The SBA's SOP 50 57: So What's New?

Effective March 1, 2013, the SBA's SOP 50 57 combines and updates the SBA's policies and procedures on 7(a) Loan Servicing & Liquidation, replacing SOP 50 50/Servicing and 50 51/Liquidations. From our perspective the consolidation makes sense, since loans move from "regular servicing" status to "liquidation" status when they're in default and classified in liquidation according to the SOP.

So what's new? Several things stand out, among them an increased focus on risk control and portfolio management throughout. Added features include new definitions and a series of boxed-in "NOTES." As you scan through the SOP, I encourage you to pay attention to these. The SBA put them there for a reason: Lenders, Take Note!

Some notable highlights from the SOP:

Definitions. The standout: The SBA defines the word, **Should**. As in the original SOP, this one defines **Must**, meaning whether or not the loan is capitalized, the action is mandatory. In defining **Should**, the SBA spells out its intent for the first time: "**Should**: whether capitalized or not, means that the action is recommended but not required." The SBA is advising lenders that barring extenuating circumstances, "should" or "should not" in the SOP means a Best Practice lenders are strongly advised to implement.

Environmental Requirements. We spoke with Holly Neber, president and principal of AEI Consultants, a nationwide environmental and engineering firm, about the new SOP's requirements for properties with confirmed or possible contamination. She recently gave a joint presentation with the SBA and comments that overall,the SOP is designed to allow for increased flexibility for lenders with a focus on making prudent, informed decisions. Environmental requirements and sample scenarios are in both sections of the new SOP. Lenders with questions should contact the district counsel where the property is located.

Deferments: Chapter 12, Liquidations. The SBA gives lenders strong guidelines for deferments in the Chapter Overview on page 67: "A deferment is a temporary solution to a temporary problem. When used appropriately, i.e., when a Borrower is experiencing a temporary cash flow problem, a deferment can enable the Borrower to improve its cash flow so that it can resume payments on its SBA loan. When used inappropriately, i.e., when the Borrower's problems are permanent, a deferment can harm the Borrower, Lender and SBA..." We see this as a lender caution to avoid using deferments as "band-aid" solutions.

Although it's often tempting to do a deferment, there are other solutions such as workouts for struggling borrowers.

As an added note, we found something we haven't seen before regarding the use of suspended or debarred agents. On page 147 in the Denial of Liability Section there's a link to agent information on a website maintained by the GSA and available to the general public. As an SBA Approved Lender Service Provider, we've written about managing broker relationships in our J.R. Bruno eBulletins. Check out our archives!

Most of the updates in the new SOP are common sense changes that can ease your life as an SBA lender. At J.R. Bruno & Associates, we're experienced in SBA portfolio management, and handling liquidations, with JRB Associate Rebecca Mendoza having special expertise. We welcome the opportunity to work with you in reviewing the new SOP, answering your questions, and assisting you in maintaining a profitable SBA portfolio. Feel free to call me directly at 626.688.2125!

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