Information on Guaranty Purchase Repairs and Denials

- **Lien and Collateral Issues that Result in Missed Recoveries (Generally a Repair)**
  - Failure to obtain required lien position
  - Failure to properly perfect security interest
  - Failure to fully collateralize loan at origination when additional collateral was available (in rare cases)

- **Unauthorized Use of Proceeds**
  - Proceeds disbursed for purpose(s) inconsistent with the loan authorization or subsequent modifications without a business justification. (Could be a Denial if early default and improper use of proceeds caused the failure of the business)

- **Liquidation Deficiencies (Generally a Repair unless harm is the full value of the outstanding balance)**
  - Failure to conduct Site Visit which resulted in missed recoveries
  - Improper safeguarding or disposition of collateral which resulted in missed recoveries
  - Misapplication of recoveries to lender’s loan when SBA-guaranteed loan has lien priority

- **Undocumented Servicing Actions (Generally a Repair)**
  - Liens not properly renewed during servicing on worthwhile collateral
  - Release or subordination of collateral without documented business justification
  - Allowing hazard insurance to lapse on major collateral and collateral was subsequently destroyed
  - Failure to maintain life insurance on principal and principal subsequently dies

- **Early Defaults (Denial if determined to be reason for business failure)**
  - Missing or unsupported verification of required equity injection (includes verification of source in some cases)
  - Missing or unsupported documentation of verification of borrower financial information with IRS when financial information was relied on in lender’s credit analysis
  - Repayment analysis is not adequately justified.
  - Lack of Business Valuation (business purchase) or asset appraisal (asset purchase).

- **SBA Loan Eligibility (Denial)**
  - Ineligible franchise
  - Ineligible loan purpose
  - Ineligible loan recipient (loan to an associate of lender)