



U.S. Small Business Administration



## Guaranty Loan Servicing



Helping you start, grow and succeed.



Commercial Loan Service Centers

---

## Little Rock Commercial Loan Service Center

2121 Riverfront #100

Little Rock, AR 72202

Tel. 501-324-5871

Fax: 202 292 3878

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 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

---

- Regular 7a loans are shipped 7 days after approval to the appropriate CLSC.
- PLP/SBA 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.
- Requested by lender

A general e-mail informing the CLSC of the change to liquidation status

may be sent to [lrsc.servicing@sba.gov](mailto:lrsc.servicing@sba.gov) For loans made under the

SBA Express umbrella, liquidation/purchase are handled by the respective CLSC.



## SBA Form 1502 reporting

---

- 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- Promptly notify SBA of cancelled or withdrawn loans.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.



## Colson Customer Service

[www.colsonservices.com](http://www.colsonservices.com)

Telephone: 1-877-245-6159

e-mail:

[info@colsonservices.com](mailto:info@colsonservices.com)



## 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.



## The Guaranty Fee

---

- Paid by Lender. May not be waived or time extended
- Paid via cashiers check to Denver, via ACH wire transfer, or by making a secure electronic payment online at [www.pay.gov](http://www.pay.gov)
- Reimbursed by borrower after 1<sup>st</sup> disbursement.
- 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 120<sup>th</sup> 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 30<sup>th</sup> day, the loan will be cancelled if the fee is not paid.



## Changes to Loan Authorizations before disbursement or during the disbursement period

---

- For all loans, the lender must submit and SBA must approve of the following actions using 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.

**PLP & SBA Express loans are shipped to the CLSC within days of approval, therefore, the above requests should be directed to the appropriate CLSC.**



## Changes to Loan Authorizations before disbursement or during the disbursement period (cont.)

---

- For all loans, lender to inform SBA of the following actions, lender must also submit SBA form 2237 (SBA approval of these items is not necessary and SBA does not generally respond in writing):
  - Cancellation of the entire loan.
  - Change in the maturity date/maturity months.
  - 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 disbursement date
  - Any other transaction which affects the SBA database (eg., change in Tax ID #, change of loan from revolver to non-revolver, etc.



For loans made under the Standard 7(a) and CLP programs, lender must submit the completed SBA Form 2237 along with supporting financial statement and/or other documentation for approval to:

1. 7a loan processing center if within 7 days of approval
2. To the appropriate CLSC if after 7 days of approval

The 7a loan processing center forwards files to the appropriate CLSC seven (7) days after approval, unless the file is being held for appraisal or environmental review. If the file is not being held, any change requests submitted after 7 days must be submitted to the appropriate CLSC.



## LOANS MISTAKENLY CANCELLED OR REPORT AS PIF

---

The CLSC's are typically requested to reinstate 70+ cancelled or mistakenly report as PIF loans on a monthly basis. A special templates 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>

**If erroneously report as PIF- loan must be current, and no adverse financial change**

**If mistakenly cancelled or if cancelled and borrower/bank change mind - guaranty fee will be required**



## 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.



## New loan servicing regulations!!!

---

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



**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.**



**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.**



## 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.



## Putting together a loan servicing request, cont.

---

SBA's website contains templates to assist in putting together common

loan servicing requests, such as:

- \* Loan reinstatements.
- \* Transfer of loan from one lender to another.
- \* Collateral releases, substitutions, subordinations.
- \* Loan assumptions
- \* Releases of guarantor

Visit our website at:

<http://www.sba.gov/aboutsba/sbaprograms/elending/c lc/index.html>



## 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 (eg., Subordination agreement). These types of legal documents do not need to be submitted to SBA for review/execution.



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

---

Investor, but not SBA, 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).



## 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



## 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:**

- 1. Loan cancellations**
- 2. Decrease in loan amount.**
- 3. Changes of maturity**
- 4. Change of business name and address.**
- 5. Extension of disbursement periods.**
- 6. Other: (eg., a loan assumption in which a change in guarantor/SSN/business Tax ID# is involved or changes on loans sold in the secondary market in which Colson requires SBA acknowledgement)**



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

---

**For all loan servicing actions not requiring SBA's prior written consent, lenders 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 lender were prudent, commercially reasonable and complied with all Loan Program Requirements.**



## E-TRAN

---

**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. Please contact**

**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 for more**

**Information on SBA's E-TRAN system.**



## 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.
- Quicker 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.



## Fees Charged for Servicing Actions

---

- Regular Servicing Actions
  - Lender may NOT charge fees to the borrower (eg., to process a subordination action).
  - Filing fees and out-of-pocket expenses may be charged.
- Extraordinary Servicing
  - Not to exceed 2% per year of outstanding balance of the part requiring special servicing.
  - Example: Asset based Line of Credit Administration Expense

SOP 50-50-4 page 3-12



## Fees Charged for Servicing Actions, cont.

---

- Late payment fee
  - May not exceed 5% of the loan payment
  - May collect if payment is 10 days late
- Assumption fee
  - Must not exceed 1% of the principal balance (notice 5000-858)
- Important care and preservation of collateral expenses, with SBA approval, may be added to the loan balance.
  - Except loans sold in the secondary market



## 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.
    - SBA's approval is not required for secondary market pre-pay



## SECONDARY MARKET EMERGENCY REPURCHASE

---

- Must have decline of proposed restructure from Colson
- A statement that the proposed terms are critical to survival of business
- A certification from lender that proposed changes in terms will be made , if purchased
- SBA approval is required



## 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.
- The prepay penalty cannot be waived. All prepayments are subject to the penalty unless determined to be involuntary. (eg., loan in liquidation, eminent domain). Only SBA headquarters, 7(a) branch can make this determination



## Important note regarding additional loan guaranty fees as they pertain to loan increases

---

- The CLSC processes a large volume of loan increases on a monthly basis!
- For long term loans, guaranty fees are due within 90 days of loan approval. Therefore:
  - If the increase is requested within 90 days of loan approval, the CLSC will process the request without the additional guaranty fee in hand.
  - If the increase is requested after 90 days from the date of approval, the additional fee must accompany the request, or the CLSC must receive confirmation that the additional loan guaranty fee has been remitted to our Denver Finance Center. By policy, we are unable to proceed with the increase until this confirmation is received.
- Short term loans, loans with 12 months or less term, the additional fee must accompany the request, or the CLSC must receive confirmation that the additional loan guaranty fee has been remitted to our Denver Finance Center.



## 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 (12 months or less) 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:
  - The additional guaranty fee must accompany the request, or must have been remitted to our Denver Finance Center to extend the maturity past 12 months. By policy, SBA is unable to proceed with the maturity extension (term change) until this fee has been remitted. The lender may charge the additional fee to the borrower upon receipt of confirmation from SBA.



## Guaranty fees

---

- Can be difficult to compute, especially if companion loans (loans made within 90 days) are involved. If you have problems with this calculation:
- The E-TRAN loan servicing module contains a loan guaranty fee calculator.
- Call the Little Rock CLSC at 1-800-644-8564 and ask for customer service.



## 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 [lrsc.expresspurchasing@sba.gov](mailto:lrsc.expresspurchasing@sba.gov)
- For more information: Visit the Centers' web site at:  
<http://www.sba.gov/aboutsba/sbaprograms/elending/clc/index.html>
- SBA Express Purchases
  - Goal: Within 45 days
  - Revising “purchase demand kit” to reduce the # of tabs
  - Receipt of a complete “purchase demand kit” is essential to a fast purchase.



## Servicing issues pertaining to CDC's

---

- Use the [lrsc.servicing@sba.gov](mailto:lrsc.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.

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.



## RESOURCES

---

- SBA servicing SOP 50-50-4
- New SOP 50-10 (5)

[http://www.sba.gov/idc/groups/public/documents/sba\\_homepage/serv\\_sops\\_50105.pdf](http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sops_50105.pdf)

### SBA liquidation SOP 50-51-4

- SBA policy notice 5000-863 (for CDC's)
- Colson Servicing Manual
- SBA information notice 5000-1047 (for CDC's)
- SBA information notice 5000-1048 (for CDC's)



## Resources Continued

---

- Servicing Center Website  
<http://www.sba.gov/aboutsba/sbaprograms/elending/clc/servicing/index.html>
  - Obtain copies of SOPs, Policy Notices and CFR.



## REMEMBER THIS DICTUM

---

- Treat your SBA guaranteed loans as if they belonged 100% to you, because if you don't... they will



## COMMUNICATION

---

- We appreciate the communication between the lenders and our staff - let us know if you have any concerns or problems.
- THANK YOU



## Contacts

---

- <http://www.sba.gov/banking>
- Direct e-mail inquiries to:
- [lrsc.servicing@sba.gov](mailto:lrsc.servicing@sba.gov)  
(Loan modification and inquiries)
- [secondarymarketliq@sba.gov](mailto:secondarymarketliq@sba.gov)  
(Loans in secondary)  
[sbapurchase@sba.gov](mailto:sbapurchase@sba.gov)  
(Loans not in secondary)
- Massachusetts District Office:  
Anne Hunt  
(617)-565-5577  
[anne.hunt@sba.gov](mailto:anne.hunt@sba.gov)
- Springfield Branch Office:  
Edgardo Tarrats  
(413)-785-0268  
[p.edgardo.tarrats@sba.gov](mailto:p.edgardo.tarrats@sba.gov)