



SBA Information Notice

TO: All SBA Employees and 7(a) Lenders

CONTROL NO.: 5000-846632

SUBJECT: Issuance of SOP 50 57 3:
7(a) Loan Servicing and Liquidation

EFFECTIVE: May 31, 2023

The purpose of this Notice is to inform 7(a) Lenders and SBA employees of the issuance of Standard Operating Procedure (SOP) 50 57 3, 7(a) Loan Servicing and Liquidation, which will become **effective August 1, 2023**. Concurrent with the issuance of the updated SOP, SBA will also update the Guaranty Purchase Package used by lenders to request that SBA honor its guaranty on any loan approved under the 7(a) loan program.

One of the more significant updates to SOP 50 57 3 relates to determining Lender compliance with SBA Loan Program Requirements. SBA will apply the requirements of SOP 50 10 and SOP 50 57 in effect at the time of SBA's guaranty purchase review, unless these requirements result in a determination that is more restrictive upon the Lender than the SOP requirements in effect when the Lender action was taken.

SOP 50 57 3 includes changes made for consistency with the updates in SOP 50 10 7. Major consistency changes are listed below.

- Removed language "*in effect when the Loan was approved*" and replaced with "*SOP 50 10 in effect at the time the Loan Action is taken*" when referring to SOP 50 10 guidance wherever it appears throughout the SOP.
- Emphasized in Chapter 24 that: For the purposes of determining Lender compliance with SBA Loan Program Requirements, SBA will apply the requirements of SOP 50 10 and SOP 50 57 in effect at the time of SBA's guaranty purchase review unless these requirements result in a determination that is more restrictive upon the Lender than the SOP requirements in effect when the Lender action was taken.
- Added guidance in Chapter 25 to acknowledge SBA acceptance of a Lender's standard processes for underwriting their similarly sized, non-SBA loans; at the time of SBA guaranty purchase review.
- Expanded Chapter 2 definition of Loan Authorization to include the electronic record of the terms and conditions of the Loan in E-Tran for loans approved after the effective date of SOP 50 10 7.
- Increased SBA Express and 7(a) Small thresholds from \$350,000 to \$500,000.
- Revised the period of time for not modifying standby agreements used for equity injections, from life of the loan to 24 months.

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EXPIRES: 5-1-24

SBA Form 1353.3 (4-93) MS Word Edition; previous editions obsolete

Must be accompanied by SBA Form 58

- Expanded the permitted use of Working Capital CAPLines loan proceeds to include domestic-to-foreign exports, foreign-to-foreign exports and indirect exports.
- Amended definition of Early Default to include the underlined language: *Borrower failure to make a scheduled payment of principal and interest on an SBA Loan when due. For Loans that require annual payments of principal and interest, an Early Default occurs if a Borrower fails to make either of the first two annual payments when due. In such cases, a Borrower may cure an Early Default by making the first two annual payments within 60-days of the date they were due and the third annual payment on or before the date it is due;*
- In Denial of Liability Chapter, under Early Default and Lender Failure to Verify Required Equity Injection, added the underlined language: *For SBA Loans that experience an Early Default, Lenders must include documentation in their Purchase Package to verify that any equity injection required by the Loan Authorization was made and came from a proper source. If a Lender requires an equity injection and as part of its standard processes for similarly sized, non-SBA guaranteed commercial loans verifies the equity injection, it must do so for its SBA Loans.*
- Deleted Loan Guaranty Processing Center (LGPC) approval of advance rates of up to 90 percent for Export Working Capital Program (EWCP) loans.
- Replaced “compelling reason” with “Financial Hardship” as basis for not liquidating collateral with Recoverable Value above stated thresholds.
- Expanded System for Award Management (SAM) requirements to include lender employees who are directly involved in the processing, closing, servicing, or liquidation of 7(a) Loans.
- Need for SBA written approval for changes in a borrower’s business ownership that occur within the first 12 months after final disbursement of a 7(a) Loan (for consistency with SOP 50 10).

This newer version of SOP 50 57 also includes the following updates and revisions from SOP 50 57 2, which was last published in December 2015. SOP 50 57 3 provides additional policy guidance and incorporates revisions to conform to changes in SBA regulations and Loan Program Requirements as defined in 13 CFR §120.10, including, but not limited to:

- New Chapter 14 for the servicing and liquidation of special purpose loans including SBA CAPLines, International Trade, EWCP, and SBA Export Express and Paycheck Protection Program (PPP) Loans.
- A subsidy recoupment fee is not applicable when eminent domain condemnation proceeds are applied to a 7(a) Loan.
- Need for prior SBA approval of deed in lieu of foreclosure actions that extinguish the deficiency balance of a 7(a) Loan, in accordance with offer in compromise guidelines.
- Prohibitions against the use of debarred, suspended, or otherwise excluded Agents for the life of a 7(a) Loan.
- Consequences for leasing real estate acquired or constructed with the proceeds of a 7(a) Loan during the life the Loan.
- Definition of Prudent Liquidation Deadline for completing all liquidation actions within 24 months of the date of SBA guaranty purchase.
- Need for SBA-approved Litigation Plan prior to reimbursement of Debt Collection Litigation Expenses.
- Added Chapter 2 definition for Debt Collection Litigation Expenses for determining Non-Routine Litigation, in accordance with 13 CFR 120.540 (c)(1)(ii).
- Procedures for appealing SBA decisions involving lender Litigation Plans.
- Need for prior SBA approval to sell a 7(a) Loan Note for less than the full amount owed on the Loan, in accordance with offer in compromise guidelines.

- Need for Lenders to include an assignment of the 7(a) Loan Documents to SBA, in the Wrap-up Report they submit to SBA.
- Lender and SBA responsibilities for credit bureau reporting and the issuance of IRS Form 1099C.

Users are advised to review SOP 50 57 3 in its entirety, to ensure a complete understanding of all changes.

The SOP 50 57 3 will become effective August 1, 2023 and will apply to all SBA 7(a) loan servicing and liquidation actions occurring on or after that date. Participants must continue to use SOP 50 57 2 through July 31, 2023.

NEW NAVIGATION FEATURES

The SOP contains built-in style headings and a navigation pane (accessible by typing “control f” and then selecting Headings) to easily locate and view information.

UNIVERSAL PURCHASE PACKAGE

To align with the requirements in the updated SOP, improve the customer experience for its lending partners, and facilitate lenders’ submission of guaranty purchase requests, SBA has updated the Purchase Package (also known as the 10-Tab or Purchase Demand Kit). The document has been renamed Universal Purchase Package (UPP) and provides lenders with one document to request SBA honor its guarantee on all 7(a) loan types in their portfolio regardless of size and program type.

Based on the existing Express Purchase Demand Kit (PDK), the UPP is an intuitive and fillable form that adapts to the circumstances of each loan. Supporting documentation is only requested when applicable, based on the Lenders responses, and in accordance with the updated guidance found in SOP 50 10 and SOP 50 57.

Lenders are encouraged to begin using the UPP in order to realize the benefits of the improvements. The UPP will be made available on the sba.gov website.

Questions:

Questions concerning this Notice may be directed to the Lender Relations Specialist in the local SBA Field Office. Local SBA Field Offices can be found at <https://www.sba.gov/tools/local-assistance/districtoffices>.

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