



SBA LOAN REPAIRS & DENIALS: CROSS YOUR T'S, DOT YOUR I'S THE FUNDAMENTALS

For business lenders, one of the great advantages of making SBA loans is the risk mitigation ensured by the Guaranty. "Protect your Guaranty" is the mantra of SBA lenders - or it should be! As consultants, we continually stress the importance of strict adherence to SBA guidelines - accurate documentation and ongoing monitoring before and after an SBA loan is funded.

The significance of dotting your "i's" and crossing your "t's" comes to the forefront and is underscored in cases where a loan is in servicing or liquidation - and a repair or denial can put all or part of the guaranty at risk. Requirements to document and monitor all servicing and liquidation Loan Action decisions in loan files or computer tracking systems are spelled out in [SOP 50 57](#), Servicing & Liquidation, Chapter 3, Lender Responsibility.

But let's first cover some basics. What exactly is a Guaranty...a Repair...a Denial?

Guaranty is the SBA's assurance at loan origination to share in the loss on any SBA 7(a) loan that defaults. Their guaranty can range from 50% to 85% of the total principal amount. However, actions or omissions by the lender can lead to repair or denial of the guaranty.

Repair means an agreement between the SBA and a 7(a) Lender as to a specific dollar amount that will be deducted from the amount the SBA pays on the Lender's SBA loan guaranty in order to fully compensate the SBA for an actual or anticipated loss on the loan caused by the lender's actions or omissions. A repair does not reduce the percent of the loan guaranteed by the SBA or SBA's pro-rata share of expense or recoveries.

Denial of Liability means a determination made by SBA pursuant to 13 C.F.R. § 120.520 and 13 C.F.R. § 120.524 that it is not obligated to purchase the guaranteed portion of the 7(a) Loan. A Denial of Liability may be for the full amount of the guaranteed portion of the loan or any part thereof.

The "Definitions" Section of the SOP clarifies these and other key terms and are the only definitions that apply to SBA loans.

The SBA's latest [Top Reasons for Repair & Denial](#) are detailed on the SBA website. Here's an overview:

1. Lien and Collateral Issues that Result in Missed Recoveries (Generally a Repair)
2. Unauthorized Use of Proceeds
3. Liquidation Deficiencies (Generally a Repair unless harm is the full value of the outstanding balance)
4. Undocumented Servicing Actions (Generally a Repair)
5. Early Defaults (Denial if determined to be reason for business failure)
6. SBA Loan Eligibility (Denial)

Having a loan in default doesn't mean automatic loss of the guaranty. It's not an all or nothing proposition. Your repair will depend on how much your failure to meet guidelines has affected the outstanding loan. That's why conducting pre-closing and post-closing loan reviews to ensure that all guidelines were met - and addressing them if not - is so critical. Our JRB Team has years of experience with SBA servicing and liquidations. We can assist you in finding solutions to your issues! Feel free to call me directly at 626.688.2125 to discuss your situation. Or visit www.jrbrunassoc.com for our range of services.

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