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Business Lending News

SBA'S UPDATED SOP 50 57 2: 7(a) LOAN SERVICING AND LIQUIDATIONS ... COMMENTS FROM OUR PERSPECTIVE

The Small Business Administration's updated SOP 50 57 2, effective since December 2015, has many significant changes, clarifications and modifications to SBA's Servicing and Liquidation Policies and Procedures. From time-to-time, we'll highlight and comment on specific sections from our perspectives as consultants. Two definitions in the SOP - Prudent Lending, and Prudent Servicing - set the tone for the document. Both reinforce SBA's intent that lenders treat SBA loans "no less diligently" than loans in their non-SBA portfolios and in "a commercially reasonable manner." Full text is on pg. 17. FYI: We're linking to the [SOP's](#) marked up version so you can review the changes. First up: Chapter 26: Charge-off and Wrap-up Procedures, pgs. 162-169.

Lender Wrap-up and SBA Charge-off Procedures: Key Changes

General Requirements on pg.162 clarify what's necessary to close a loan and reinforce SBA's requirement for electronically submitted Wrap-up Reports/Charge-off Tabs. *Important Note: SBA has recently updated their Charge-Off Tabs, effective February 9, 2016. While updates to the Charge-off Tabs are mostly cosmetic, new procedures require lenders to execute an Assignment of Loan Docs to SBA for loans where borrowers/guarantors remain obligated. The Assignment document is attached to the Charge-off Tabs. [Check it out!](#)*

New: Deadline to Complete Liquidation and Submit Final Wrap-up/Charge-off Tabs

Heads up! Now, Wrap-up Reports/Charge-off Tabs must be submitted to SBA for approval within 30 days of completing liquidation activities, rather than the previous 90-day timeframe. And importantly - for the first time - SBA sets a 24-month deadline for lenders to complete prudent liquidation and submit their final Wrap-up Reports/Charge-off Tabs. See text on pg. 163. For more information, SBA refers lenders to SBA's definition of a prudent deadline in Chapter 2 and clarifications in Chapter 23 Sections E and J, and Chapter 26 Section B.

In a related section, SBA requires lenders to use the Care and Protection of Collateral (CPC) Tabs to request reimbursement of expenses with the Reimbursement Package or the Charge-off Tabs to ensure reimbursement consideration. Importantly, SBA will only process CPC Tabs at the time of repurchase or charge-off. Once SBA has charged off a loan, reimbursement won't be allowed. See Chapter 22, Expenses and Recovery, pg. 139.

Consequence for Not Meeting the Deadline? You Bet!

Here you go. Beefed-up wording underlined: "If a Lender fails to submit a Wrap-up Report within the timeframe specified... in addition to referring the Lender to the SBA Office of Credit Risk Management, for possible enforcement action, SBA has the right to require the Lender to purchase the loan back from SBA, charge off the balance and, if appropriate, to refer the loan to Treasury after assignment of the loan documents." Enough said. See Chapter 26, pg. 168.

Responsibility for Issuing IRS Form 1099-C. Now, the SBA's Denver Finance Center will provide the IRS with the aggregate amount of SBA's and the borrower's share of loan, rather than

just its share. In effect, SBA has taken over this responsibility from the lender, clearing up what's been a "gray area" - and simplifying the process for everybody. SBA completes Form 1099-C for all loans where Wrap-up Reports/Charge-off Tabs have been received. The only time lenders are to complete Form 1099-C is when they haven't yet submitted their Wrap-up Reports/Charge-off Tabs. So SBA is the lead lender following charge-off. As a lender, this is a good deal for you. Giving you clear guidelines and instructions eases your workload helps you streamline your processes. See Chapter 26, Section E, pg. 168.

Credit Reporting: Post Charge-off to be Done by SBA Who Does What?

Key changes: SBA is now responsible for reporting the entire amount of all loans that have been charged off to the appropriate credit bureaus rather than just its share. Lenders only need to submit reports for loans prior to Wrap-up/Charge-off. See Chapter 26, Section F, pg. 169. All lender reporting must adhere to the SOP's guidelines in Chapter 3, Section F, pg. 32. We recommend you review this section because there are significant additions.

Thanks to JRB Associate Rebecca Mendoza for her analysis of this SOP. While all JRB associates have SBA expertise, Rebecca is our go-to person for Servicing and Liquidations. Watch for more on SOP 50 57 2 over the next weeks and months! And be sure to check out our full array of services on the [JRB website!](#)

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