



SBA's Purchase Review Process – 10 Tabs

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Maine District Office

68 Sewall Street

Augusta, ME 04330

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www.sba.gov/me

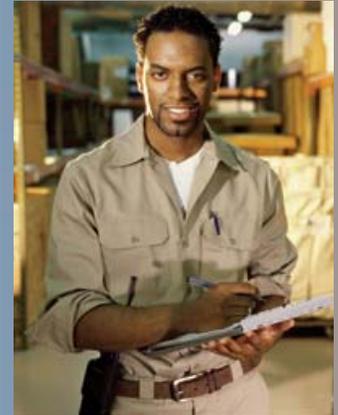
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Welcome

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Loan Guaranty Purchases



Loan Guaranty Purchases

Overview

SBA reviews a lender's request that SBA honor (purchase) the guaranty, this review determines if the lender has complied with the SBA loan authorization for the loan, SBA requirements, and prudent lending practices. The amount and types of documentation that the lender must include in its guaranty purchase package depends on the type of loan, use of proceeds, collateral, and other factors.

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- Where do I start?
- The process begins when you notify SBA to reclassify a loan into liquidation status. Therefore, before any action can be done at the NGPC the loan will have to be transferred into liquidation status.
- SBA CLSC East
 - 2120 Riverfront Dr. Suite 100
 - Little Rock, AR 72202-1794
 - 501-324-5871 or Toll Free: 1-800-664-8564
 - lpsc.servicing@sba.gov
 - Servicing: Fax Number: 202-292-3878
 - Express Purchase: Fax Number: 202-292-3877
- SBA National Guaranty Purchase Center (NGPC)
 - 1145 Herndon Parkway, Suite 900
 - Herndon, VA 20170
 - (703) 487-9283 or Toll Free: (877) 488-4364
 - (202) 481-4674 fax
 - loanresolution@sba.gov

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Square One

- SBA will acknowledge your notification and authorize you to accelerate the maturity of the defaulted loan, if appropriate. In addition, you will also be authorized to continue servicing this account and, should liquidation and/or litigation become necessary, completely liquidate or sue upon any loan instrument. Please note that you are required to pursue the entire indebtedness regardless of the guaranteed percentage or any purchase thereof.

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WHEN CAN I REQUEST PURCHASE?

- AFTER A 60-DAY UNCURED DELINQUENCY
- LOW-DOC LOANS – LENDER MUST LIQUIDATE BUSINESS PERSONAL PROPERTY FIRST
- SBAEXPRESS – AFTER LIQUIDATION IS COMPLETED (EXCEPTIONS FOR PROTRACTED LIQUIDATION, LOANS \$50,000 OR LESS, AND EXPORT EXPRESS LOANS)
Reference SBAExpress Program Guide, Sec. 8
- SBA ENCOURAGES ALL OTHER LENDERS TO LIQUIDATE PRIOR TO REQUESTING PURCHASE

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- Where can I find answers?

- <http://www.sba.gov/banking>
- <http://www.sba.gov/aboutsba/sbaprograms/elending/index.html>
- <http://www.sba.gov/aboutsba/sbaprograms/elending/ngpc/index.html>

- Direct e-mail inquiries to:

- General liquidation information loanresolution@sba.gov
- Guaranty Purchase information SBAPurchase@sba.gov
- Guaranty Purchase Status Purchasestatus@sba.gov
- Secondary Market information Secondarymarketliq@sba.gov
- Submit CPC requests SBACPC@sba.gov

Lender **hotline** telephone: (703) 487-9283

Urgent request fax line: (202) 481-4674

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- [▶ Contact](#)
- [▶ FAQ](#)
- [E-NEWSLETTERS](#)
- [E-PAYMENTS](#)
- [MARKETING AND OUTREACH](#)
- [MOST REQUESTED ITEMS](#)



National Guaranty Purchase Center

National Guaranty Purchase Center

The mission of the Center is to efficiently process guaranty purchase requests and to provide assistance and oversight, as necessary, to lenders during loan liquidation.

The National Guaranty Purchase Center located in Herndon, Virginia, was created to centralize SBA's 7(a) loan guaranty purchase function into a single national location. ([The Fresno, California, and Little Rock, Arkansas, Commercial Loan Service Centers](#) will continue to assist lenders on accounts that are not in a liquidation status. The Fresno and Little Rock centers also oversee SBAExpress liquidations and guaranty purchases).

This centralization provides increased standardization of the purchase process and a more reliable response time for lenders. The ultimate goal of the Center is to provide consistent, professional and timely service to SBA's valued lending partners.

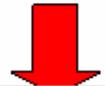
You, as an SBA lending partner, can help in the achievement of that goal by using a standard format for guaranty purchase packages. The standard format is explained in the "[Preparing the Guaranty Purchase Package](#)" in the Guaranty Purchase section. This uniformity allows the center to process your request much faster. Substantially incomplete and/or unorganized guaranty purchase packages will not be accepted for processing.

For detailed information about [Electronic Purchase Package](#) submission.

[Letter from the Director of the National Guaranty Purchase Center to our Lending Partners](#)

[Career Opportunities](#)

NEW TABS DESIGNED TO IMPROVE PROCESSING TIMES



- > Notices
- > Regulations & SOPs
- > Forms
- > Authorizations
- > Loan Program Guides
- > Lender/Loan Data
- > 1502 Reporting
- > Secondary Market
- > **IGPC**
 - > FAQs
 - > Liquidation Process
 - > Guaranty Purchase
 - > Forms Library
 - > Contact Us
 - > Current Issues / Alerts
 - > Training
- > LGPC
- > E-Tran
- > IRS Contact Information
- > Lender/ E- Payments
- > Commercial Loan Centers
- > SLPC



Loan Guaranty Purchases

- WHAT'S REQUIRED?:

- Written demand from lender – link TAB 1
- 10 Tab Cover Page
- Risk Management Database
- Transcript of Account
- 10 Tab Pages w/ Doc's
- Any Other Requested Documentation

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Loan Guaranty Purchases

The 10 TABS

- The “Tab Pages” were designed to help you assemble your guaranty purchase request package
- The Tab Pages are mandatory for all guaranty purchase packages. Help us help you to receive your guaranty funds timely by following ALL requirements outlined in organizing your purchase package by:
 - Using bright colored paper or numerical dividers
 - Ensure that all documents are clearly labeled, stapled or clipped
 - Follow outline provided



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Tab 1 - Demand Letter

Tab 2 - Loan Authorization

Tab 3 - Eligibility

- PLP Loan Eligibility Checklist OR Low-Doc Loan, Eligibility Checklist
- Eligibility Statement for STAR Loan Program
- Franchise Agreement

Tab 4- Legal Documentation

- Note
- Guaranties
- Security Agreements
- UCC Lien Searches
- Title Insurance and Record of Deeds of Trusts/Mortgages
- Purchase/Sales Agreement
- Legal Pleadings
- Other

Tab 5 - Settlement Sheets

Tab 6- Transcript of Account

Tab 7- Early Default

- IRS Income Verification
- Evidence of Equity/ Asset Injection
- Stand By Agreement
- Credit Memorandum
- Statement of Personal History ((form 912)

Tab 8 - Reconciliation of Business Personal Property Collateral

Tab 9 - Collateral Disposition

- Appraisals
- Site Visit Report
- Report on Sale of Collateral
- Liquidation Wrap-up Report

Tab 10 – General Information

- Wire Transfer Form
- Risk Management Form
- Environmental Questionnaire
- Phase I or II Environmental Report
- Complete Lender's file
- Other Documents (Assumption Agreements, Compensation Agreement, etc.)



Guaranty Purchases

Code of Federal Regulations

- For loans approved on or after May 14, 2007 section 120.520(a) provides that 7(a) lenders must liquidate all business personal property securing a loan prior to requesting SBA to purchase the guaranteed portion of the loan
- Exception: if the borrower files for bankruptcy
- Section 120.520(b) makes explicit that SBA will not process a guarantee purchase if the lender does not supply adequate documentation
- Section 120.522 limits interest to 120 days on loans approved after May 14, 2007 that are purchased by SBA from the lender. This does not apply to secondary market purchases.

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Secondary Market Purchases

Code of Federal Regulations

- For secondary market loans that SBA purchases, section 120.520(c) requires lenders to submit loan status reports within 15 business days of SBA's purchase of the guaranteed portion.
- Lenders are also required to submit sufficient documentation to enable SBA to conduct post-purchase reviews. A lender's failure to do so may lead to a recovery action by SBA for the secondary market disbursement. Also, the lender's future participation in the secondary market may be restricted.

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Loan Guaranty Purchases

TAB 1

Demand Letter

- In order for SBA to process the guaranty purchase request, the lender must use the preformatted Demand Letter, signed by an authorized officer of the lending institution, and complete the questions completely, Yes/No, if no, explain.

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Tab 2 - Executed Loan Authorization and Any Amendments

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- The Loan Authorization is the most important document in your purchase package request. The Loan Authorization contains the terms and conditions the lender **must meet** in order to validate the SBA Guaranty

Tab 3 - Eligibility

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- A. Type of Business: (e.g. restaurant, medical services, consulting, etc)
- B. Select the Special Program under which the loan was originated : PLP & Low-Doc requires checklist. For STAR Loans, provide eligibility statement or explain its absence.
- Was the business a franchise/dealership?
- If so, was it on the Franchise registry list?
- Franchise/Dealership Agreement

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Tab 4-Legal Documentation

- Note (SBA Form 147) is mandatory for all loans. You must also submit copies of any Note Modifications, Amendments, Deferments, and Workout Agreements to include all revised repayment terms including dates, interest rate adjustments, and payment revisions
- For Secondary Market loans, lender must provide evidence of investor's approval of modifications, as applicable
- Other Legal Documents (provide all that are applicable):
 - Guaranties (**SBA Form 148**)
 - Security Agreement
 - UCC Lien Search
 - Title Insurance and Recorded Deeds of Trust/Mortgages
 - Purchase/Sales Agreement
 - Legal Pleadings
 - Other (e.g. Certificate of Ownership and/or Certificate of Title of Vehicles or Manufactured Homes, Assignment of CDs or Stock, Assignment of Life Insurance, Landlord's Subordination, Lease Agreement). Provide evidence

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Guaranty Purchases

Tab 4 - Continued

- Guaranties: Use of SBA Form 148 is mandatory when a guaranty is required
- Security Agreement: If a lien on business personal property is required in the Loan Authorization, a Security Agreement is required. Use of SBA Form 1059 is optional
- UCC Lien Search: This search is mandatory where personal property collateral is required and has recoverable value
- Title insurance and Recorded Deeds of Trust/Mortgages: Title insurance policy and/or title search provide evidence that the lien is in the proper position as stipulated in the Loan Authorization. It is mandatory where real property collateral is required
- Purchase/Sale Agreement: The lender must provide an executed copy of the terms of sale between the seller and the purchaser when loan proceeds are used to finance the purchase of a business
- Legal Pleadings: Please include copies of all legal pleadings and schedules, including bankruptcy filings and court motions

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Tab 5 - Settlement Sheets

- A key element in the review process is determining that loan proceeds were used in accordance with the Loan Authorization
- A separate SBA Form 1050 (Settlement Sheet) is required for each day of disbursement
- It must be signed by lender and borrower
- Documentary evidence (copies of the cleared joint payee checks, bills of sale, and paid invoices as applicable) for each disbursement must be itemized and attached to each Settlement Sheet (SBA Form 1050)

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Date (For Each Settlement Sheet)	Business Acquisition	Leasehold Improvements/ New Construction	Equipment and Machinery	Inventory Purchase	Working Capital	Vehicles	All Other Debt	SBA Fee	Miscellaneous*	Total Disbursements

* Provide explanation of miscellaneous disbursements

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Tab 6 - Certified Transcript of Account

SBA Form 1149 (preferred)

1. SBA loan name and 10 digit loan number.
2. Method used interest computation (360 or 365 day)
SBA calculates interest based on 365 days.
3. Date and amount of each disbursement.
4. Date and amount of each payment showing principal and interest applications.
5. Show interest *From* and *To* dates for each payment.
6. Date interest rate changes occur.
7. **Next payment due date (defined as the “default date”).
Add to SBA Form 1149.**
8. If applicable, amount of lender’s successful bid at foreclosure sale (reflected as a credit to the principal balance).
9. Record of all recoveries and expenses – legal fees will be paid separately, if approved.
10. **Indicate all deferments, dates, P&I or interest only.
(Add to SBA Form 1149).**

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Transcript issues that delay purchases

- “MUST” be in the SBA Form 1149 Format
- “MUST” be signed and dated by the lender
- Loan disbursements must total the loan amount and Settlement Sheets.
- Payments must be applied in accordance with the Note terms. Cannot use straight amortization schedule. All payments must be applied to interest first to the date the payment is received and the balance to principal, except on principal plus interest loans.
- Late fees can only be collected in addition to a regular payment when P&I is current.
- Rate changes can only be made on the first day of the month following the rate change. Quarterly changes can only be made on the first day of January, April, July and October.
- Lender must pay 50 basis point fees when interest is collected.
- Note – loan is considered an “*Early Default*” if it defaulted within 18 payments or less from the first disbursement.

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Tab 7- Early Default

- Answer Yes/No – if no skip this TAB
- IRS Income Tax Verification (Form 4506)
 - Transcript Verification
- Evidence of Equity/Asset Injection
 - invoices, receipts, cancelled checks, HUD-1
- Standby Agreement (Form 155)
 - copy of stand-by note
- Credit Memorandum
 - PLP early default - includes borrower application, credit write up, all supporting documentation used to justify cash flow and loan approval.
- Statement of Personal History (Form 912)
 - Early PLP Default

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Tab 8 - Reconciliation of Business Personal Property Collateral

- Requirement of Loan Authorization?
- Collateral with value of \geq \$5,000
- Brief description of item & serial number
- Proof of lien perfection & security interest- provide copies of certificate of ownership, titles on vehicles, with recorded lien
- Reconcile original list against updated list of collateral items obtained from the post-default site visit or appraisal
- Explain discrepancies

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Tab 9 - Collateral Disposition

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- A. Appraisals
- B. Site Visit Report
- C. Report of Sale of Collateral
- D. Liquidation Wrap-Up Report

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- A. Appraisal Required by:
 - Loan Authorization
 - Include copy of appraisal
 - Loan Origination
 - Must be dated prior to closing
 - At Liquidation
 - Must be dated less than one year from date of sale

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- B. Post-Default Site Visit Report:

- Copy of lender Site Visit Report
- Due within 15 days of triggering event (i.e. 3rd party foreclosure)
- Or 60 days of a payment default.
- Visit should document:
 - Lender efforts to protect collateral
 - Inventory of assets
 - Discussions with landlord, borrower, attorneys

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- C. Report of Sale of Collateral:
 - Has the collateral been sold?
 - Itemization of sale proceeds
 - Application of funds
 - Abandonment of collateral
 - Copies of expense invoices and Accounting
 - Is there Collateral Remaining?

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- D. Liquidation Wrap-Up Report:
 - Liquidation Complete?
 - Borrower Status (i.e. deceased, skipped can not locate, bankrupt)
 - Wrap-Up Report required when lender completes all recovery activity, including guarantor's status
 - Follow Wrap-Up Report Format

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Tab 10 - General Information

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- Wire Transfer Form
- Risk Management Form
- Environmental Questionnaire
- Phase I and/or Phase II Environmental Report
- Complete Lender's File
- Other Documents
 - (Assumption Agreements, Compensation Agreement, etc.)

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Liquidation Expectations & Standards.

- SBA requires that Lenders liquidate and conduct debt collection litigation for 7(a) loans in their portfolio no less diligently than for their non-SBA portfolio, and in a prompt, cost-effective and commercially reasonable manner, consistent with prudent lending standards, and in accordance with Loan Program Requirements and with any SBA approval of either a liquidation or litigation plan or any amendment of such a plan.
- Lenders cannot take any action in the liquidation or debt collection litigation of a 7(a) loan that would result in an actual or apparent conflict of interest.

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Liquidation / Litigation

- Liquidation Plans:
 - Comprehensive
 - Based on facts and reasonable assumptions
 - SBA Form 1979
- Litigation Plans
 - Written Plan
 - Scope of Work to be performed
 - Fee estimate and rate
 - No Prior Approval- Routine Litigation
 - Uncontested Litigation
 - Fees < \$10,000
 - Prior Approval- Non-Routine Litigation where:
 - factual or legal issues are in dispute
 - legal fees are estimated to exceed \$10,000
 - Lender has an actual or potential conflict of interest
 - Lender has made a separate loan to the same borrower which is not a 7(a)

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Denials of Liability and "Repairs"

SBA's general policy for guaranty purchases is to reach a fair decision based on a thorough review of lender's purchase request and all relevant documentation

- "Repairs": If deficiencies in handling of a loan are evidenced, SBA will attempt to reach an equitable resolution, which may involve the lender agreeing to a monetary adjustment in the amount of the guaranty
- Denial of Liability: A denial of its liability under its guaranty or litigation can be pursued if the lender is not negotiating in good faith, the lender is unwilling to agree to a repair that reflects the harm caused to the SBA, or the lender's actions are sufficiently serious that a repair would be inappropriate
- Expiration of Guaranty: If the lender fails to request purchase within 120 days after loan maturity, SBA is not legally obligated to purchase the guaranty

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Reporting Requirements

- Dual reporting requirement on loans in liquidation
- SBA loans are reported on the SBA 1502 report
- After transfer into liquidation status, change status code on monthly 1502 status report to “5” in-liquidation status
- Quarterly liquidation status reports must be submitted to SBA after purchase
 - Be brief but comprehensive
 - loanresolution@sba.gov
 - Fax to 202-481-4674

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Common Repair/Denial Reasons

- Failure to verify required cash injection
- Failure to document use of proceeds
- Failure to obtain required lien positions
- Failure to verify financial information of borrower via IRS tax transcripts
- Imprudent servicing or liquidation actions, including failure to care/preserve collateral

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SBA Oversight

Primary oversight will be centered around both the guaranty purchase review process and through the thorough review of liquidation wrap-up reports which Lenders must submit to SBA at the completion of liquidation. Secondly, SBA will monitor debt collection litigation, such as judicial foreclosures, bankruptcy proceedings and other state and federal insolvency proceedings, through the review of litigation plans when applicable and required by circumstances.

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Questions From the Audience?

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Upcoming Ready Talks

May 2008

New SOP 50-10-5

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