

SERVICING SBA LOANS: YOU GOTTA PLAY DOMINOES

You know about playing dominoes: Stack 'em vertically close together. Knock one over. Then they all fall into place: The Domino Effect. Just as with dominoes, one service action in a commercial loan doesn't really equal a single action. It can - and usually does - trigger a whole spectrum of necessary actions.

Let's take the business change of address as an example. As consultants, we've seen situations where lenders have simply entered a Borrower Address Change into their system - and stopped there. Yet this change is more than just a new location. And it triggers more than a single action. There's a domino effect. Here are some of the other immediate actions you'd need to take:

- Report the change to the SBA. Fax, ETran or email SBA Form 2237 to the Servicing Center
- Pull the Flood Certification on the new location
- Get Evidence of Insurance reflecting new location
- Perform a site inspection
- Do a collateral review
- Conduct an environmental review if necessary

To underscore the importance of doing your due diligence: If the borrower's insurance hasn't been updated to reflect a new address in a flood zone, any flood damage won't be covered. What's more, the lack of flood insurance could lead to a denial or repair to the guaranty.

Here are a couple more examples and the actions you'd need to take:

SBA Servicing Triggers
Annual Financials/Tax Returns

- When received, check loan covenants, memo to file, and update the ticklers
- If not received, send a second request letter followed by a documented loan officer phone call, and if necessary, a site visit to collect. If you still haven't received the borrower's financials/tax returns, you've met SBA's requirements and can attempt to collect again the following year or if the SBA makes a request.

Bankruptcy, Death of Principal, Business Closure

- In all cases but bankruptcy, contact the remaining principals regarding the notification you've received
- Perform site visits - at minimum, do a drive-by to determine the status of the business. If the business is closed, take photos of the collateral through the window.
- Take actions to protect the assets if necessary
- Force-place insurance if necessary

So play it safe. Play dominoes. Take all the necessary actions whenever there's a change in the status of a loan. We cover these situations and others in our Training Session on SBA Loan Servicing - just part of our comprehensive training service. In addition to options for one-day and multi-day sessions for groups and individuals, we offer ongoing training reviews, refreshers and updates to keep you apprised of best practices and regulatory changes. We'll be there as long as you need us!

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