

LOAN SERVICING REQUEST GUIDELINES

FOR THE

COMMERCIAL LOAN SERVICING CENTERS

FRESNO SERVICING CENTER
2719 N. AIR FRESNO DR., STE 107 FRESNO,
CA 93727
(559) 487-5650

LITTLE ROCK SERVICING CENTER
2120 RIVERFRONT DR., STE 100 LITTLE
ROCK, AR 72202
(501) 324-5871, X303 Fax: (202) 292-3878

These guidelines are highlights from the SBA Standard Operating Procedures (SOP 50 50 4) for Loan Servicing. They are a guide to help lenders (including CDCs) prepare servicing requests to be submitted to the Commercial Loan Servicing Centers (CLSC). Our objective is more efficient and consistent processing of loan servicing actions by lenders, CDCs and SBA to improve responsiveness to our small business customers. Specific questions relating to loan servicing should be directed to the servicing center having the delegated authority to service.

The contents of this booklet are:

- A . The Servicing Request to SBA
- B. Actions Effecting the Loan Collateral
- c. Actions in the Best Interest of the Borrower
- D. Recording and Filing of Liens
- E. Seasoned Loans
- F. Unilateral Authority
- G. Actions that the Lender/ALP-CDC Approve Under Unilateral Authority
- H. *PLP/LowDoC/SBAExpress/PCLP* Authority
- I. Servicing Formats
- J. For Assistance Please Call

A. THE SERVICING REQUEST TO SBA

1. General

All actions taken on a loan in approval status fall within the policy and procedures in SOP 50 10, "Business Loan Program - Loan Processing."

All actions taken on a loan in regular servicing status fall within the policy and procedures in SOP 50 50 4, "Loan Servicing."

A loan moves from "approval status" to "regular servicing" status when the loan is closed in accordance with the terms and conditions of the Loan Authorization, the final disbursement has been made, and the SBA guaranty fee has been paid.

2. Elements of a servicing request

A clear and concise cover letter drawn from information in the lender internal credit memorandum generally suffices as the servicing request to us. If the cover letter addresses the request and describes the supporting analysis, you do not need to submit additional information. The SBA reserves the right to request additional information as individual circumstances require.

When submitting requests that involve complex credit or collateral issues, it would be beneficial to include the lender internal credit memorandum with the servicing request. If the credit memo includes your analysis of the borrower's financial statements, please do not submit to us a copy of the financial statements. Similarly, if your credit memo describes the collateral analysis and basis for collateral valuation, please do not submit to us copies of appraisals or other documents related to collateral.

In general, servicing requests must address a common set of elements. These elements allow the lender and SBA to quickly understand the request, the status of the SBA loan(s), the condition of the borrower's business and other factors important to the decision. Your servicing request may require all or a portion of the following items:

- a. A statement of the proposed action and a brief description of what makes the request necessary.
- b. Status of the SBA loan (date and amount funded, current balance and status).
Identification of obligor.
- c. A summary of the analysis of the business, including analysis of financial statements.
- d. Summary of prior servicing experience with the borrower, e.g., loan modifications and/or problems pertinent to the request.
- e. If applicable, identification of guarantors / co-makers and a statement as to whether their consent has been or will be obtained for the action.
- f. A Summary of the impact/benefit of the action on the business.

- (1) Will the proposed action address the needs or solve the problems of the business?
 - (2) Will the action protect the interest of the lender/CDC and SBA?
- g. For loans sold in the secondary market, a statement as to whether notification has been or will be given.

3. CDC documents

For SBA 503/504 Development Company Loans, the servicing request must be submitted by the CDC. The CDC's credit memo must address the status of third party loans as well as the status of the development company loan. At the time of the request, the CDC should submit necessary loan modification or collateral documents for signature of the SBA. We will return documents to the CDC for borrower signature and recording as needed. Signed and recorded documents are to be returned to us for placement in the loan file.

B. ACTIONS AFFECTING THE LOAN COLLATERAL

1. General

SBA's policy requires the lender to protect its interest through maintenance of, and responsible control over collateral items pledged to secure the loan. Collateral adjustments should receive a full review of the benefits and risks.

For actions affecting collateral, you must address the following items in addition to those listed above:

- a. Summary of prior collateral actions approved by the lender unilaterally and / or by SBA, and
- b. Summary analysis of collateral before and after the requested change.

2. Valuation of collateral

The lender is responsible for insuring proper valuation of collateral. The following are general SBA guidelines:

- a. Appraisals. A recent appraisal prepared by a qualified appraiser must indicate the fair market value of the collateral. If an appraisal is not available, you must identify the alternative form of valuation (such as net book value, property tax assessment, internal valuation, etc.).
- b. Valuation of Collateral. Generally, you should calculate the net realized value of collateral by applying the following liquidation percentages to the fair market value (if you use alternative liquidation values, please justify):

Real Property:

Commercial RE	75%
Residential RE	80%
Unimproved Land	50%

Business Assets (net of Depreciation):

Machinery/Equipment.	50%
Furniture/Fixtures	10%
Accounts Receivable/Inventory	20%
Leasehold Improvements	05%

C. ACTIONS IN THE BEST INTEREST OF THE BORROWER

1. You should not use abundance of collateral as a reason to approve a servicing request if the action is not in the best interest of the borrower and SBA.
2. Similarly, you should not decline a servicing request if the action is in the best interest of the borrower/SBA when the lack of collateral is the sole reason for the decline.

D. RECORDING AND FILING OF LIENS

1. Lender

The lender is responsible for preparing and recording documents necessary to perfect the security interest or liens required by the loan agreement and subsequent modifications (either unilateral or with SBA approval).

2. CDC Development Company Loans

Servicing Actions

The CDC must prepare the appropriate documents for execution by the SBA. After approval by counsel, we will sign and return to the CDC for recording. The recorded documents are to be returned to us for placement in the loan's collateral file. The CDC must retain a copy as a basis for future modifications if needed.

UCC Continuations

The CDC must monitor the need to file continuation of UCC filings. Prior to the termination date, the CDC must prepare the continuation, execute on behalf of the SBA and record the continuation. The recorded documents are to be returned to us for placement in the loan's collateral file. The CDC must retain a copy as a basis for future modifications if needed.

Paid in Full Loans

For 503/504 loans, the Central Servicing Agent provides a letter confirming that the loan has been prepaid. Upon receipt of that letter, the CDC must prepare the required releases for execution by the SBA. We will return the signed documents to the CDC to record as necessary and to return to the borrower

E. SEASONED LOANS

1. General

The term "seasoned" loan applies to the loan of a borrower that has demonstrated excellent repayment history over a period of time. For this reason, servicing requirements should generally be less stringent for "seasoned" loans. However, you must exercise care to avoid abuse of the classification.

2. Definition

"Seasoned" loans are those which meet the following criteria:

- a. At least four years have lapsed since the loan was funded or, for loans with terms of fewer than seven years, where the original principal has been reduced at least 25 percent.
- b. The loan has been paid as agreed for the last 12 months.
- c. Collateral is at or near "approval" levels, subject to any approved modifications.
- d. The financial statements are favorable.
- e. The account is satisfactory in other respects.

F. UNILATERAL AUTHORITY

1. General

To help streamline delivery of its financial services to small businesses, SBA places increased reliance on its private sector lending partners. Lenders/ALP-CDCs may use their delegated unilateral authority for servicing actions only when the loan is in regular servicing status. (This requirement includes lenders participating in expedited loan programs; e.g., PLP, SBAExpress, LowDoc, etc.)

2. Preferences and Limitation on Unilateral Authority

Lenders/ ALP-CDCs have the unilateral authority to make adjustments in the terms and conditions of a loan if SBA does not consider the action to be "substantial" and the action does not confer preference on the lender/ALP-CDC.

Lenders must not use unilateral authority to approve an action that conveys a preference to itself. Preference is a release or subordination of collateral to secure another loan made to the borrowers by the same participant lender.

3. Notification to SBA

The SBA expects the lender/ ALP-CDC to perform unilateral servicing actions without concurrence by, or notification to SBA. The lender must retain documentation regarding the action in the loan file. The exception to the rule is, the lender/ ALP-CDC must notify the appropriate field office or commercial loan servicing center in writing when unilateral changes are made that will require the Agency to make changes to the SBA database (interest rate, maturity date, etc.) Changes made via 1502 reporting are not considered SBA notification.

4. Lender Serviced Loans.

For lender serviced loans, the Code of Federal Regulations (13 CFR 120.513) and the SBN Lender Loan Guaranty Agreement governs all small business loans that have the guaranty of the SBA. The CFR and the agreement spell out certain actions that a lender may take only upon obtaining prior written approval from SBA.

5. Accredited Lender Program "ALP-CDC" Serviced Loans.

All CDCs are accountable for the servicing of their loans. At the time of debenture funding, CDCs assign their loans and collateral documents to the SBA. SBA authorizes unilateral authority to ALP-CDCs similar to that of regular 7(a) lenders.

- a. ALP-CDCs have the limitation that they take unilateral authority with the understanding that SBA retains the notes and collateral documents.
- b. SBA requires the ALP-CDC to prepare the legal documents for signature by the SBA at the local SBA field office or service center.
- c. SBA counsel will review the documents for legal sufficiency.

G. ACTIONS THAT THE LENDER/ALP-CDC MAY
APPROVE WITH UNILATERAL AUTHORITY

The following is a listing of allowable unilateral actions Lenders/ ALP-CDCs may take without the prior written consent of SBA. This is not all inclusive, but rather a compilation of the most frequently occurring loan servicing actions.

1. Correct obvious typographical errors in the Loan Authorization.
2. Provide payoff figures to the borrower (The Lender/ ALP-CDC is not required to provide or send a copy to SBA).
3. Modify Financial Statement Requirements, The Lender/ALP-CDC may:
 - a. Waive audited financial statements, for seasoned borrowers, using prudent credit practices, or change the audit requirement to compilation and/or review where,
 - (1) In the judgement of the Lender/ ALP-CDC, the business is not of a size and type to warrant such statements, or
 - (2) The cost would be prohibitive to the borrower.
 - b. Grant waivers for only one year at a time and must reserve the right to reinstate the requirement in the event of loan default.
 - c. Approve changes in financial statement frequency and/or due date requirements, as necessary consistent with prudent lending/credit practices.
4. Deferment of Principal and/or Interest Payments.

A deferment is defined as the postponement of scheduled loan payments of principal and/or interest to a later date.

a. Loans NOT Sold on the Secondary Market.

For lender serviced loans NOT sold on the Secondary Market, the following applies:

- (1) The Lender may defer payments of principal and/or interest. The principal payment may be deferred to the next month or further (e.g., to the maturity of the note). However, interest continues to accrue even if the payment of interest is deferred. When the next scheduled payment is due, it will be allocated to interest first then to principal. The interest payment is not deferred to the end of the note.
- (2) The amount deferred must not exceed a cumulative total of six months during the life of the loan or a cumulative value in excess of 20% of the original amount of loan, whichever is less.
- (3) The Lender must retain deferment documentation in the loan file, including current financial statements.

b. Loans Sold on the Secondary Market.

For a loan sold on the Secondary Market, using the SBA Form 1086, "Secondary Participation Guaranty Agreement":

- (1) The Lender may grant a one time deferment of up to 3 consecutive months without written consent of SBNholder.
- (2) The Lender must promptly notify SBNholder when the lender takes this action.

c. ALP-CDC Serviced Loans.

The ALP-CDC may approve up to 6 months (cumulative) of payment deferment or 20 percent of the original amount of the loan whichever is less.

- (1) The ALP-CDC may approve a deferment only if the borrower can reasonable project that it will bring current the deferred amount within five years after the deferment period.
- (2) The ALP-CDC must NOT defer development company loan payments until the end of the loan term.
- (3) The ALP-CDC must send notification of the deferment to the SBA servicing office and the Central Servicing Agent.

d. Interest Accrual Notification.

The Lender/ ALP-CDC must notify the borrower that interest continues to accrue during any period of the deferment. When payments resume:

- (1) For 7(a) loans, the payments apply first to accrued interest.
- (2) For CDC loans, the payments will be applied to the loan in the following order:
 - (a) Accrued fees;
 - (b) Interest;
 - (c) Principal.

e. Consent of Borrower and Guarantors.

The lender/ALP-CDC must obtain written consent of the borrower, all guarantor(s) and Fiscal Transfer Agent (FTA), as appropriate.

f. Reinstatement of Default.

If a loan was in default when a deferment was approved, and the borrower has not made the first payment by the time the deferment expires, the loan will be reclassified as in default.

5. Release of collateral.

The Lender/ALP-CDC may release collateral up to a cumulative value of 20% of the original loan amount. (Total releases of collateral plus subordinations to senior lienholders must not exceed a cumulative value of 20% of the original loan amount over the life of the loan.) The borrower should use proceeds from release of collateral for business purposes. The Lender/ALP-CDC should rarely give favorable consideration to release of business assets in order to provide funds for personal reasons. There must be ample indication that:

- a. The remaining collateral or enhanced repayment ability is reasonable in relation to the outstanding loan balance; and
- b. The release will not materially interfere with the operation of the business or decrease the value of the other collateral securing the loan; or
- c. The action is clearly necessary for the survival of the business, and future repayment from profits are anticipated.

You must get written consent of all guarantor(s) and advise the SBA servicing office of the release of collateral.

6. Substitution of Collateral. The Lender/ALP-CDC may:

- a. Substitute automotive or other minor equipment (with equal or greater value) taken as partial collateral for the loan.
- b. Substitute equal, or greater equity, in like kinds of collateral, (e.g., exchange of real property excluding the primary real estate for the location of the principal business operation).

7. Subordination to Senior Liens.

- a. The Lender/ALP-CDC may permit a no cash out subordination of collateral for refinancing of senior liens if:
 - (1) There is no preference to the participant lender.
 - (2) The refinancing is on more favorable terms for the borrower.
- b. The lender/ALP-CDC may permit a cash out subordination of collateral for the refinancing of a senior lien if:
 - (1) There is no preference to the participant lender.
 - (2) Total releases of collateral plus subordinations to senior lienholders must not exceed 20% of the original loan amount over the life of the loan.
 - (3) The Lender/ALP-CDC is responsible for ensuring that this action does not adversely affect the priority of the Lender/ALP-CDC/SBA lien.

- c. For development company third party loans (e.g., first lien holder), the ALP-CDC must ensure that the term of the refinanced third party loan equals or exceeds the term of the original third party loan. The participating third party loan must not be replaced by a loan under a Federally funded program (e.g., an SBA 7(a) guaranteed lender loan).

8. Changes to life insurance or hazard insurance requirements

- a. The Lender/ ALP-CDC may make changes to life insurance or hazard insurance requirements in accordance with the Lender's own standard practice.
- b. On current loans, the Lender/ ALP-CDC may release insurance proceeds for the repair or replacement of damaged collateral.
- c. Cash surrender value of life insurance may be released, subject to the restriction noted in this section in the earlier sub-paragraph 13.e. "Release of collateral".
- d. The Lender/ALP-CDC may NOT make any changes to Federal flood insurance coverage that is in effect, or might become applicable, without obtaining the prior written consent of SBA.

9. Adjustments to the installment amount.

- a. The lender may adjust the installment amount to allow for correct amortization of the balance as a result of interest rate changes or anticipated balloon balances. You may make this adjustment only upon written consent of the borrower, all guarantors, and the secondary participant, if any.

NOTE: This provision does not affect variable interest rate loans which already have the provision to increase or decrease the payment amount. to an amount necessary to amortize the principal remaining unpaid after any scheduled interest rate change under the terms of the note.

- b. An ALP-CDC must not make any adjustment to the installment amount for a development company loan. However, the ALP-CDC may approve such an adjustment for the participating third party loan.

10. Make loans to the borrower, which do not affect the collateral.

The Lender/ ALP-CDC may make loans to the borrower which do not affect the collateral lien position supporting the SBA guaranteed loan. This includes purchase money loans for business assets and loans subordinate to the SBA guaranteed loan.

11. Assumptions/Approve a Borrower's Change in Form of Organization.

- a. The Lender/ ALP-CDC may authorize the assumption of an SBA loan when a borrower changes its form of organization, provided there is:
 - (1) No release or subordination of existing collateral;
 - (2) No release of original obligor(s) or guarantor(s) (no change in ownership or management); and

- (3) No decrease in equity position of the business as a consequence of the assumption
- (4) The Lender/ALP-CDC must ensure that the guarantee of the original borrower and guarantors are maintained.
- (5) For CDC loans, the ALP-CDC must notify the CSA of the change and provide required tax identification information.

12. Adjustments to Management Covenants.

The Lender/ALP-CDC may, using prudent credit practices, approve adjustments to management covenants (e.g., limitations on compensation, fixed assets, working capital maintenance levels, lease liabilities or dividend payment) if the loan:

- a. Is seasoned;
- b. Has not been extended or deferred within the 24 months before the date of the adjustment request; and
- c. Reflects that repayment ability/cash flow exists for all debt including the SBA guaranteed loan after the adjustments to the management covenants have been made.

13. Accept Prepayments.

- a. For lender serviced loans, the Lender may accept partial or full prepayments of the loan account. For loans approved by SBA after February 14, 1985 and sold on the secondary market, the lender must give 10 business days advance notice to the secondary holder or FT A of any intended prepayment of the note. Refer to SBA Form 1086 for further details.
- b. For development company loans, the ALP-CDC may approve the partial or full prepayment of the participating third party loan.

H. PLP/LowDoc/SBAExpress/PCLP AUTHORITY

1. General

PLP/LowDoc/SBAExpress/PCLP lenders must service all SBA guaranteed loans in their portfolio in the same manner that they service the non-guaranteed loans in their portfolios. The policies and procedures used for loan servicing must be based on prudent and responsible lending practices. Under this authority, the PLP lender is authorized to take all necessary loan servicing actions without a requirement for SBA approval, except:

2. Actions Excluded From Unilateral Authority

- a . Any action that would create a conflict of interest or confer any preference on the lender in collection or lien position with respect to SBA's position or the shared SBN lender position on the guaranteed loan.
- b. Compromise with any obligor of the principal loan balance outstanding for less than the full amount due. Accrued interest can be adjusted by the lender, if justified, without prior SBA approval.
- c. If a loan is delinquent or liquidation is contemplated or underway, prior SBA approval is required to release a guarantor for less than the principal balance owed even if actual demand has not yet been made on the guarantor.
- d. Acquisition of title to environmentally impaired property (property which exceeds the minimum action levels established by relevant regulatory agencies).
- e. Transfer of a loan to another lender.
- f. Sell or Pledge more than 90% of a loan.

I. SERVICING FORMATS

On the following pages are example "formats" which may be used by the lender in preparing the Collateral Analysis or Financial Statement Analysis as a part of the credit memo to be submitted to SBA. These formats are presented as examples of the analysis that may be incorporated into the lender's credit memo. It is not necessary to reproduce the formats.

Depending upon the type of servicing action, form of organization for the borrower, and the financial strength of the borrower and affiliates, the types of information that you will need to review and comment on may include the following:

1. Business Financial Statements and/or Federal Tax Returns,
2. Copy of Corporate Charter or Partnership Agreement,
3. Certificate of Good Standing,
4. Copy of Resolution Authorizing the proposed Transaction,
5. Credit Report(s),
6. Statement of Personal History (SBA Form 912),
7. Personal Financial Statement(s) for Borrowers, guarantors and major stockholders (SBA Form 413, 770 or similar form),
8. Personal Financial Statements and/or Federal Tax Returns,
9. Real Estate Appraisal(s) or Other Documentation to Support Valuation,
10. Escrow Instructions,
11. Copy of Buy/Sell Agreement,
12. Copy of Seller Carry-back Note, and
13. Any other document that is necessary and appropriate to protect the interest of the lender and SBA.

J. FOR ASSISTANCE PLEASE CALL

The Lender should direct specific questions relating to loan servicing to the SBA field office or servicing center having the delegated authority to service the loan.

FRESNO SERVICING CENTER
2719 N. AIR FRESNO DR., STE 107 FRESNO,
CA 93727
(559) 487-5650

LITTLE ROCK SERVICING CENTER
2120 RIVERFRONT DR., STE 100 LITTLE
ROCK, AR 72202
(501) 324-5871, X 303
Fax: (202) 292-3878