

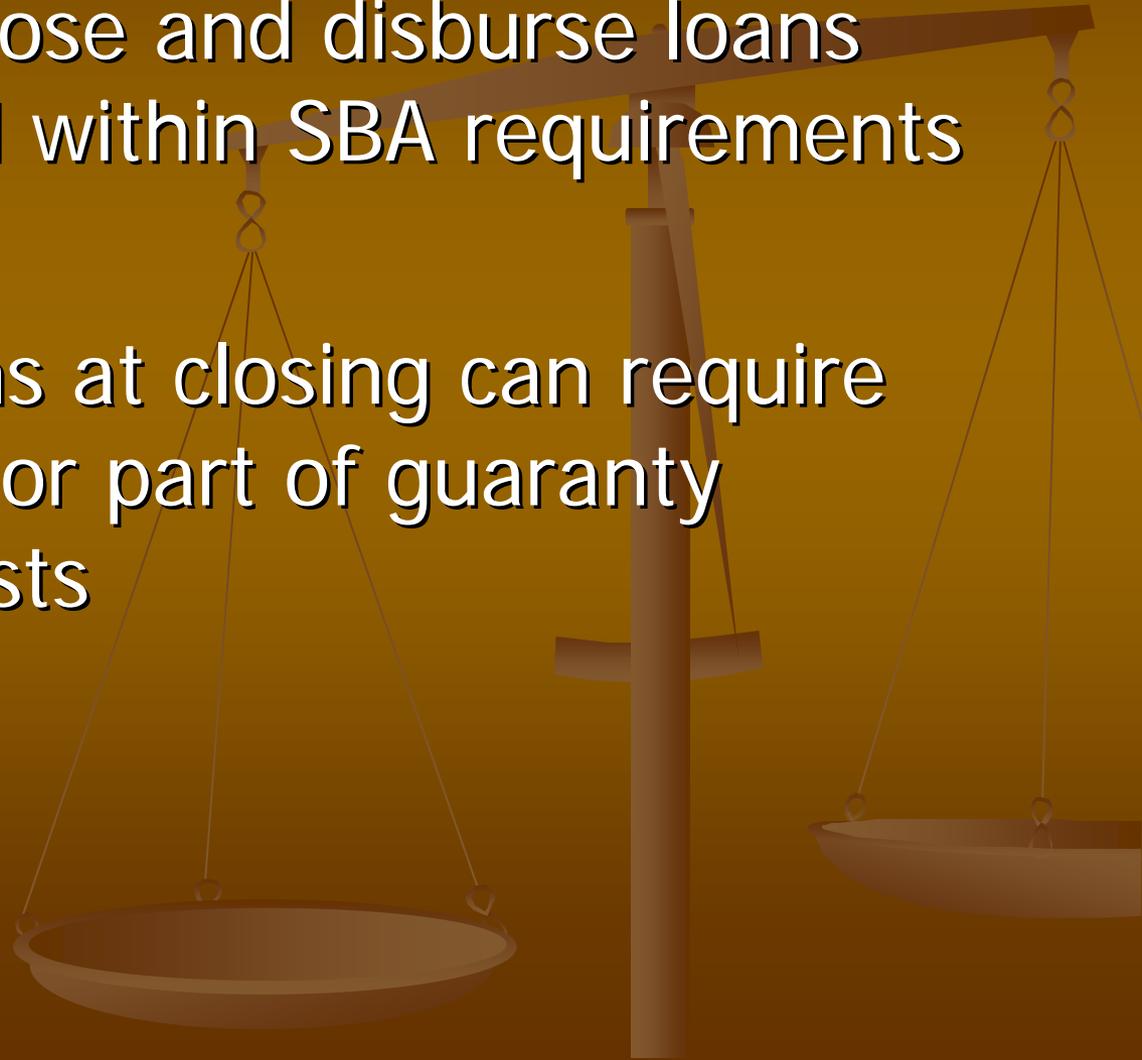
# Basics of 7(a) Loans – Loan Documentation and Closing Requirements



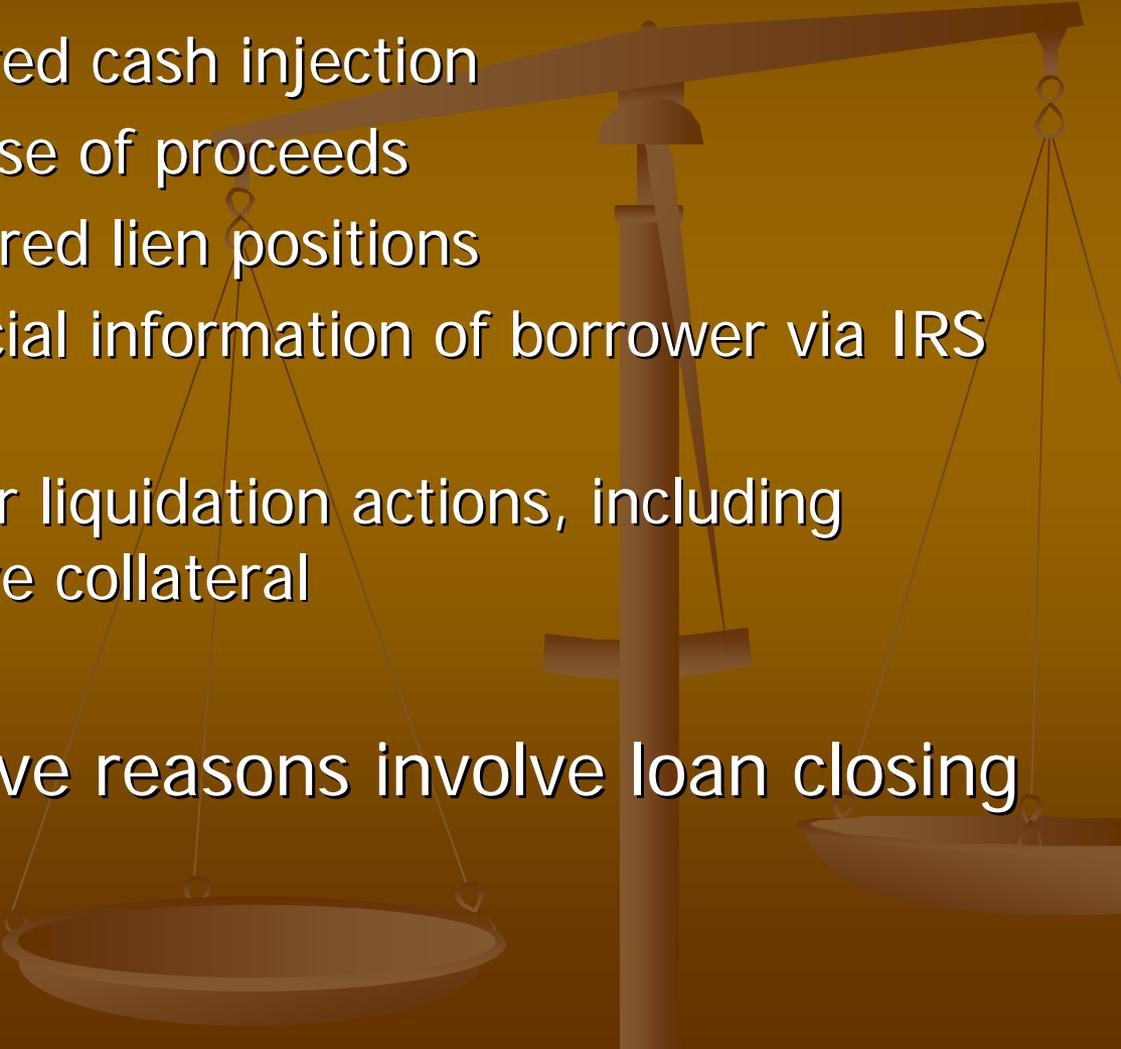
*Presented by James M. Novara, Esquire  
Ruggirello, Velardo, Novara & Ver Beek, P.C.  
Richard Pasiak, SBA District Counsel; and  
Ken Kolasa, SBA Lender Relations.*

# Protect the Guaranty

- Lenders must close and disburse loans both legally and within SBA requirements
- Improper actions at closing can require SBA to deny all or part of guaranty purchase requests



# Common Guaranty Problems

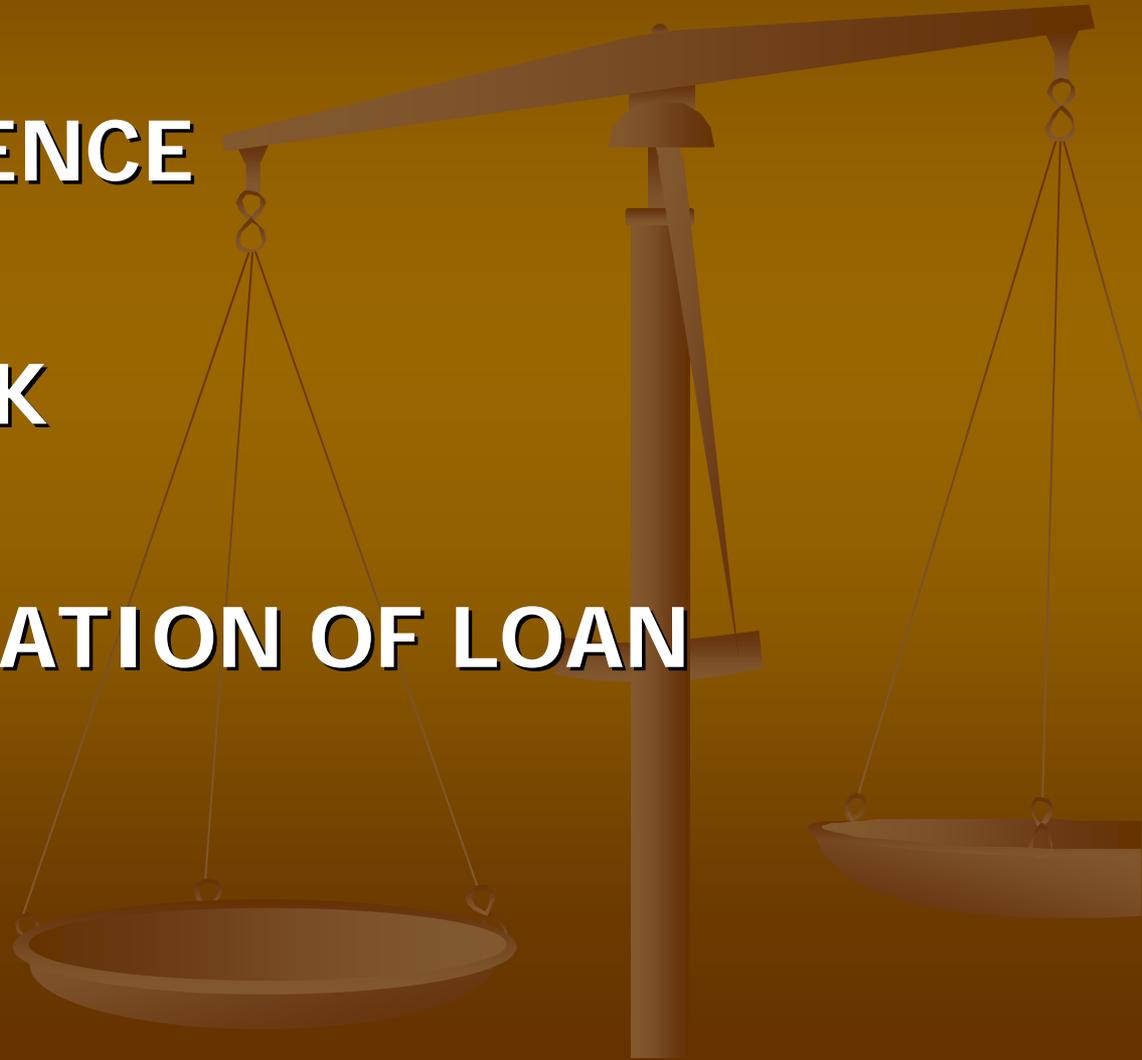


- Failure to verify required cash injection
- Failure to document use of proceeds
- Failure to obtain required lien positions
- Failure to verify financial information of borrower via IRS tax transcripts
- Imprudent servicing or liquidation actions, including failure to care/preserve collateral

Four out of the top five reasons involve loan closing and disbursement!

# Loan Documentation and Closing Requirements

- **DUE DILIGENCE**
- **TITLE WORK**
- **DOCUMENTATION OF LOAN**



# DUE DILIGENCE

- **Uniform Commercial Code**
- **Business Organization Verifications**
- **Liens**
- **Licenses**

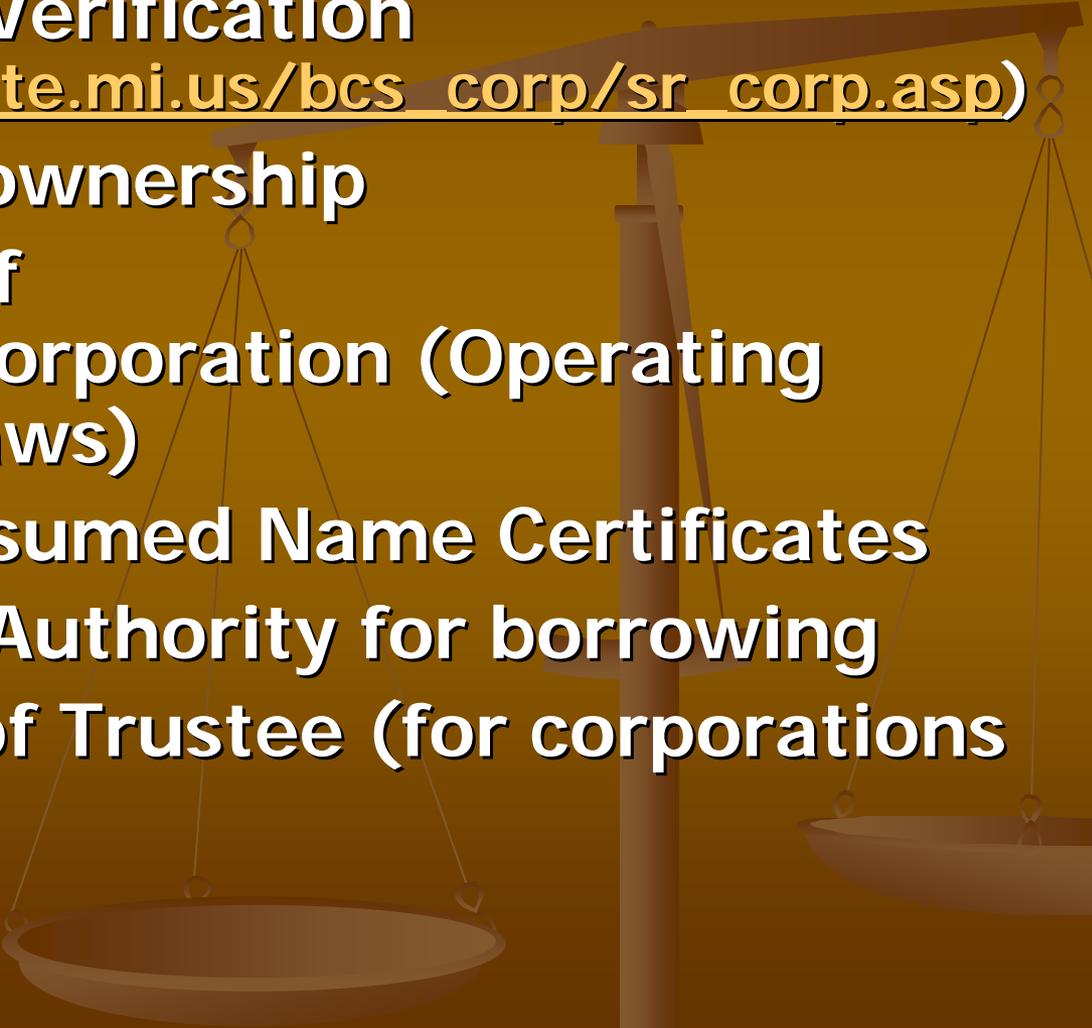


# Uniform Commercial Code

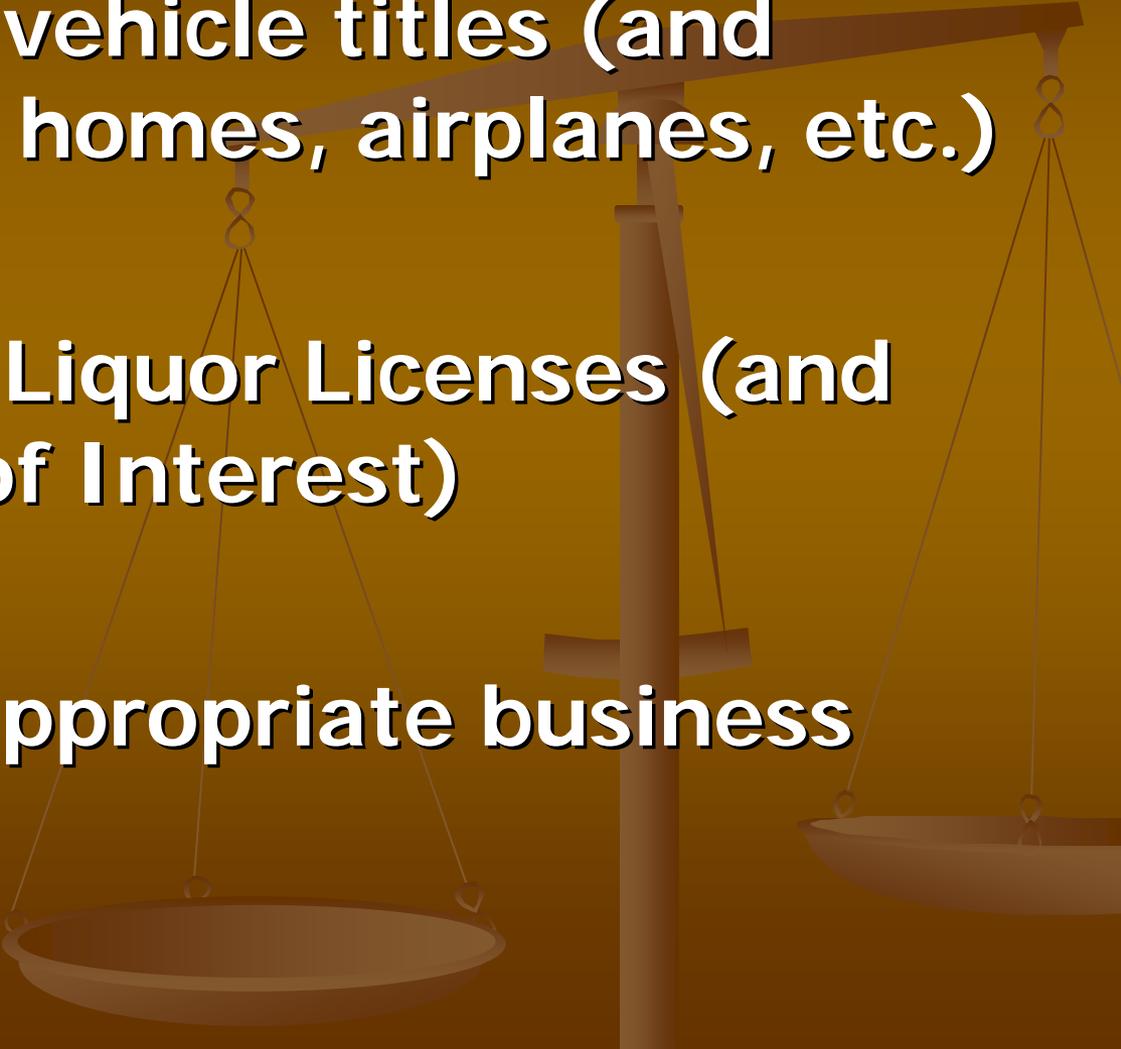
- UCC Searches
- UCC Filings
- Post-Closing UCC Searches



# Business Organization Verifications

- **Corporate Name Verification**  
([http://www.cis.state.mi.us/bcs\\_corp/sr\\_corp.asp](http://www.cis.state.mi.us/bcs_corp/sr_corp.asp))
  - **Verify corporate ownership**
  - **Review Articles of Organization/Incorporation (Operating Agreement/By Laws)**
  - **Check and file Assumed Name Certificates**
  - **Verify Corporate Authority for borrowing**
  - **Verify Authority of Trustee (for corporations owned by Trusts)**
- 

# Liens/Licenses



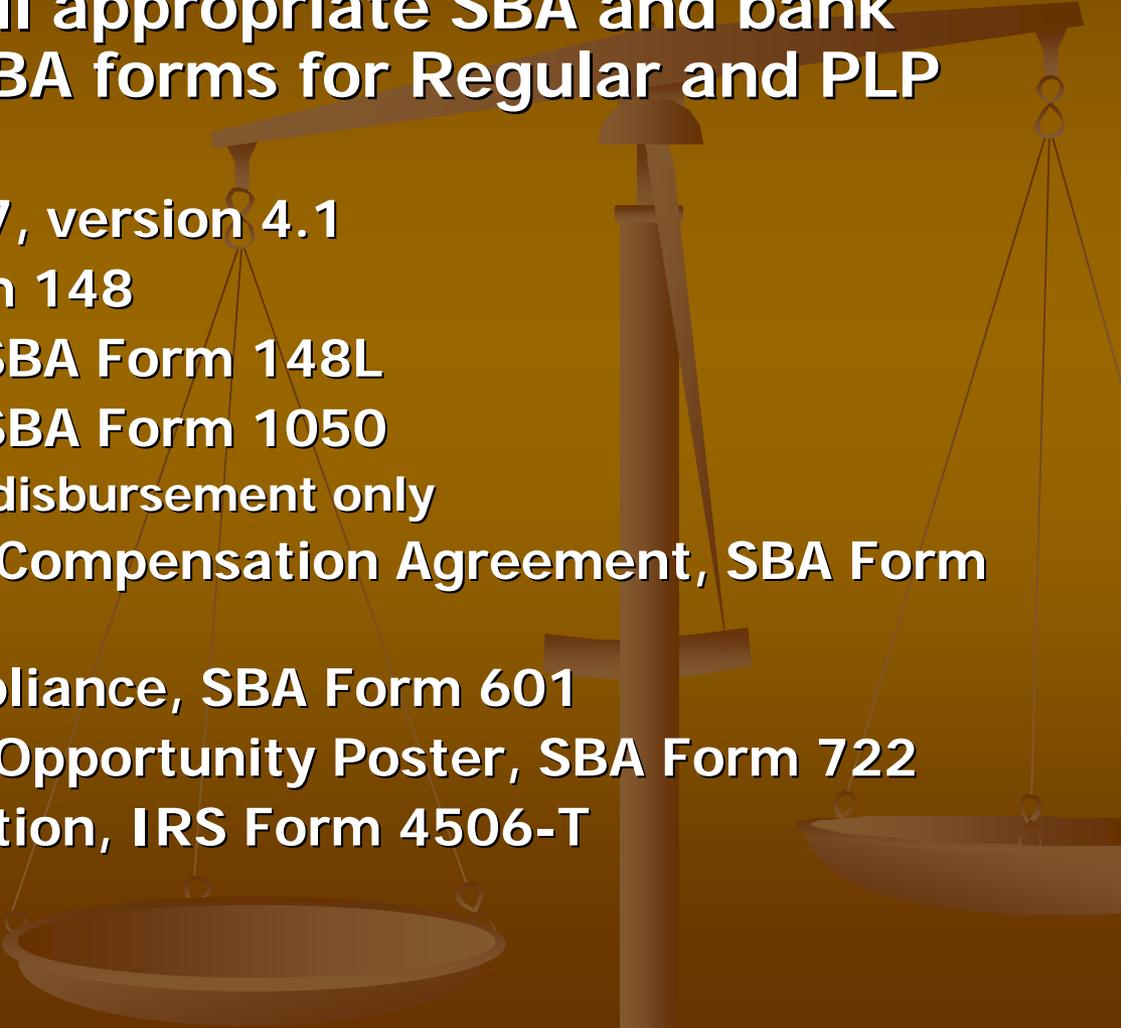
- Place liens on vehicle titles (and manufactured homes, airplanes, etc.)
- Place liens on Liquor Licenses (and Assignments of Interest)
- Check for all appropriate business licenses

# TITLE WORK

- Order Preliminary Title Commitments
- Ownership
- Liens
- Check for Encumbrances, Encroachments
- File Mortgages, Assignment of Rents and Leases
- Obtain final title polices
- Record Fixture filings

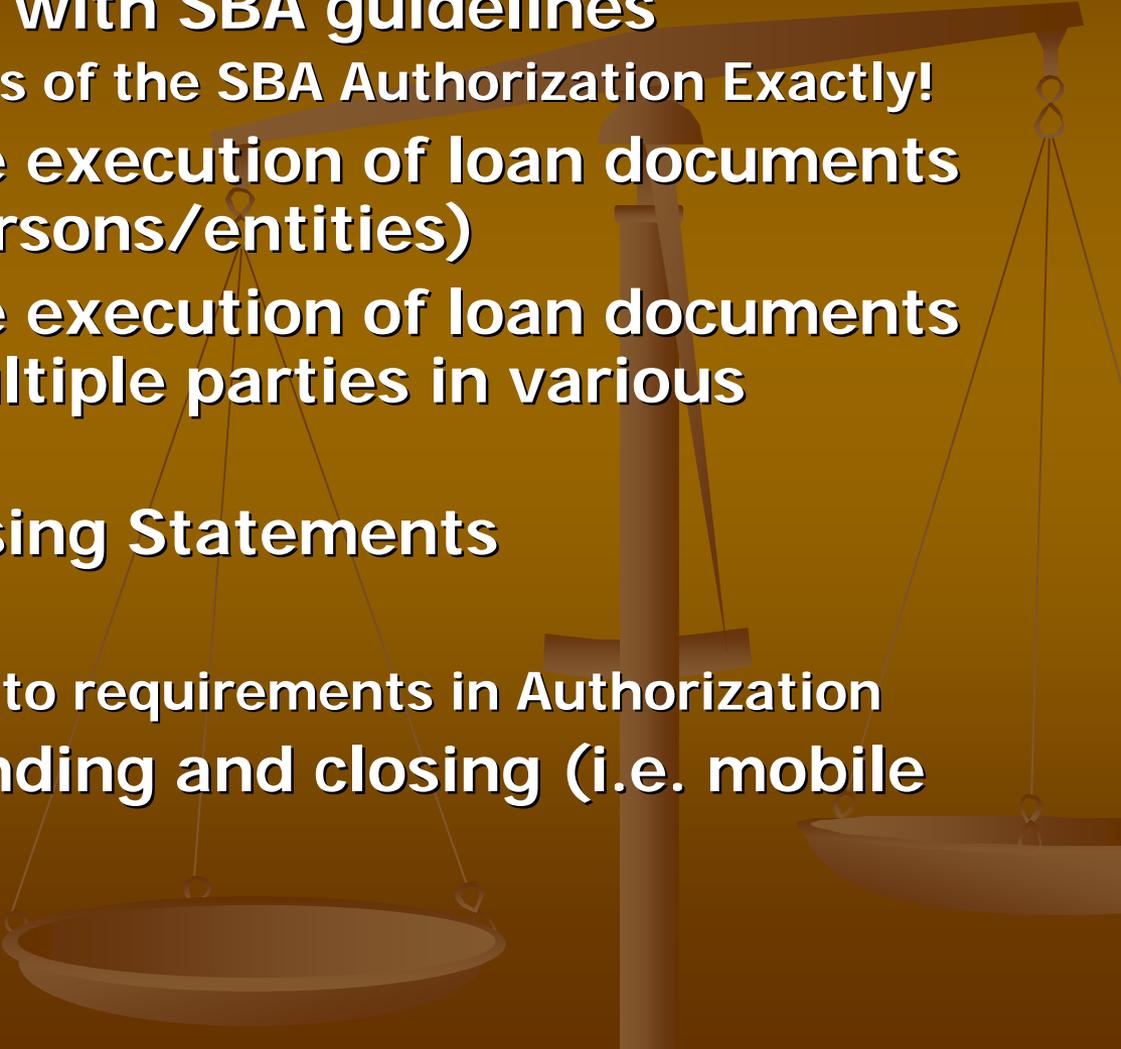


# DOCUMENTATION OF LOAN



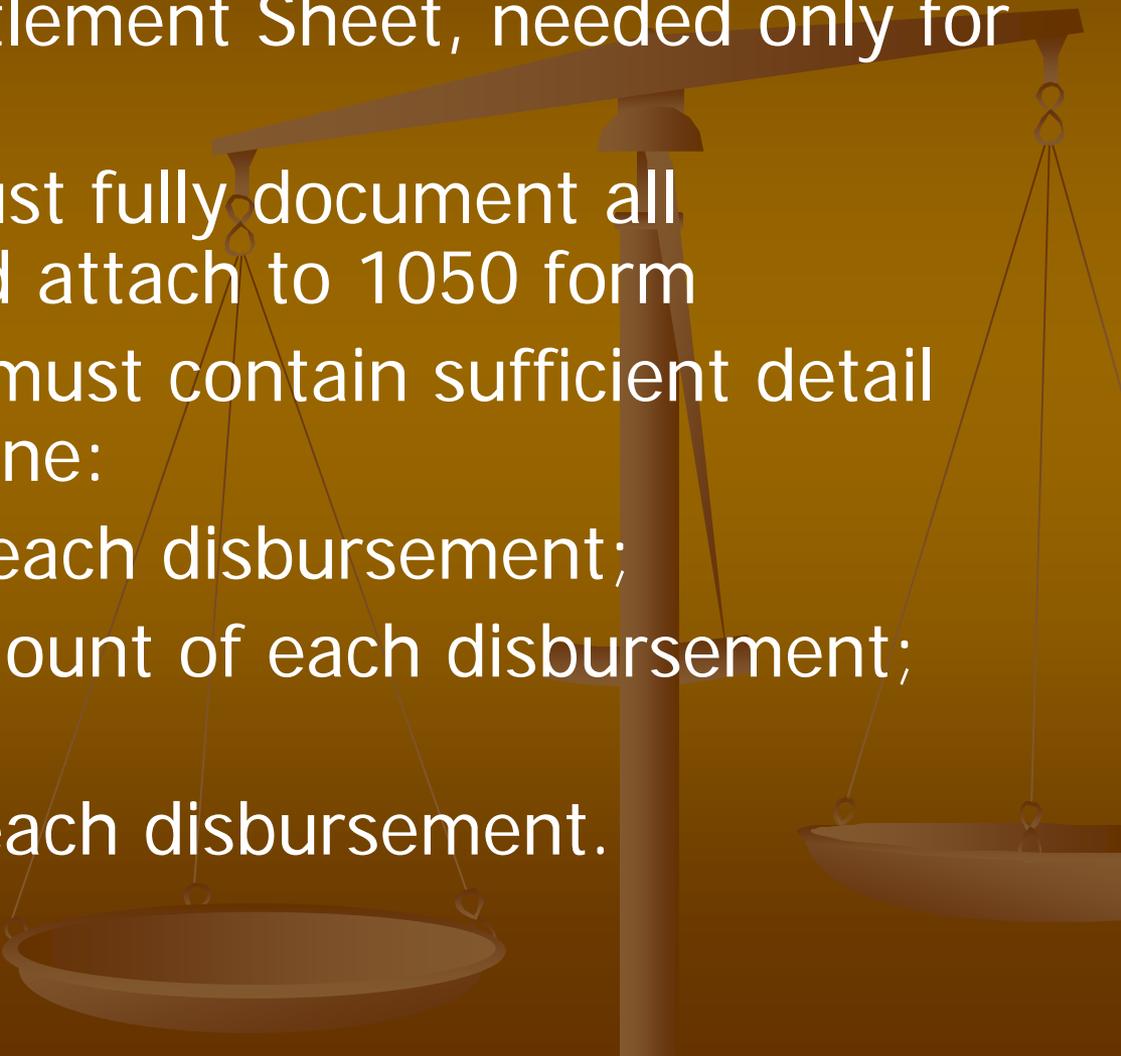
- Update and draft all appropriate SBA and bank forms. Required SBA forms for Regular and PLP loans are:
  - Note, SBA Form 147, version 4.1
  - Guaranty, SBA Form 148
  - Limited Guaranty, SBA Form 148L
  - Settlement Sheet, SBA Form 1050
    - Required for first disbursement only
  - Fee Disclosure and Compensation Agreement, SBA Form 159 (7a)
  - Agreement of Compliance, SBA Form 601
  - Equal Employment Opportunity Poster, SBA Form 722
  - Tax Return Verification, IRS Form 4506-T

# DOCUMENTATION OF LOAN



- **Ensure compliance with SBA guidelines**
  - Follow requirements of the SBA Authorization Exactly!
- **Ensure appropriate execution of loan documents (by appropriate persons/entities)**
- **Ensure appropriate execution of loan documents when there are multiple parties in various locations**
- **Preparation of Closing Statements**
- **Funding of loans**
  - Disburse according to requirements in Authorization
- **Coordination of funding and closing (i.e. mobile notaries, etc.,)**

# Use of Proceeds



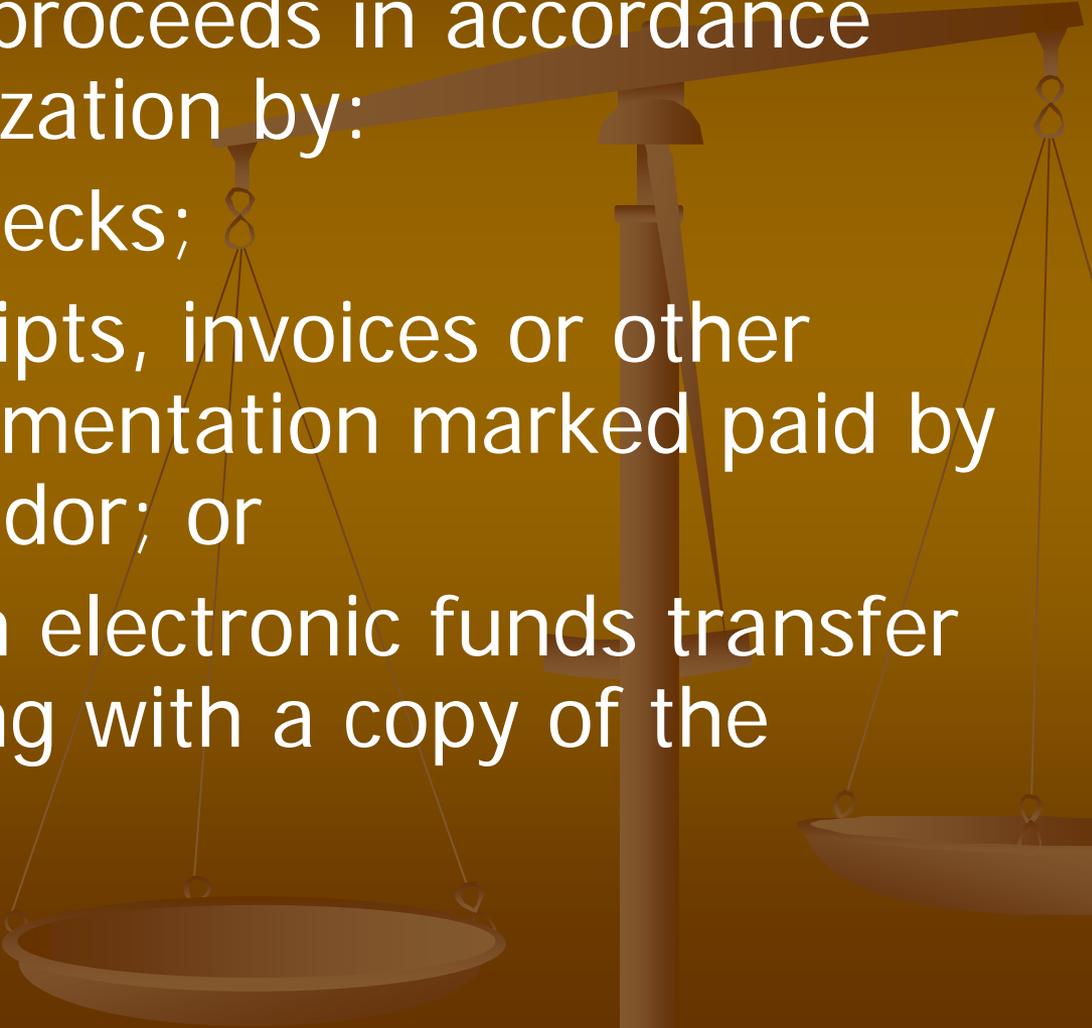
SBA Form 1050, Settlement Sheet, needed only for first disbursement!

However, Lender must fully document all disbursements and attach to 1050 form

The documentation must contain sufficient detail for SBA to determine:

- (1) The recipient of each disbursement;
- (2) The date and amount of each disbursement;  
and
- (3) The purpose of each disbursement.

# Use of Proceeds



Can verify use of proceeds in accordance with the Authorization by:

- (1) Joint payee checks;
- (2) Copies of receipts, invoices or other supporting documentation marked paid by the seller or vendor; or
- (3) Evidence of an electronic funds transfer to a vendor along with a copy of the invoice.