



FAQs — ARC Loan Program

Frequently Asked Questions on Liquidation and the Submission of a Purchase Request

When is an ARC loan in default?

Lenders are reminded that a default under the ARC Loan Note (SBA Form 2318) may occur during the 18 month disbursement/deferment period. Under the terms of the ARC Loan Note, a borrower is in default if the borrower does not make a payment when due under the Note, or if the Borrower:

- a) Fails to do anything required by the Note and other Loan Documents;
- b) Defaults on any other loan with lender if the lender believes that the default may materially affect Borrower's ability to pay the Note;
- c) Does not preserve, or account to Lender's satisfaction for, any of the Collateral or its proceeds;
- d) Does not disclose, or anyone acting on their behalf does not disclose, any material fact to Lender or SBA;
- e) Makes, or anyone acting on their behalf makes, a material false misleading representation to Lender or SBA;
- f) Defaults on any loan or agreement with another creditor, if Lender believes the default may materially affect Borrower's ability to pay the Note;
- g) Fails to pay any taxes when due;
- h) Becomes the subject of a proceeding under any bankruptcy or insolvency law;
- i) Has a receiver or liquidator appointed for any part of their business property;
- j) Makes an assignment for the benefit of creditors;
- k) Has any adverse change in financial conditions or business operation that Lender believes may materially affect Borrower's ability to pay the Note;
- l) Reorganizes, merges, consolidates, or otherwise changes ownership or business structure without Lender's prior written consent; or
- m) Becomes the subject of a civil or criminal action that Lender believes may materially affect Borrower's ability to pay the Note.

In the event that a borrower does not make a payment when due under the ARC Loan Note or if there is an adverse change in the financial condition or business operation of the borrower that the lender believes may materially affect the borrower's ability to pay the ARC loan, the lender should accelerate the ARC Loan Note and require immediate payment (uncured payment default).

When must an ARC loan be placed in liquidation?

SBA Procedural Notice 5000-1176 requires that a lender must classify an ARC loan in liquidation status when any of the following occurs:

- a) An uncured payment default exceeding 60 days;
- b) The borrower has ceased operations;
- c) The borrower has filed bankruptcy or is the subject of an involuntary bankruptcy proceeding;

- d) A receiver has been appointed, an assignment for the benefit of creditors has been made, or other legal actions have been taken for the purpose of liquidation of the borrower's assets;
- e) The borrower has abandoned the collateral for the loan;
- f) All reasonable alternatives to collect the debt have been exhausted;
- g) The Borrower cannot or will not repay the debt on reasonable terms;
- h) The collateral is in serious danger of dissipating; or
- i) Any other circumstance which may substantially and adversely affect the lender/SBA's position (e.g., the lender on the QSBL begins collection activity against the borrower)

How should I notify SBA that an ARC Loan is being downgraded to a liquidation status?

Please notify the appropriate Commercial Loan Service Center when an ARC loan has been classified in liquidation status. Make sure you refer to the SBA loan number and state that your notice is a liquidation request in the subject line. (Sample: 3501010102 liquidation request) Include in your notice the reason you have classified your ARC loan in liquidation status and the approximate date your lending institution became aware of the adverse event.

United States Small Business Administration
Commercial Loan Service Center
Attention: Purchase Unit

Fresno CLCS
801 R Street, Suite 101
Fresno, CA 93721-2365
FSC.purchasing@sba.gov
(202) 481-0663 Fax

Little Rock CLSC
2120 Riverfront Drive, Suite 100
Little Rock, AR 72202
LRSC.expresspurchase@sba.gov
(202) 292-3877 Fax

Will the SBA continue the payment of interest on an ARC Loan after it is placed into liquidation?

In order to process purchase requests accurately, monthly interest payments by SBA on SBA's ARC loans will cease when an ARC loan is placed in liquidation status. Instead of monthly payments of interest, SBA will pay the lender interest due in one lump sum at the time of purchase, along with the principal amount due to the lender.

Payment of interest at purchase will consist of up to 120 days calculated on the principal balance from the date of the earliest uncured payment default or the date of transfer to liquidation, whichever occurs first. If fewer than 120 days have elapsed from the date of the earliest uncured payment default or date of transfer to liquidation to the date of purchase, SBA will pay the actual number of days elapsed. If SBA determines upon a review of a lender's purchase request that an event occurred that required the lender to transfer the loan into liquidation prior to the date indicated by the lender on its monthly 1502 report, then this will be used as the effective date for calculating SBA's 120 days of interest due on the loan at the time of purchase.

Once an ARC loan has been classified in liquidation status or determined to be in default, how soon should we conduct our site visit?

Unless the loan is unsecured, or the aggregate Recoverable value of the personal property collateral is less than \$2,500 and the Recoverable value of each parcel of real property collateral is less than \$5,000, a site visit must be conducted as follows:

Payment default – within 60 days of an uncured payment default or sooner if the collateral could be removed, lost or dissipated.

Non-payment Default – within 15 days of the occurrence of the adverse event that caused the loan to be classified in liquidation status, (e.g., bankruptcy filing, foreclosure by prior lienholder, business shutdown), or sooner if the collateral could be removed, lost or dissipated.

For additional information on site visit requirements, please see [SOP 50 51 3](#) beginning on page 45.

When should a lender submit their ARC loan guaranty purchase request?

A lender may submit an ARC Loan for purchase if there has been an uncured payment default exceeding 60 days or if the ARC loan has been transferred into liquidation. A lender must submit an ARC loan for purchase no later than 120 days after the earliest uncured payment default on the ARC Loan or the loan has been placed into liquidation, whichever comes first.

Should a lender submit their guaranty purchase request if liquidation cannot be completed within the 120 day requirement?

Yes. Please submit your guaranty purchase request for purchase on an expedited basis.

Lenders are required to complete recovery actions on ARC loans after purchase. On an expedited purchase, the Agency does not charge off the loan. Lenders are required to provide liquidation up-date reports every 180 days until all recovery is completed or the lender recommends that the loan balance be charged off. Within 60 days of completion of recovery actions, the lender must provide the Agency with a liquidation wrap-up report summarizing all recovery activity, valuation and disposition of collateral, collections, and expenses. In lieu of documentation to evidence that liquidation of collateral has been completed, the Lender may certify that “liquidation of collateral is complete.”

When is the liquidation of collateral considered complete?

Lenders must complete the liquidation of all ARC Loans with an estimated remaining collateral value in excess of \$1,000. For loans with an estimated remaining collateral value of \$1,000 or less, an SBA Lender may request that SBA accept the transfer of the loan in order to complete liquidation.