

stock, and any agreement providing for such transfer;

(3) Any merger, consolidation, or reorganization; or

(4) Any other transaction or agreement that transfers control of the SBLC.

(b) If transfer of ownership or control is subject to the approval of any State or Federal chartering, licensing, or other regulatory authority, copies of any documents filed with such authority shall, at the same time, be transmitted to the SBA District Office serving the area in which the SBLC's principal office is located.

§ 120.474 Prohibited financing.

An SBLC may not make a loan to a small business that has received financing (or a commitment for financing) from an SBIC that is an Associate of the SBLC.

§ 120.475 Suspension or revocation.

SBA may revoke or suspend an SBLC for a violation of law, these regulations, or any agreement with SBA. An appeal can be made following the procedures set forth in part 134 of this chapter.

Subpart E—Loan Administration

§ 120.500 General.

This subpart outlines the general loan administration policies applicable to SBA financial assistance.

Servicing

§ 120.510 Servicing direct and immediate participation loans.

SBA services the direct loans that it makes. Generally, the Lender services immediate participation loans that it makes and in which SBA participates.

§ 120.511 Servicing guaranteed loans.

The Lender services guaranteed loans, holds the Loan Instruments and receives the Borrower's payments of principal and interest.

§ 120.512 Who services the loan after SBA honors its guarantee?

Generally, after SBA honors its guarantee, the Lender must continue to hold the Loan Instruments and service the loan, and the Lender must execute a Certificate of interest showing SBA's percentage of the loan. If SBA elects to service the loan, the Lender must assign the Loan Instruments to SBA.

§ 120.513 What servicing actions require the prior written consent of the SBA?

SBA must give its prior written consent before the Lender takes any of the following actions:

(a) Alter substantially the terms or conditions of any Loan Instrument (for

example, any increase in the principal amount or change in the interest rate, or conferring a Preference on the Lender);

(b) Release collateral having a cumulative value in excess of 20 percent of the original loan amount;

(c) Accelerate the maturity of the note;

(d) Sue upon any Loan Instrument;

(e) Compromise or waive any claim against any Borrower, guarantor, obligor or standby creditor arising out of any Loan Instrument; or

(f) Increase the amount of any prior lien held by the Lender on the collateral securing the loan.

SBA'S Purchase of a Guaranteed Portion

§ 120.520 When does SBA honor its guarantee?

(a) SBA, in its sole discretion, may purchase a guaranteed portion of a loan at any time. A Lender may demand in writing that SBA honor its guarantee if the Borrower is in default on any installment for more than 60 calendar days (or less if SBA agrees) and the default has not been cured. If a Borrower cures a default before a Lender requests purchase by SBA, the Lender's right to request purchase on that default lapses.

(b) When SBA purchases the guaranteed portion, it does not waive any of its rights to recover money paid on the guaranty, based upon the Lender's negligence, misconduct, or violation of this part, including the those actions listed in § 120.524(a), the guarantee agreement or the Loan Instruments.

§ 120.521 What interest rate applies after SBA purchases its guaranteed portion?

When SBA honors its guarantee for a fixed interest rate loan, the rate of interest remains as stated in the note. On loans with a fluctuating interest rate, the interest rate that the Borrower owes will be at the rate in effect at the time of the earliest uncured default (where a default has occurred), or the rate in effect at the time of purchase (where no default has occurred).

§ 120.522 How much accrued interest does SBA pay to the Lender or Registered Holder when SBA purchases the guaranteed portion?

(a) *Rate of interest.* If SBA purchases the guaranteed portion from a Lender or from a Registered Holder (if sold in the Secondary market), it will pay accrued interest at:

(1) The rate in the note if it is a fixed rate loan; or

(2) The rate in effect on the date of the earliest uncured default (if a default has occurred) or of SBA's purchase (if there has been no default).

(b) *Payment to Lender.* SBA calculates the accrued interest due a Lender from the date of the Borrower's earliest uncured default, but interest may not accrue for more than 120 days (plus any deferment period which SBA had approved). In addition, if a Lender requests SBA to purchase within 120 days of the earliest uncured default, SBA will pay accrued interest to the Lender for any SBA time spent in making payment in excess of 120 days, plus interest from the last paid-to date to the earliest uncured default date.

(c) Payment to Registered Holder.

SBA will pay a Registered Holder all accrued interest up to the date of payment.

(d) Extension of the 120 day period.

Before the 120 days expire, the SBA field office may extend the period if the Lender and SBA agree that the Borrower can cure the default within a reasonable and definite period of time or that the benefits from doing so otherwise will exceed the costs of SBA paying additional interest. If the 120 days have passed, only SBA's AA/FA or his designee can extend the period.

§ 120.523 What is the "earliest uncured default"?

Default occurs when a Borrower violates any provision in the Loan Instruments. The default date is the date the violation occurred. The "earliest uncured default" is the earliest violation not yet cured. If the violation is the failure by a Borrower to pay a regular installment of principal and interest when due, payments made by the Borrower before a Lender makes its request to SBA to purchase are applied to the earliest uncured default. If the installment is paid in full, the earliest uncured default date will advance to the next unpaid installment date. If a Borrower makes any payment after a Lender makes its request to SBA to purchase, the earliest uncured default date does not change because the Lender has already exercised its right to request purchase.

§ 120.524 When is SBA released from liability on its guarantee?

(a) SBA is released from liability on a loan guarantee (in whole or in part, within SBA's exclusive discretion), if any of the events below occur:

(1) The Lender has failed to comply with any of the provisions of these regulations, the Loan Guarantee Agreement, or the Authorization;

(2) The Lender has failed to make, close, service, or liquidate a loan in a prudent manner;

(3) The Lender's improper action or inaction has placed SBA at risk;