

SBA Asset Sales Program

(Attachment IV)

Questions & Answers: Sales Process for Lender-Serviced, SBA Purchased 7(a) Loans

The SBA is providing the following questions and answers to explain the process of selling Lender-Serviced, SBA Purchased 7(a) Loans:

- What information is required from lenders?
- How does the process work?
- How will communication be handled between SBA and its lenders?
- How will lenders be compensated?
- What loans are included in this sale?

The SBA has developed and implemented an innovative program that is designed to reduce the number of direct and purchased guaranty loans SBA has acquired. The SBA plans to sell up to \$9 billion of loans over the next three years, and to establish a mechanism for selling up to \$500 million in loans each year thereafter.

On September 7, 1999, the SBA provided the results of its highly successful initial sale of SBA business loans to the lenders who participated in this sale. Bids were received for Sale #1 on August 17, 1999, closings occurred in September 1999, and servicing transfers were completed by mid-October 1999.

SBA has identified a number of SBA- and lender-serviced 7(a) loans for its third loan sale. The agency plans to close the sale in December 2000 and transfer servicing by January or February, 2001. The structure of the SBA's Asset Sales Program provides lenders with an opportunity to sell their remaining interest in a given purchased guaranteed 7(a) loan when the SBA sells its portion.

What Information is Required from Lenders?

1. What information is needed from the lender's servicing and collateral loan files?

The SBA provides comprehensive information to prospective bidders to maximize proceeds from the sale of loans, and to effectuate the transfer of servicing to the successful purchaser(s). Therefore, the entire, original collateral and servicing loan files in the lender's possession must be provided to SBA, including the original application, legal documents, appraisals, invoices for care and preservation of collateral (CPC expenses), remittance reports, borrower correspondence, Form 172 Reports on file, etc.

Electronic images of the collateral and servicing files will be available for bidders to review, and the original files will be provided to the successful purchaser(s) at closing.

2. Does SBA need a tape from the lender's servicing system? What about an updated Transcript of Account or other payment information?

SBA will not be requesting servicing tapes from the lenders. However, it is critical that an updated, certified Transcript of Account, from the date of purchase by SBA to the present time, be prepared and included in each servicing loan file. SBA also requests that the file contain an electronic version of the Transcript of Account(s) be provided on a diskette, preferably in Microsoft Excel format.

A payment history that is produced by the lender's loan servicing system may be provided in lieu of an updated, certified Transcript of Account. At a minimum, the payment history should include: the latest unpaid principal balance, the "as of date" and the interest paid thru date. The following statement should be included on all payment histories:

I certify that the above information is true and accurate.

Signed

Date

Please be aware that the SBA balance and your balance must agree before the loan can be included in the sale. If your balance differs from the SBA balance, please provide reconciliation if possible.

3. Will SBA need updates to the loan files?

Updates to the loan file, commonly referred to as "Trailing Documents", should be provided to SBA's Due Diligence Contractor on the first of each month. Please ensure that the SBA loan number is included prominently on the trailing documents. Trailing documents include borrower correspondence, such as compromise offers, bankruptcy filings or other legal actions, and invoices for property protection expenses, etc. In addition to the existing Form 172 reporting, executed payoffs and compromises should be reported to your SBA field office contact as soon as they occur so the loans can be removed from the sale and the necessary documents returned to you. SBA will pay to ship these documents. They should be sent to the address noted in Question #7 using the Federal Express number provided.

4. Are lenders required to provide the interest paid-to date?

Yes. Lenders are requested to report the interest paid-to-date for each loan included on the Schedule of Assets.

5. Is Form 172 reporting still required?

Yes. Form 172 reporting will continue as usual until the servicing transfer date. Please comply with the SBA SOP, and provide remittances within 15 days of receipt.

6. Must a post purchase review of a loan be completed prior to the sale of this loan?

If a 7(a) loan was purchased from the secondary market, a post-purchase review must be completed by the Field Office before the loan can be included in this sale. In the post-purchase review, the lender's loan origination, servicing and liquidation practices must be examined to determine whether the SBA has a cause of action against the lender. If the post-purchase review reveals that any of the actions of the lender are suspect, the lender may be required to reimburse the agency for the proceeds that were paid to the secondary investor.

7. How should care and preservation of collateral (CPC) expenses be handled?

When a loan file is sent to the Due Diligence Facility, the lender should include the invoices for all prior and current CPC expenses that have **not** been reimbursed by the borrower. The Lenders should send copies of all new invoices to the due diligence contractor as they are received. In addition, Lenders should submit expenses that have not been reimbursed by SBA for payment as soon as possible, and continue to submit them to the SBA as incurred until the Closing Date.

8. Is the lender required to sign the loan sale agreement or have any role or responsibility to close the transaction?

No, both the SBA-serviced and Lender-serviced Consent Agreements provide SBA with power of attorney that allows the SBA to execute the documents on the lender's behalf.

How Does the Process Work?

9. Are there any special packing instructions?

When preparing the loan files for shipment to the Due Diligence Facility, please adhere to the following instructions:

- Prepare and include a Loan File Inventory Packing Sheet (Attachment VII) which lists the files that are shipped in each box. The Loan File Inventory Packing Sheet should clearly identify whether the files are collateral files only, servicing files only, or a combination of both files. In addition, please place the collateral and servicing files for a given loan in the same box.
- If possible, all files for a given asset should be placed in one shipping box. If not, the box should be labeled 1A, 1B, 1C, etc. In addition, please number the boxes consecutively. Thus, only a single box will be labeled "Box #1".
- Identify any parent/notes, companion loans, and borrowing relationships on the Inventory Packing Sheet. If these loans are not listed on Schedule A, please include the loans on the appropriate schedule and ship the loans to the Due Diligence Facility.
- Loans added to the sale by the Lender should be added to the Inventory Packing Sheet.

- If possible, each loan file should indicate whether the file is (1) the servicing file; (2) the collateral file; or (3) the combined servicing and collateral file.
- Display the SBA loan number prominently on the loan file and on the inventory sheet(s) included in the shipping boxes. The Lender's internal loan number should also be on the loan file.
- Include a copy of the Lender Questionnaire, Attachment III.

10. Who will pay for the shipment of files? Where should files be shipped and when?

Files are to be shipped via Federal Express 2-day delivery. The cost for the shipment of lender files will be paid for by the SBA. The billing label is to be marked in the 'bill recipient' section and charged to Federal Express # 2174-21322. The insurance box is to be checked so that the liability is not limited to \$100. The shipment address is as follows:

METEC Due Diligence Office
3rd Floor
499 S. Capitol Street, SW
Washington, DC 20003
Attn: Files Manager
(202) 479-4555

File shipment dates will be coordinated with your SBA field office contacts. The SBA will confirm expected shipment dates with the Due Diligence Contractor for lenders with greater than 20 loans who have requested CD-ROM's of the electronic images of their original files. This will ensure that lenders will be able to access the files needed to service their loans within 10 business days. Lenders who have not requested CD-ROM's do not need to coordinate shipment dates with the field offices.

11. How will the lender continue to service the loans until servicing is transferred to the successful bidder(s)?

Servicing transfers to the winning bidders are projected to occur by January or February, 2001. If a lender has 20 or fewer loans in the sale, they must retain copies of the sections of the loan file that will be needed to service the loan(s) until servicing is transferred to the purchaser(s). If lenders have over 20 loans in the sale, they have the option of copying their own files or requesting a CD-ROM disk with electronic images of their files. The CD-ROM disk will be shipped within 10 business days of receipt of the files by SBA's Due Diligence Contractor. The electronic images of the files will have the collateral documents plus the documents in the servicing file that are 5 years old or less.

All lenders should complete the attached questionnaire (Attachment V) to provide contact information. In addition, if the lender has over 20 loans in the sale, indicate on the questionnaire whether CD-ROM disk(s) are requested.

If original documents are required for unanticipated events, such as a loan payoff, the required documents can be returned to lenders within 5 business days. If the lender needs a document that they did not copy, the SBA will provide a facsimile or copy within 48 hours.

12. What servicing cut-off dates have been established?

Servicing cut-off dates will be established for each SBA loan sale. The cut-off dates are the last date on which specific action can occur on the loans being sold. It is required that all actions taken be in writing. Generally, the following guidelines can be used to determine the last approximate cut-off date specific servicing actions can be taken:

<u>Date</u>	<u>Action</u>
3 months before bid date	Modification of the Terms of the Note;
1 month before bid date	Collateral Releases;
1 month before bid date	Deferments
1 month before bid date	Borrower Negotiations/Compromises, Third Party Sales and/or similar situations that extinguish the debt to SBA.

There is no change in the manner in which loans with ongoing litigation will be handled during the sale. However, written consent from the Associate General Counsel for Litigation is required to initiate litigation.

13. What happens if a lender's unpaid principal balance does not agree with SBA's balance?

In some instances SBA records may reflect a different unpaid principal balance from the balance reported in the lender's last Form 172 Report. As indicated previously, these principal balances will need to be reconciled by SBA prior to the Bid Date. Lenders will be contacted in the event that SBA has any questions about a reported balance.

14. Should the lender continue to comply with the SBA requirement to order appraisals on loans in liquidation?

Yes, SBA SOP 50-51, Chapter 16 requires that an appraisal of the real property be obtained for loans in liquidation when it appears that a property, which has significant value, will be liquidated. To facilitate the marketing and sale of the business loans, we are requesting current appraisals (dated October, 1999 or more current) be obtained on loans with an unpaid principal balance of \$500,000 or more. The appraisals should be received at the Due Diligence Facility by no later than early Summer 2000. **Please include the SBA loan number prominently on the face of each appraisal and forward using the Trailing Document procedures discussed previously.**

15. Will lenders continue to service the loans after the sale? How will the servicing transfer work?

Lenders will continue to service the loans until the servicing transfer date, after which time, servicing will be transferred to the new purchasers. The servicing transfer date generally occurs 30 days after closing of the sale(s). The address for the new servicer will be provided at that time so that Trailing Documents can be forwarded directly to the purchasers.

Lenders will be instructed at a later date when to stop posting payments to the accounts, and other details on the servicing transfer. On behalf of its lenders, it is anticipated that SBA will send: (a) a notice to the borrowers to inform them of SBA's intent to sell their loan, and (b) a "Goodbye Letters" at the time of servicing transfer. The purchaser is responsible for sending a "Welcome Letter" to the borrower.

16. Can the lender sell loans in litigation?

Loans in litigation can be sold at the discretion of the lender. However, once servicing has transferred to the purchaser, outside counsel should be terminated. Also, the lender can not initiate litigation without SBA's approval.

How Will Communication Be Handled Between SBA and its Lenders?

17. Where can questions about the sales or servicing procedures be directed?

Sales Procedures: A dedicated SBA e-mail address, lenderquestions@sba.gov, has been created to allow lenders with loans in this sale to submit questions and receive a specific answer. Lenders can also call the Transaction Financial Advisor, Hanover Capital Partners, Ltd, toll-free at 1-888-737-3840.

Servicing Procedures: The name and phone number of your SBA field contact is noted in the accompanying cover letter.

18. How will SBA correspond with lenders throughout the sale to provide general instructions?

SBA will periodically distribute notices to the lenders. These notices may contain answers to frequently asked questions, an update of the status of the sale, and/or additional instructions for the lenders. If the notice can be sent to an e-mail address, please provide this information on the Lender Questionnaire (Attachment V), as well as a contact name, mailing address, phone number and fax number. These updates will also be posted on SBA's external website, www.sba.gov/assets.

19. Will borrowers be notified of the sale?

Borrowers will be notified by SBA that their loan(s) are scheduled to be sold once the applicable lender's consent is obtained. SBA's experience in Sale #1 was that the notice to the borrower resulted in a number of loan payoffs and compromises. The SBA expects this trend to continue in Sale #3. SBA has no obligation to notify business loan

borrowers that their loans will be sold. As part of SBA's continuing commitment to small business customers, SBA is voluntarily notifying its business loan borrowers about this impending loan sale.

How Will Participating Lenders Be Compensated?

20. How much will lenders get compensated for their portion of Section 7(a) loans that SBA sells?

In each loan sale, the loans are divided into loan pools in order to maximize value. The criteria used to pool the loans include: loan status, collateral type, lien position, loan to value ratios, location of collateral, SBA loan program and environmental issues.

Lenders will be paid their net pro-rata share of the proceeds from the loan pool(s) in which their loans were sold based on the following.

- (1) the unpaid principal balance of the loans in which the lender has a pro-rata interest, expressed as a fraction of the total unpaid principal balance of the sold pool of loans, and
- (2) the total sales price of the sold pool of loans,
- (3) net of the direct costs of that particular sale.

SBA will cover the overhead costs associated with the Asset Sales Program. Lenders will not bear the costs of the Program Financial Advisor or SBA staff. SBA will deduct the direct cost of each sale, including the cost of the Transaction Financial Advisor, outside legal counsel, and due diligence contractor costs against the gross sale proceeds.

21. When will lenders receive their portion of the proceeds from the sale of the Section 7(a) loans in Sale #3?

There may be multiple successful bidders in a SBA asset sale. Closings will be scheduled as expeditiously as possible, generally within 30 to 60 days of the sale date. Promptly after the closing and servicing transfer with the last of the successful bidders, SBA will remit the lender's share of the proceeds.

What Loans Are Included in Sale 3?

22. What loans are included in Sale #3?

The loans in Sale #3 from your institution are listed on the Schedule of Assets. A separate schedule for SBA-serviced and lender-serviced loans in Sale #3 is provided as an attachment to the appropriate consent agreement. The lender also has the option, and is encouraged, to add additional loans to the sale.

23. Can a lender consent to sell only selected loans?

Yes. While SBA would prefer to sell all of SBA-purchased 7(a) loans serviced by the lender, a lender may consent to sell only selected loans. Loans with balances less than \$7,500 will not be included in the sale unless they are part of a borrowing relationship, and another loan with the same borrower is also included in the sale.

If a lender supports the SBA's Asset Sales Program, but does not want to consent to sell all the loans on the Schedule of Assets (attached to the SBA-Serviced and/or Lender-Serviced Consent Agreement(s)), the lender should cross out those loans for which consent is not granted.

24. Can a lender volunteer loans to Sale #3?

The SBA plans to sell its direct loan and purchased guaranteed loan portfolio. The loans to be sold in Sale #3 are not limited to the loans listed on Schedule A of either the SBA-Serviced or Lender-Serviced Lenders Consent Agreement. Lenders are encouraged to contribute any development company loan or purchased guaranteed 7(a) loan with a total unpaid principal balance of more than \$10,000 in which they have a participated interest.