

**§ 120.1840 What are the allowable uses of proceeds of an SISMBD Loan?**

(a) The SISMBD must use loan proceeds solely to purchase Guaranteed Portions from SBA Lenders, Individual Certificates or Pool Certificates from Pool Assemblers or Registered Holders.

(b) SBA will not advance more than the purchase price of the Guaranteed Portions or the Certificate. Thus, if the Guaranteed Portion or Certificates are purchased at a discount to the principal balance, SBA will not advance more than the purchase price.

(c) SBA will not finance the purchase of Guaranteed Portions or Certificates unless the Guaranteed Portions or Certificates carry an interest rate equal to or greater than the interest rate payable to SBA under the SISMBD Loan.

(d) The SISMBD Loan proceeds shall not be used to purchase any Premium portion of a purchase price that is paid to a selling SBA Lender, Registered Holder, or any other individual or entity.

(e) SISMBD Loan proceeds shall not be used to refinance existing debt of the SISMBD, finance existing inventory of the SISMBD, or for any purpose other than as set forth in this Section.

**§ 120.1850 Will the Collateral be held by SBA?**

Yes, SBA or its expressly authorized agent will take physical possession of all Collateral. SBA or its expressly authorized agent shall maintain all Collateral for SISMBD Loans in a custodial account. Certificates held as Collateral must be in paper, not book entry form.

**§ 120.1860 How will the SISMBD Loan be disbursed?**

(a) Loan proceeds will be disbursed to the FTA by SBA to be applied to the purchase price for the Guaranteed Portions or Certificates being purchased by the SISMBD. Disbursement to the FTA is contingent upon receipt by SBA, the FTA or SBA's settlement agent or custodian of the Guaranteed Portions or Certificates being purchased and any other Collateral required by SBA and verification of the required first lien position. SBA will advance the principal amount or the purchase price of the Guaranteed Por-

tion or the Certificate, whichever is less. Thus, if the loan is purchased at a discount to the principal balance, SBA will not advance more than the purchase price.

(b) Provided an SISMBD has executed all required loan documents, when an SISMBD requests an advance under its SISMBD Loan, it will submit a written Loan Advance Request Form to the FTA and SBA along with the SBA Form 1086 or 1088 for processing. The FTA will notify SBA that a particular SISMBD requests an advance of a certain amount of funds on a specific settlement date to purchase: a Guaranteed Portion which will be evidenced by an Individual Certificate, a Pool Certificate, or an existing Individual Certificate. Provided that the SISMBD has met all of the terms and conditions of the Loan Agreements, related documents, and these regulations, and is not in default under the loan documents, on the settlement date for the SBA Secondary Market transaction, SBA will wire the funds to the FTA. The FTA will use loan proceeds and any Premium payment from the SISMBD to pay the SBA Lender or Registered Holder the purchase price.

(c) The SISMBD must identify the SBA Lender or Registered Holder expected to deliver to SBA or its settlement agent the Guaranteed Portions or Certificates that are being purchased with SISMBD Loan proceeds, and upon delivery the Guaranteed Portions or Certificates will become Collateral for the SISMBD Loan.

(d) On the SBA Secondary Market transaction settlement date, the SBA Lender or Registered Holder will deliver the purchased Guaranteed Portion or Certificate to the FTA or SBA's settlement agent. The FTA or SBA's settlement agent will use loan proceeds and any Premium payment from SISMBD to pay the SBA Lender or the Registered Holder the purchase price upon delivery of all Guaranteed Portions or Certificates that collateralize the SISMBD Loan to the FTA or SBA's settlement agent and the Guaranteed Portions or Certificates will be placed in a custodial account.

(e) Upon settlement the FTA, SBA, SBA's settlement agent and the administrator of the custodial account will

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register the loan advance and collateral pledge on their respective books and records.

**§ 120.1870 How does the SISMBD provide funds for the Premium?**

If the SISMBD is paying a Premium for a Guaranteed Portion, an Individual Certificate or a Pool Certificate, it must use its own funds or other borrowed funds to cover the Premium. The SISMBD must send Premium payments to the FTA on or before the settlement date. The FTA will forward Premium payments to the selling SBA Lender or Registered Holder along with the SISMBD Loan funds. In this program, "Premium" is defined as any amount in excess of the principal balance of a Guaranteed Portion or of a Certificate balance.

**§ 120.1880 How will the loan be repaid?**

(a) The monthly payments of principal and interest, any partial or full repayments, and any Lender purchases of defaulted loans on Certificates that have been pledged as collateral to secure an SISMBD Loan will be assigned by the SISMBD and will be paid by the Lender into a segregated account at the FTA under SBA's ownership and control. The FTA will forward such payments to SBA or its loan servicing agent as directed by SBA. The payments will be used to repay the SISMBD Loan.

(b) When the SISMBD forms a Pool with Certificates pledged as Collateral for an SISMBD Loan or transfers a pledged Certificate, all proceeds, including the principal and accrued interest balance of the SISMBD Loan associated with the pledged Certificates, must be repaid to SBA as payment on the SISMBD Loan before SBA will approve the transfer, release any Collateral and terminate its security interest therein. SBA will not approve any transfers of Guaranteed Portions or Certificates at less than the par value or the original purchase price of the specific Guaranteed Portion or Certificate.

(c) To the extent that SBA is required to make a payment on its guaranty of a Certificate, SBA will reduce the SISMBD Loan balance.

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(d) If the SISMBD Loan has a balance when a payment is required or when the SISMBD Loan matures, the SISMBD may make any required payment, pay the loan in full if it has matured and obtain possession of the Collateral, or SBA may exercise its rights under the Loan Agreements which may include terminating availability under the loan, accelerating the loan and demanding full repayment from the SISMBD, and selling all Collateral. The proceeds from the sale of the Collateral will be used to repay the SISMBD Loan and the SISMBD will be responsible for any remaining unpaid loan deficiency balance.

**§ 120.1881 How are payments on the Collateral allocated between the SISMBD borrower and repayment of the SISMBD Loan?**

Unless otherwise provided in the Loan Agreements for a particular SISMBD Loan, any payment on Collateral must be assigned to SBA and must be used to repay the SISMBD Loan.

**§ 120.1882 What happens if funds to make required loan payments are not generated from the Collateral?**

(a) The SISMBD is responsible for all principal and interest payments on an SISMBD Loan. If SBA does not receive full and timely remittances from the Collateral or the SISMBD borrower, SBA may enforce its rights against the SISMBD and the Collateral as set forth in the Loan Agreements, related documents and applicable law.

(b) An SISMBD will have a 30 day grace period during which to make a supplemental payment if remittances from the Collateral are not sufficient to cover the SISMBD Loan payments when they are due. After the grace period, if the loan remains delinquent, SBA may enforce its rights as set forth in paragraph (a) of this section.

**§ 120.1890 What is the maturity on a SISMBD Loan from SBA?**

The maximum maturity for an SISMBD Loan will be determined by SBA but must be no later than February 16, 2013. If the maturity of the Collateral is shorter than the maturity of the SISMBD Loan, the SISMBD Loan will be due and payable upon payment in full of the Collateral. If the