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Business Lending News

BOOK VALUE IS ZERO. ARE YOU DONE?

When a loan is in liquidation, many lenders don't anticipate getting a recovery. After the SBA has paid the guaranty, the lender issues a Charge Off Tabs to the SBA, writes off their 25% share of the liability, and sends the file to storage. So the book value is zero. Are they done?

Not always. Even though the charge off is completed, there might be issues still hanging. What to do if they crop up later? If the file was sent to storage the lender is clueless.

It might be that after the charge off, there are still funds owed and the SBA will turn the file over to the U.S. Treasury for review. This could take 6-8 months. It's possible there could be a tax refund due to the borrower or guarantor that is circumvented through the U.S. Treasury to the SBA. Then the credit union receives a recovery based on the percent of the unguaranteed portion of the loan, thus getting a refund for a loan that has no book value. Picture it: the lender has zero book value on a loan - and money in their hands!

It's also possible that the collateral property is sold or refinanced more than a year after the fact and a post-purchase review is needed. Or maybe the borrower filed bankruptcy and there is negative equity, but there might still be a deed of trust that was not reconveyed. The charge off has been done. The book value is zero. Yet actions still must be taken. As a lender, what items do you need to keep in case issues crop later?

Here's a Best Practice: Create a system and filing mechanism for each charged off loan to track possible issues that may need to be managed at a later date. This could even be a binder that you hang onto that includes copies of key documents along with pertinent notes.

This is just one example of the type of concerns we come across in our day-to-day involvement with our credit union clients. Our JRB Team is on-site, hands-on to address scenarios that crop up in the course of a portfolio review, loan servicing, or liquidation. Please contact us to discuss your organization's issues and how we might assist you. And feel free to send me an [email](#) or call me directly at 626.688.2125.

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