



# The 1502 *Bulletin*

SBA's FISCAL & TRANSFER AGENT

*Keeping you informed on SBA Form 1502*

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## The 1502 Reporting Process and Servicing Actions Affecting SBA Loans

SBA has designated Colson Services Corp. as the collection agent for lenders' SBA Form 1502 monthly submissions. This bulletin is intended to clarify how certain 1502 loan status reporting scenarios that require special handling, should be executed by SBA field office personnel and SBA 7(a) lenders.

### Overview of SBA Form 1502 Processing

To facilitate the collection of 1502 data, Colson imports an electronic file from SBA at the beginning of each month. This file is uploaded to Colson's system and is used to establish the population of 7(a) loans for which SBA expects lenders to submit 1502 information. 1502 information received from lenders and processed by Colson is subjected to SBA's edit criteria. If errors are detected on their 1502 Forms, the lenders are notified by Colson accordingly. Beginning on the 20th of each month, Colson exports the 1502 data it has collected to SBA. This monthly timetable allows lenders to correct their errors prior to Colson's transmission of their data to SBA. SBA updates its database with the 1502 data it receives from Colson and subjects the data to SBA's edit criteria once again. The 1502 data is then made available to the SBA field offices on or about the first business day following the month in which Colson received the lenders' 1502 Forms. The SBA field offices and servicing centers contact those lenders who have uncorrected errors in an effort to update SBA's database with accurate data.

When a loan's data encounters an SBA exception error, prior to data transmission to SBA, Colson sends a Lender Error Exception Report to the lender, typically via fax. Lenders should make any necessary changes directly on the report and return the revised report, via fax, to Colson's Customer Service group for immediate correction. However, in certain instances, these exception errors relate to data elements resident in SBA's database system that Colson can not amend or modify. Instead, the SBA field offices servicing the affected loans must correct the discrepancies pursuant to lender notifications or servicing action requests.

### Servicing Actions

A servicing action is any action that changes the existing terms of the loan. Servicing actions generally require an SBA loan servicing official to complete an SBA Form 327, "Modification or Administrative Action" (327 action). Per Standard Operating Procedure (SOP) 50 50 4A (as amended on November 2, 1998), Chapter 4, paragraph 8, a modification or administrative action refers to any actions SBA may take that would affect the loan, e.g., change the status of a loan from regular servicing to "in-liquidation", or to transfer a loan to another lender.

If your institution receives a Lender Error Exception Report or Unreported Loan Report from Colson, you may have to rectify the discrepancy identified with the SBA servicing office. Listed below are several servicing actions that must be handled through SBA:

- ◆ *FTA Error Message 13: SBA's loan status shows loan paid-in-full or X-GP. Discontinue reporting if loan is no longer serviced by your institution. Otherwise contact the SBA servicing office to reinstate the loan.*

*Action required: Reinstatement of SBA's guaranty.* SBA can consider reinstating its guaranty provided that the lender certifies in writing the following terms:

1. The loan is current.
2. The guaranty fee has been paid.
3. There has been no default or adverse change.
4. Lender has no knowledge that an adverse change is imminent.
5. The current loan balance.
6. Explanation of what caused the mistake or inadvertent termination of the loan (e.g., the loan was erroneously reported as a Status Code "6" or a Status Code "8" on a prior 1502 Form submission).

- ◆ *FTA Error Message 14: Outstanding balance and/or amount undisbursed exceeds the net approval of the loan. Please ensure the closing balance reported is for the guaranteed portion of the loan.*

*Action required: Change in the guaranty percentage of a loan.* If the guaranty percentage contained in the lender's loan documentation differs from that in SBA's database, the SBA field office must be contacted to resolve the discrepancy. Lender may also request, upon written notice to the SBA field office servicing the loan, a modification to a loan's guaranty percentage on SBA's records.

*Action required: Change in the gross approval amount of a loan.* If the gross approval amount of a loan contained in the lender's loan documentation differs from that in SBA's database, the SBA field office must be contacted to resolve the discrepancy. Lender may also request, upon written notice to the SBA field office servicing the loan, a modification to a loan's gross approval amount on SBA's records. A lender may request up to a 20-percent increase of the gross approval amount, unless the loan is revolving. Revolving loans are limited by the maximum gross amount of their particular loan programs.

- ◆ *FTA Error Message 15: Cannot report liquidation status code 5 until loan is placed in liquidation. Please contact your SBA field office to place loan in liquidation.*
- ◆ *FTA Error Message 16: SBA's status shows loan in liquidation. Must report loan with a status code 5.*

*Action required: Place the loan into or out of liquidation.* It is imperative that lenders communicate to the field office (in addition to a 1502 Form update) when they are placing a loan into liquidation. SBA personnel enter loans that are in liquidation into SBA's Loan Liquidation Tracking System (LLTS) and assign an SBA loan officer to work with the respective lenders. The same holds true if a loan is to be placed back into regular servicing status – you must contact the SBA field office directly.

- ◆ *Unreported Loan Report – if lender receives this report from Colson, one of the scenarios below may apply.*

*If the loan is not going to be disbursed -- cancellation of the guaranty.* Upon written notice to the SBA field office servicing the loan, a lender may request the cancellation of a guaranty on any of its SBA loans provided:

1. SBA has not purchased the loan.
2. The loan is not paid in full.
3. The lender has not assigned or transferred the loan to another party (a lender cannot cancel a guaranty for a loan sold in the secondary market since the loan is assigned to a registered holder).
4. Payment has been made of any guaranty fees and/or other expenses due.

*If the loan does not belong to lender -- change in the Financial Institution Reporting System ("FIRS") number assignment.* Lender may request, upon written notice to the SBA field office servicing the loan, a change to the FIRS number assignment of a loan (e.g., if a FIRS number was incorrectly assigned).

### Loans in Approval Status

Moving a loan from approval status to regular servicing status on SBA's database is typically accomplished through 1502 Form reporting. Prior to first disbursement, the lender must report the loan as a status code 9, with the 100% undisbursed amount indicated on its monthly 1502 submission. In the month the first disbursement occurs, the lender must report the loan on its month-end 1502 as follows:

- ◆ No Status Code
- ◆ Amount Disbursed This Period on Total Loan = 100% of amount disbursed this period
- ◆ Amount Undisbursed on Total Loan = 100% of amount undisbursed, if any
- ◆ Interest To Date = date interest accrues from (either note date or first disbursement date)
- ◆ Guaranteed Portion Closing Balance = guaranteed portion of the amount disbursed.

This 1502 reporting example assumes that a borrower repayment has not occurred in the month that the 1502 report is prepared. When there is a repayment of interest or principal, the lender should report the guaranteed portion of the interest and/or principal payment on its 1502 Form. If reported correctly, the 1502 data sent to SBA will trigger SBA's database to move the loan out of approval status. An SBA 50 basis point fee would need to be remitted if a repayment of interest occurred (for unsold loans approved on or after 10/12/95).