



SBA Information Notice

TO: All SBA Employees

CONTROL NO.: 5000-1181

SUBJECT: Issuance of SOP 50 51 3 for 7(a) and
504 Loan Liquidation

EFFECTIVE: October 15, 2010

The Office of Financial Assistance (OFA) announces the issuance of a complete revision of Standard Operating Procedure (SOP) 50 51 that will be designated as SOP 50 51 3 and will be effective on November 15, 2010. This revision is part of OFA's ongoing modernization and simplification efforts for loan program policies and procedures.

The old version of SOP 50 51 has not been extensively updated in over 10 years. The changes contained in this revised version take into account the fact that SBA's liquidation regulations and policy have been substantially modified over the years. For example, (1) SBA's liquidation functions have been centralized and are no longer primarily performed at the field office level, (2) lenders in the 7(a) program are now required to fully liquidate their loans with minimal SBA involvement, and (3) certain certified development companies ("CDCs") have been given liquidation authority.

The following is a summary of some key changes made to SOP 50 51, many of which were made in response to comments received from stakeholders such as SBA district offices, loan centers, 7(a) lenders, CDCs, NADCO (National Association of Development Companies) and NAGGL (National Association of Government Guaranteed Lenders).

- **Disaster Loans.** In order to make this SOP easier to use, all references to disaster loans have been removed. Disaster loan liquidation will be addressed in SOP 50 52, which is currently being revised. Until the revised version of SOP 50 52 is issued, the disaster loan liquidation procedures in SOP 50 51 2 will remain in effect.
- **Appendix.** This revised SOP does not contain an appendix. Instead, it utilizes hyperlinks to ensure that the user has access to the most current version of the referenced document, such as the *7(a) Servicing and Liquidation Action Matrix*.
- **Compromise.** SBA Commercial Loan Service Centers now have full compromise authority on 7(a) and 504 loans without regard to the dollar amount involved, i.e., approval is no longer required by SBA Headquarters for large dollar cases. In addition, it is noted that compromises for less than \$5,000 are not encouraged because SBA has the option of referring the debt to the U.S. Department of the Treasury for further collection efforts. The SOP also points out that IRS Form 1099-C is issued for compromises involving direct loan obligors but not guarantors.

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- CDC Servicing Fees. This revised SOP provides added incentive for CDCs to work with cooperative borrowers to keep their businesses in operation by allowing the CDC to collect a servicing fee (equivalent to the CDC's pre-debenture purchase servicing fee), if the loan is returned to regular servicing status through an effective workout agreement. (This change will apply only to 504 loans approved in FY 2010 and future years.)
- Liquidation Value. This revised SOP no longer contains “standard” discounts from market value to arrive at the liquidation value of various types of collateral. Because liquidation value depends on a wide range of factors such as the age and condition of the collateral, the local market, etc., liquidation value must now be established through the use of prudent lending practices such as obtaining an appraisal or other suitable valuation.
- Site Visits. Lender site visits are required unless the recoverable value of personal property collateral is less than \$2,500 or the recoverable value of real property collateral is less than \$5,000.
- Environmental Risk Management. SOP 50 51 now contains a full discussion of the Agency's post-default environmental risk management policy and procedures.
- Abandonment of Collateral. Real property collateral must be liquidated by the lender if it has a recoverable value of \$5,000 or more, and personal property must be liquidated if it has a recoverable value of \$2,500 or more unless there is a documented compelling reason for not doing so.
- Hazard Insurance. Lenders are reminded that hazard insurance must be obtained on property with significant recoverable value.
- Redemption Rights. This revised SOP contains a full discussion of SBA's policy and procedures with regard to pre-foreclosure sale and post-foreclosure sale release of the redemption rights on an SBA loan.
- 7(a) Guaranty Post-purchase Review. This revised SOP sets forth procedures for the centers to pursue if a lender does not provide adequate documentation for SBA to conduct a review after purchasing the guaranteed portion of a loan from the secondary market.
- Early Default. To avoid discouraging lenders from helping struggling businesses, the definition of "Early Default" now applies to loans with more than three (instead of three or more) consecutive deferrals. In addition, if loan disbursement takes more than six months, the 18-month period for determining whether an Early Default occurred now starts from the date of final disbursement. Further, if a borrower cures a payment default and continues to make regular payments for a period of 12 or more months after the initial 18-month period, the loan will not be considered an Early Default for purposes of SBA's purchase review.

Additional Information

Suggestions concerning SOP 50 51 3 may be sent to SOP5051@sba.gov. This e-mail box is set up to receive suggestions and comments. Questions regarding SOP 50 51 3 should be sent to walter.intlekofer@sba.gov.

Grady B. Hedgespeth
Director, Office of Financial Assistance