



On March 1, 2013 Standard Operating Procedure ([SOP](#)) [50 57](#) became effective, providing lenders with the new guidelines concerning 7(a) Loan Servicing and Liquidation. Since its issuance, SBA has reviewed feedback and made technical corrections to clarify this SOP. The full list of technical corrections are detailed in SBA Information Notice [5000-1276](#), effective 4/29/2013. This article will review some of the more important changes contained in that notice.

- The initial version of SOP 50 57 stated it would cover loans after initial disbursement has been made. The notice indicates that this SOP will only govern loans after final disbursement has been made. For servicing actions after initial disbursement, but prior to final disbursement, lenders should still refer to SOP 50 10.
- SBA further clarified in the notice that all SBA lenders, not just nationally-chartered and state-chartered lenders must service and liquidate their 7(a) loans in a diligent, commercially reasonable manner, consistent with prudent lending practices and SBA's policies.
- In furtherance of the new SOP's guidelines, SBA included a hyperlink to the new [7\(a\) Lenders Servicing and Liquidation Matrix](#), which can be found [here](#).
- SBA modified its position on subordination to facilitate refinancing of a senior loan. Previously, SBA recommended that the term of the refinanced senior loan equal or exceed the term of the original senior loan. The notice indicates SBA has deleted this requirement, providing borrowers the ability to refinance on more favorable terms, as long as the subordination will not adversely affect the priority of the lien securing the SBA loan.
- The provisions concerning a release of a guarantor or co-borrower were further clarified to distinguish SBA's guidelines for release for loans in regular servicing status, as opposed to the loans in liquidation status.
- Regarding standby agreements, except those used for equity injection, SBA corrected a typo which initially stated that lenders should analyze borrower's cash flow for past three months in determining whether to modify or terminate a standby agreement. The notice indicates that the analysis should include borrower's cash flow for the past three years.

SBA re-wrote the introduction to the section on classifying loans in liquidation status and set forth when loans must be classified in liquidation status (such as upon acceleration) and the steps lenders should take thereafter.

SBA BASE RATES MAY 2013

WSJ Prime	3.25%*
1-Month LIBOR Base Rate	3.20%*
SBA Fixed Base Rate	4.52%*
SBA Peg Rate	2.50%**

*Effective for the first business day of May 2013

**Effective for the period between April 1, 2013 to June 30, 2013

Notice of new SBA form 912

SBA published a new version of Form 912. Lenders should begin using the new version, but may continue to submit the prior version until further notification from SBA.

The form can be located:

<http://www.sba.gov/content/statement-personal-history>.

Certification Program Schedule

MBL is offering 15 courses that allow credit representatives to earn the designation of Certified Business Lender. The courses will be presented at MBL's training facility in West Jordan, Utah on the following dates:

*June 10, 11 and 12th

*July 16, 17 and 18th

Please contact Lisa Dent at 801-545-7923 or

ldent@mblllc.com to learn more about the certification program and to reserve your spot in an upcoming session.

May Webinar Training

MBL will offer the monthly Webinar on May 22, 2013. The webinar is part of MBL's free monthly seminar series and is open to all credit union business lending staff.

Annual Loan Reviews and Servicing Actions

Recommended participants: Program Managers

Wednesday, May 22, 2013

2:00 – 3:00 p.m. (MDT)

Link: <http://www.webex.com>

Session number: 807 507 564

Session password: May2013

Dial in phone number: 1-855-749-4750

Best Practices in Commercial Loan Annual Reviews

Commercial loan annual reviews have become more important in recent years and financial regulators expect credit unions to have a process in place to conduct an annual credit review of commercial loan borrowers. This review serves a critical role in the assessment of the credit union's portfolio of loans and can identify issues of asset quality. Obtaining and analyzing current financial information is an important step, however, there are other factors that must be considered for a comprehensive annual review process.

Along with obtaining and analyzing current financial statements, it is important to review financial statements and tax returns for all parties, including K-1s for distributions and contributions, and then perform a complete cash flow analysis. It is useful to see a financial comparison to the previous year. A review of the borrower's financial performance and condition with a particular emphasis on changes since the last review and the impact those changes may have on repayment sources should be discussed. Understanding contingent liabilities and changes in a guarantor's financial condition is important during this process as these obligations may have to be repaid in the near future and impact global cash flow.

Trend analysis is important when examining financial statements to see how company assets have grown over time. A discussion should describe significant changes in the borrower including management, industry or the local market. This review can help to see if the business is investing its money and investing wisely. Ratio analysis can evaluate a company's net profit margin, return on equity, revenue and expense trends, operating and performance trends, and liquidity patterns.

Covenant testing and compliance should be performed annually and in accordance with the terms of the loan agreement. During this review the lender should test all financial and reporting covenants and see if they are in compliance with the loan agreement. Should there be non-compliance issues, the results should be communicated to the borrower and credit union management.

Liquidity analysis should be considered if guarantors have substantial liquid assets on their financial statements that may be considered a potential repayment source should it be needed. Obtaining and validating brokerage statements on an annual basis should be a part of this review.

Site visits to a borrower's business should be performed once a year. Inspections keep the borrower honest. The benefit of inspections is showing the borrower that the credit union is interested in the condition of the collateral and the status of the business or project. The site inspection should describe the site as well as the surrounding neighborhood of the business collateral. Recalculating the collateral is more

important for asset-based loans where accounts receivable and inventory levels fluctuate. Advance rates should be recalculated and more heavy discounts should be applied for older receivables and raw materials. If the property is commercial real estate then non owner occupied vacancies should be reviewed as well as a review of rent receipts.

A credit report should be obtained annually and the results addressed in the annual review and compared to prior years. The personal credit report debt as well as all long term business debt should be analyzed and compared to previous years with a narrative on debt service coverage trends to prior years and reviews.

The annual review process is a good time to validate the loan risk grade. The lender should summarize in a short narrative the current grade and confirm the grade or consider a grade change if appropriate.

Source: FBLG-CPA.com, "Best Practices in Commercial Loan Annual Reviews", dated 02/28/2013

Visit our website:
www.mblllc.com

Learn more about:

- MBL's Certified Lender Business Program
- Loan Participations
- Member Business Loan Programs

MBL Hotline:

1-888-898-9818

Get answers to your questions:

- SBA Loan Programs
- SBA Eligibility
- Loan application and processing
- Financial Analysis questions

The MBL Mission:

"To aid, counsel, and assist our participating credit unions and the member businesses they serve"