



SBA Procedural Notice

TO: All SBA Employees

CONTROL NO.: 5000-1176

SUBJECT: Payment of Interest on SBA's
ARC Loans After Default and in
Liquidation

EFFECTIVE: 9/30/2010

The purpose of this notice is to amend the SBA's ARC Loan Program Procedural Guide to clarify certain issues regarding SBA payment of interest on SBA's ARC loans after default and in liquidation.

A borrower under the SBA's ARC Loan Program is not required to pay interest on the ARC loan. Instead, SBA pays the interest on the ARC loan to the lender. The borrower is required to repay principal after an initial deferral period. Principal repayment begins 12 months following the final loan disbursement. A lender may defer an SBA's ARC loan for an additional 6 months upon notice to SBA, provided that the loan is re-amortized to ensure that the loan is fully repaid within the remaining term of the loan.

A lender must transfer an ARC loan into liquidation 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 circumstances which may substantially and adversely affect the lender/SBA's position (*e.g.*, the lender on the QSBL begins collection activity against the borrower).

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. An ARC loan must be submitted for purchase no later than 120 days after the earliest uncured payment default on the ARC loan or the loan has been placed in liquidation, whichever occurs first.

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

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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.

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.

Notwithstanding the foregoing, because of factors such as the differing methods used by lenders to calculate interest accrual and the timing of interest payment disbursements, SBA will not reconcile interest discrepancies of less than \$50 to avoid associated administrative costs for both SBA and participant lenders.

Any questions regarding this notice should be directed to Cailyn Snyder at (202) 205-7373 or Cailyn.Snyder@sba.gov.

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Director
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