \_\_\_ months to \_\_\_ months. New maturity is \_\_\_/\_\_\_/\_\_\_ . If the extension goes from a 12 month maturity to a maturity longer than 12 months, the additional guaranty fee of \$ \_\_\_\_\_ is attached. (Once SBA changes its records to reflect any approved extension of maturity beyond 12 months, the additional guaranty fee is earned and cannot be refunded.)
- Extend final disbursement date to \_\_\_/\_\_\_/\_\_\_ . *Not applicable to EWCP loans.*

**Other Information needed by SBA to update its records:**

- The legal name of the business has been changed to: \_\_\_\_\_
- The trade name of the business has been changed to: \_\_\_\_\_
- The borrower's business address has been changed from \_\_\_\_\_  
to \_\_\_\_\_.

For any change in loan amount or guaranty percentage, attach a memo or e-mail message that explains the reason for the change. For any actions other than those listed above that require SBA consent, do not use this checklist. Send a written request in a faxed memo or e-mail message conforming to the guidelines set forth in the Loan Servicing Request Guidelines from the Commercial Loan Servicing Centers. For all other servicing actions permitted by SBA to be taken by a lender under any delegated authority, no notice is required to be given to the SBA. A list of these servicing actions is found in SOP 50 50 4B, Chapter 4.

(Notices, SOPs, and regulations are located at [www.sba.gov/aboutsba/sbaprograms/elending](http://www.sba.gov/aboutsba/sbaprograms/elending).)

By: (Name, Title) \_\_\_\_\_

Date \_\_\_\_\_

The estimated burden for completing this form is 5 minutes. You are not required to respond to any collection of information unless it displays a currently valid OMB Control Number. The number for this collection is 3245-0348. Comments on the burden estimate should be sent to U. S. Small Business Administration, Chief, AIB, 409 3rd Street, SW, Washington, DC 20416. PLEASE DO NOT SEND FORMS TO THIS ADDRESS.

# E-TRAN

**All lenders are strongly encouraged to utilize E-Tran for loan Servicing actions. At present, E-Tran may be utilized by lenders to cancel loans and make loan name changes. In the near future, additional loan servicing actions will become available through E-Tran.**

**E-Tran will enable lenders to make the loan servicing Changes without any sort of paper submission to the SBA.**

- **Cancel undisbursed loans.**
- **Changes to maturity.**
- **Change loan from revolver to term or vice versa.**
- **Change legal/trade name or address.**

# E-TRAN in the loan servicing world

- **Ultimate goal is to enable lenders to handle ALL unilateral servicing actions (address changes, name changes, etc.) via E-TRAN.**
- **E-TRAN lenders will also have the ability to view the status of their loans post-origination (maturity date, loan payments, etc).**
- **Guaranty Fee calculator built into E-TRAN servicing module.**
- **Instant turn around on loan servicing actions.**
- **Competitive Advantage: Ability to respond in the market place and approve loan changes in an expedited manner.**
- **Overall programming is very “user friendly” and easy to learn.**
- **Instant validation provides comfort that there are no errors in data entry.**

# https://eweb.sba.gov/gls

U.S. Small Business Administration [Help](#)

**SBA**  
Your Small Business Resource

General Login System

You have successfully logged out. To return to any page in this system, you must log in again.

- [Forgot User ID?](#)
- [Forgot Password?](#)
- [Instructions for GLS](#)
- [Request SBA User ID](#)
- [Contact SBA Security](#)

SBA Account Login

User ID:

Password:

---

[Text Only](#)

Last modified: 01/08/2009 12:00:00 AM

[First Gov](#) [E Gov](#) [Regulations.gov](#) [White House](#)  
\* Privacy & Security \* Information Quality \* FOIA \* No Fear Act \* ADA

SBA Processing: 0.22 seconds

# E-Tran Continued



[Help](#)

## General Login System

• [GLS Login](#)

User ID:

### Login Information

Name:

(First) (Middle) (Last) (Suffix - Jr, Sr, I, II, etc)

   

### Identity Information

Date of Birth:

PIN:

 (Personal Identification Number, Last 4 Digits of SSN)

### Contact Information

Country:

Zip+4 Code:

  

Street 1:

Street 2:

City Name:

 

Phone Number:

(Country) (Area Code) (Phone Number) (Extension)  
(US is 1) (999-9999)

   

E-Mail Address:

Re-enter E-Mail:

# Center E-Tran Contact Information -

**For assistance or questions with processing actions using E-Tran, contact the Fresno Service Center:**

**(800)347-0922**

- **Bob Krum @ ext 213**  
**[robert.krum@sba.gov](mailto:robert.krum@sba.gov)**

# Headquarters E-Tran Contact Information

**Steve Kucharski** ([stephen.kucharski@sba.gov](mailto:stephen.kucharski@sba.gov))  
**(202) 205-7551** or

**Glenn Hannon** ([glenn.hannon@sba.gov](mailto:glenn.hannon@sba.gov))  
**(202) 205-7122**

# Non-delegated actions that require prior SBA approval

As set forth in 13 CFR 120.536, the following servicing actions require SBA's prior written consent:

1. Increases to the principal amount of a loan.
2. Any action that confers a preference on the lender or engages in an activity that creates a conflict of interest.
3. Compromises on the principal balance of a loan.
4. Taking title to any property in the name of SBA.
5. Taking title to environmentally contaminated property, or taking over operating and control of a business that handles hazardous substances.
6. Transfers, sells or pledges more than 90% of a loan.
7. Action for which prior written consent is required by a Loan Program Requirement.

# **Servicing the SBA loan, the basic rule of thumb**

- **Loan servicing actions are governed by SOP 50-50-4**
- **Lenders must use “reasonable care”**
- **Lenders must act as “prudent lenders”**
- **Lenders must service SBA loans with the same degree of care used in servicing it’s non-SBA loan portfolio.**

# Putting together a loan servicing request

- **For those actions which do require the approval of SBA, the lender request should include:**
  - **Statement of the proposed action.**
  - **What makes the request necessary/impact on the SBC.**
  - **Loan status.**
  - **Financial statement analysis.**
  - **Loan collateral analysis (“before” the modification and “after” the modification).**
  - **Lender must obtain the consent of all loan obligors/guarantors.**
  - **NOTE: Typically, the lenders’ internal credit memorandum will suffice.**

# Documentation associated with servicing actions

**For all 7a loans, the SBA relies on the lender/its legal counsel to prepare/execute documents that are legally sufficient (e.g., Subordination Agreement). These types of legal documents do not need to be submitted to SBA for review/execution.**

# Seasoned Loans

- **A loan is deemed “seasoned” when:**
  - **4 years since funding**
  - **Principal balance reduced at least 25%**
  - **Paid as agreed for the last 12 months.**
  - **Collateral at/near loan “approval” levels.**
  - **Financial statements are favorable**
  - **Satisfactory in other respects**

# Restructuring an SBA Loan

**SOP 50-50-4, Chapter 5, Paragraphs 6, 8, 15, 16 , 17 & 27**

**SOP 50-50-4, Chapter 7, Paragraph 5**

**SOP 50-50-4, Chapter 8, Paragraph 11**

**Policy Notice 5000-1077**

# Restructuring Terms

- Loans sold on secondary market, must have investor concurrence.
- Defer loan payments
  - To avoid balloon payment, extend maturity.
  - Short term solution for a short need.
- Reduce amount of loan payments on a temporary basis.
- Re-amortize loan payments.
- Extend maturity date.
- Adjust the interest rate.

# Investor Decline

- Repurchase loan from secondary market
  - Loan greater than 60 days in default
- Emergency Repurchase
  - Non-delinquent loans.
  - Critical situations where a borrower's ability to remain in business depends upon a modification of the installment payments.
  - Written decline from investor to a specific request for a change in the terms and conditions of payment.
  - Current financial statements of the borrower.
  - Statement that the proposed change in terms and conditions of the loan is solely for the benefit of the borrower; and
  - Lender certification that it will make the requested change in the terms and conditions if repurchase is approved by SBA.

# Subordinations

- No cash out
  - Refinancing of senior lien holder debt.
    - Lender debt.
    - Non-lender debt.
  - No repayment/collateral analysis required.
  - Better rate and terms.
- Cash out subordination
  - Refinancing of senior lien holder debt with cash out to borrower.
    - Proceeds for business purposes only.
    - Short term needs on short term collateral.
    - Lender debt.
    - Non-lender debt.
    - Repayment/collateral analysis.

# Transfer of Participation

- Transferring loans between two SBA Participant lenders.
  - Benefit borrower.
  - Transfer of Participation Agreement.

# **If the loan has been sold on the secondary market.....**

- Investor approval is required for the following:**
  - Adjustments to the interest rate of any kind.**
  - Extension/modification of the loan maturity.**
  - Change to a seasonal/periodic payment plan.**
  - Modification of the installment amount.**
  - Change to interest accrual basis.**
  - Deferment of payments (lender may unilaterally grant a one-time deferment of up to 3 months without obtaining prior permission from the investor).**

# Secondary Market Borrower Notice Required

- **Loans sold on the secondary market**
  - **Borrower may prepay up to 20% of balance at any time without charge or notice.**
  - **Over 20% prepayment**
    - **Borrower must give Lender three weeks notice or pay 21 days of interest**
    - **Borrower must prepay within 30 days of notice date or provide lender new notice.**

# Subsidy Recoupment Fee (aka prepayment penalties)

- **Subsidy Recoupment Fee (aka prepayment penalties) apply when:**
  - **Loan is for 15 years or more**
  - **Loan is approved on/after 12/22/00**
  - **If prepayment exceeds 25% of the outstanding principal balance within the first 3 years.**
  
- **Penalty calculation is based on the amount of prepayment.**
  - **5% of the amount of prepayment during the FIRST year.**
  - **3% of the amount of prepayment during the SECOND year.**
  - **1% of the amount of prepayment during the THIRD year.**
  
- **Subsidy recoupment fee is 100% payable to SBA. It cannot be waived by SBA except in rare circumstances (eg., loan in liquidation, an involuntary prepayment).**

# SBA Express Purchases/Liquidation

- If you need to put an SBA Express loan into liquidation status or have a general inquiry on the liquidation/purchase process, contact the purchase team at [fsc.purchasing@sba.gov](mailto:fsc.purchasing@sba.gov)
- SBA Express Purchases
  - Goal: Within 45 days
  - Electronic submission method
  - 10-Tab Purchase Demand Kit
  - Receipt of a complete “purchase demand kit” is essential to a fast purchase.

# Servicing Issues Pertaining to CDC's

- Use the [fsc.servicing@sba.gov](mailto:fsc.servicing@sba.gov) e-mail address to submit servicing actions.
- Include the closing document needing SBA execution (eg., subordination agreement) along with the servicing request.
- PCLP-CDCs may use “Power of Attorney” form in lieu of standard subordination and assumption agreements.
- Visit the CLSC website for sample loan servicing templates.
- Be familiar with SBA policy notice 5000-863.
  - This contains guidance on the processing of the most common 504 loan servicing requests.
- CDC Action Matrix (13 CFR 120.535 and 120.536)
  - When utilizing delegated, unilateral authority, the CDC must internally document that their credit decision was a reasonable and prudent credit decision.



# CDC ACTION MATRIX

Draft Version

**Note:**

"X" = Requires prior SBA approval

ALL actions require that SBA be notified.

This Matrix identifies those actions that require prior SBA Approval.

PCLP

ALP

CDC

*After Disbursement (13 CFR 120.535 & 120.536)*

		PCLP	ALP	CDC
<b>Payments</b>	Purchases or pays off any indebtedness secured by the property that serves as collateral for a defaulted 504 loan, such as payment of the debt(s) owed to a lien holder with priority over the lien securing the loan.		X	X
<b>Loan Terms</b>	Alters substantially the terms and conditions of any loan instrument		X	X
	Accepts a workout plan to restructure the material terms and conditions of a loan that is in default or in liquidation.		X	X
	Accelerates the maturity of the note		X	X
	Compromising the principal balance of a loan or releasing a guarantor for less than the full amount owed.	X	X	X
	<i>Assumptions:</i>			
	To an ineligible business	X	X	X
	When it includes subordinations that provides any increase in the third party lender's loan	X	X	X
	When it includes cash out subordination	X	X	X
	When the sale involves a contract for deed. A contract for deed is prohibited. A contract for deed exists when the seller retains the title to the property until an agreed amount is paid by the buyer. After the agreed amount is paid, the seller conveys the property to the buyer.	X	X	X



# CDC ACTION MATRIX

Draft Version					
		<b>Note:</b>			
		<b>"X" = Requires prior SBA approval</b>			
ALL actions require that SBA be notified.					
This Matrix identifies those actions that require prior SBA Approval.		<b>PCLP</b>	<b>ALP</b>	<b>CDC</b>	
<i>After Disbursement (13 CFR 120.535 &amp; 120.536)</i>					
<b>Collateral</b>	Taking title to any property in the name of SBA	x	x	x	
	Taking title to environmentally contaminated property, or taking over operation and control of a business that handles hazardous substances or hazardous waste.	x	x	x	
	Selling the operating company where the EPC retains ownership of the project collateral	x	x	x	
	<b>Subordinations:</b>				
	When SBA is being asked to subordinate its lien position to a loan that allows an increase in the third party loan.	x	x	x	
	When SBA is being asked to subordinate its lien position to a loan that provides funds to the assumptor to pay the seller for the business (cash out subordination)	x	x	x	
	When the third party lender has not executed a third party lender agreement in accordance with the 504 Authorization	x	x	x	
	Release collateral having a cumulative value of 10% of the original loan amount, or \$10,000, whichever is less.		x	x	
	Release of the total project collateral without paying off the entire 504 loan / debenture	x	x	x	
	<b>Release of any portion of the property unless:</b>				
	When the property is sold, all net proceeds of the sale of the portion of the project property are applied to the third party lender's loan		x	x	
	When the property is not sold, funds equating to the fair market value are paid to the third party lender's loan to reduce the balance		x	x	
	When the property is not sold, additional collateral with a comparable fair market value is provided to secure the loan		x	x	



# CDC ACTION MATRIX

Draft Version				
		<b>Note:</b>	<b>"X" = Requires prior SBA approval</b>	
ALL actions require that SBA be notified.				
This Matrix identifies those actions that require prior SBA Approval.		<b>PCLP</b>	<b>ALP</b>	<b>CDC</b>
<i>After Disbursement (13 CFR 120.535 &amp; 120.536)</i>				
Miscellaneous	Transfers, sells or pledges any loan.	x	x	x
	Preference: Any action that confers a preference, or the appearance of a preference on a CDC, or any employee of the CDC, or with a third party lender, or any associate of the third party lender.	x	x	x
	Conflict of Interest: Engaging in any activity that creates a conflict of interest, or the appearance of a conflict of interest with a CDC, or any employee of the CDC, or with a third party lender, or associate of the third party lender.	x	x	x
	Taking any servicing action that is in conflict with SBA's regulations in effect at the time of the action.	x	x	x
	Any action for which prior written consent is required by a Loan Program Requirement	x	x	x
<b>Note:</b>	Documentation requirements: For all servicing actions, CDCs must document the justifications for their decisions and retain these and supporting documents in their file for future SBA review to determine if the actions taken by the CDC were prudent, commercially reasonable, and complied with all Loan Program Requirements.			
	When taking action that falls within your unilateral authority, you are encouraged to notate your file with a statement such as "This action was taken pursuant to lender's Unilateral Authority." Then, attach this matrix to the statement and include it with any other supporting information.			

Other helpful information for CDCs

- |   |  |  |  |  |  |
|---|--|--|--|--|--|
| ✓ | CDCs should direct their action / request to either:   |  |  |  |  |
|   | <a href="mailto:FSC.Servicing@sba.gov">Fresno Service Center at FSC.Servicing@sba.gov</a>  |  |  |  |  |
|   | <a href="mailto:LRSC.Servicing@sba.gov">Little Rock Service Center at LRSC.Servicing@sba.gov</a>   |  |  |  |  |
| ✓ | CDCs may contact their District Office Lender Relations Specialists or Brand Managers if they have questions regarding the use of this matrix. |  |  |  |  |
| ✓ | SBA requires all CDCs to prepare legal documents for SBA signature, which SBA legal counsel reviews for legal sufficiency                      |  |  |  |  |
| ✓ | PCLP / CDCs may use Power of Attorney for all Assumptions and Subordinations.  |  |  |  |  |
| ✓ | <a href="#">Power of Attorney, Assumptions and Subordinations Agreements may be found here: Documents.</a>                                     |  |  |  |  |
| ✓ | <a href="#">Templates for most common servicing actions can be found here: Common Loan Servicing Templates</a>                                 |  |  |  |  |
| ✓ | <a href="#">Please visit the Commercial Loan Service Centers' website, here, for all your servicing questions.</a>                             |  |  |  |  |

# RESOURCES

- **SBA Servicing SOP 50-50-4**
- **SBA Loan Processing SOP 50-10-5(B)**
- **SBA Liquidation SOP 50-51-4**
- **13 CFR Parts 120.535 and 120.536**
- **7(A) Servicing Unilateral Action Matrix**
- **CDC Action Matrix**
- **SBA Form 2237**
- **Policy Notice 5000-863 (504 loans)**
- **Policy Notice 5000-1077**
- **Policy Notice 5000-1097**
- **Policy Notice 5000-1098**
- **Policy Notice 5000-1103**
- **Colson Servicing Manual**

# Questions????

