

## **SUBSTITUTION OF COLLATERAL**

In order for the Small Business Administration to process a substitution of collateral action, **please provide the following required information as itemized below.**

### **ATTENTION:**

This requirement letter is not a commitment by the SBA. Any commitment made by the SBA will be provided separately in writing.

Servicing actions cannot be approved without proof of continuing insurance coverage showing SBA as mortgagee as stated below.

All loans must reflect current status before the SBA will process a servicing action. Any incomplete packages are subject to delays and/or may be returned unprocessed. Additional documentation may be required for thorough analysis.

Generally, the SBA will only consider a Substitution of Collateral in those instances where SBA's equity position remains the same or is better.

The ENTIRE net sale proceeds to include any earnest money **MUST** be held in escrow, failure to place ALL net sale proceeds in escrow may jeopardize your request for a Substitution of Collateral.

**Note:** If SBA is in the process of foreclosing on the real estate used to secure your SBA loan, you must contact the SBA employee in the SBA's National Disaster Loan Resolution Center (NDLRC) named in your foreclosure letter to discuss this matter. As to non-bankrupt borrowers/guarantors in foreclosure, collection efforts currently in process will continue until SBA's NDLRC receives the required documentation and approves your request for assistance in writing. There will be no refunds of any offset(s) by the U.S. Department of Treasury during this period.

### **GENERAL REQUIREMENTS (For All Loan Types):**

1. A detailed letter from the borrower(s) and/or guarantor(s) (if any) signed and dated explaining the reasons for the request and the address of the property being substituted with the address of the property to be released.
2. A complete legal description of the Substituted property (Warranty Deed).
3. Valuation of Collateral: A copy of a recent appraisal (no older than 6 months if loan is in regular servicing; no older than 12 months if loan is in liquidation) prepared by a real estate appraiser with an active real estate appraiser's license. If an appraisal is not available, you may provide alternative forms of valuation, such as comparable sales, market analysis or a property tax assessment (if the property has been reassessed within the last 12 months). The Valuation is for the property to be **SUBSTITUTED and** to be **RELEASED**.
4. Current Title Report/Ownership Encumbrance Report of the collateral offered as the **Substitution** and collateral to be **released** as security on this loan dated within 6 months.
5. Written authorization allowing SBA to discuss the loan with a third party involved in this transaction. Letter should include Name, address and telephone number of the closing attorney/escrow agent.
6. Copy of a fully executed purchase contract including all counter offers and addendums (if applicable).
7. The verified balance(s) of any and ALL Prior Liens superior to SBA's position (please include payoff statement from lien holders); for the real estate properties and/or business assets to be

SUBSTITUTED and to be RELEASED as collateral.

If there are liens outstanding that have been satisfied, please provide a paid in full (zero balance) statement from the lender or a copy of the release document.

8. Submission of insurance policy's declaration page(s) as proof of Hazard Insurance and Flood Insurance on property to be substituted, showing SBA as Mortgagee. MORTGAGEE CLAUSE is: United States Small Business Administration, an Agency of the government of the United States of America, (Select and enter name and address of applicable center per below):
  - a. Birmingham DLSC – 801 Tom Martin Drive, Suite #120, Birmingham, AL 35211
  - b. El Paso DLSC - 10737 Gateway West, Suite #300, El Paso, TX 79935
  - c. Santa Ana NDLRC - 200 W Santa Ana Blvd, Suite #180, Santa Ana, CA 92701
9. If NEW property is not within a Special Flood Hazard Area (SFHA), provide written verification (i.e. appraisal, insurance company provided confirmation and map). If property is within a Special Flood Hazard Area, you will be mandated to provide Flood Insurance naming SBA as Mortgagee, with coverage amount equal to the insurable value of the property, or the maximum coverage available, whichever is less.
10. Copy of disbursement sheet (HUD-1) indicating PURCHASE amount, fees, new lender info, etc. (if applicable) **on NEW property offered as substitution.**
11. Copy of disbursement sheet (HUD-1) indicating intended disbursement of SALE proceeds (if applicable) **on EXISTING (SBA's collateral) property.**
12. Borrower's Consent to Verify Information and 3<sup>rd</sup> Party Authorization ([Birmingham Form](#), [El Paso Form](#), [Santa Ana Form](#)) signed by all SBA borrower(s) and guarantor(s) (if any).
13. Completed, signed and dated Financial Statement of Debtor ([SBA Form 770](#)) sheet.
14. Copies of your latest Federal Income Tax return (all schedules) for last two (2) years.

**ADDITIONAL REQUIREMENTS (For Business Loans):**

15. Interim financial statement - balance sheet and profit & loss statement **current within 90 days.**
16. UCC Lien Searches of the business assets offered as the **Substitution** and any collateral to be **released** dated within 6 months (if applicable).

**Packages can be electronically uploaded or sent via regular mail:**

- (1) Electronic upload:
  - a. [Upload to Birmingham DLSC](#)
  - b. [Upload to El Paso DLSC](#)
  - c. [Upload to Santa Ana NDLRC](#)
- (2) Regular mail: Mail to the appropriate center:

- a. US SBA, Birmingham DLSC – 801 Tom Martin Drive, Suite #120, Birmingham, AL 35211
- b. US SBA, El Paso DLSC - 10737 Gateway West, Suite #300, El Paso, TX 79935
- c. US SBA, Santa Ana NDLRC - 200 W Santa Ana Blvd, Suite #180, Santa Ana, CA 92701