



## DEALING WITH THE BIG BOUNCE: WHEN SBA 7(a) PAYMENTS COME BACK NSF: HOW TO PROCESS?

It's The Big Bounce. A loan payment comes back to your credit union with the dreaded Notice: Non-Sufficient Funds. And you've already entered it into your system as paid. What actions do you take? A bounced 7(a) loan payment triggers several critical actions depending on when the payment was returned NSF and whether the loan was sold on the secondary market. You need to get the rebound and handle things right to keep your Form 1502 Reports\* accurate and ensure the integrity of your SBA portfolio. Here are some scenarios:

### **Payments processed and returned NSF in the same month the original payment was made.**

- Checks returned NSF (or for other reasons), must be reversed in your processing system if they can't be redeposited.
- For checks replaced with a new check before month end, you can reprocess the payment with the new effective date. This means more money will go toward interest and less to principal.
- If the loan was sold on the secondary market, make sure your system also reverses the participant payment - the portion sent to Colson Services.
- **Key Critical.** *When your credit union prepares your Form 1502 Report, make sure that the proper payment (the replacement payment) is the only payment included in the Form 1502 Report. In some systems, even though one payment was reversed, the Form 1502 Report may incorrectly show two payments posted to the loan or that the first payment processed is the correct payment to report.*

### **Payments processed near month end and returned NSF at the beginning of the next month.**

- By the time you're notified, chances are you've already sent your Form 1502 Report to Colson for processing.

- If your credit union doesn't - or can't for some reason - redeposit the check, you must notify Colson Services ASAP about the reversed payment and request that the funds be returned to your institution. *Important: You must process this request even if the payment is subsequently replaced. Since the new payment has a different payment effective date, the principal and interest portions will change.*
- Process and send in the new payment with the new effective date to Colson Services.
- *Because it can sometimes take Colson Services a few weeks to refund a returned payment, we recommend setting up a GL account for out-of-balance payment reconciliations which should be monitored and reconciled daily.*

As an SBA lender, Form 1502 Reporting is one of the most important things you do - and one of the most complicated. At J.R. Bruno & Associates, we have a "Form 1502 Fixer" on board in [Associate Lori McCausland](#). In addition to her longtime commercial lending expertise, Lori has worked extensively with SBA lenders on Form 1502 reporting. [Contact us at JRB](#) for help with your Form 1502 Reporting - and for all things SBA!

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