maintain a non-SBA loan portfolio must adhere to the same prudent lending standards followed by commercial lenders that liquidate loans without a government guarantee. They are also to operate in accordance with Loan Program Requirements and any SBA approval of either a liquidation or litigation plan or any amendment of such a plan.

(c) Absence of actual or apparent conflict of interest. A CDC must not take any action in the liquidation or debt collection litigation of a 504 loan that would result in an actual or apparent conflict of interest between the CDC (or any employee of the CDC) and any Third Party Lender, associate of a Third Party Lender, or any person participating in a liquidation, foreclosure or loss mitigation action.

(d) SBA rights to take over servicing or liquidation. SBA may, in its sole discretion, undertake the servicing, liquidation and/or litigation of any 7(a) or 504 loan. If SBA elects to service, liquidate and/or litigate a loan, it will notify the relevant Lender or CDC in writing, and, upon receiving such notice, the Lender or CDC must assign the Loan Instruments to SBA and provide any needed assistance to allow SBA to service, liquidate and/or litigate the loan. SBA will notify the Borrower of the change in servicing. SBA may use contractors to perform these actions.

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§120.536 Servicing and liquidation actions that require the prior written consent of SBA.

(a) Actions by Lenders and CDCs. Except as otherwise provided in a Supplemental Guarantee Agreement with a Lender or an Agreement with a CDC, SBA must give its prior written consent before a Lender or CDC takes any of the following actions:

1. Increases the principal amount of a loan above that authorized by SBA at loan origination.
2. Confers a Preference on the Lender or CDC or engages in an activity that creates a conflict of interest.
3. Compromises the principal balance of a loan.
4. Takes title to any property in the name of SBA.
5. Takes title to environmentally contaminated property, or takes over operation and control of a business that handles hazardous substances or hazardous wastes.
6. Transfers, sells or pledges more than 90% of a loan.
7. Takes any action for which prior written consent is required by a Loan Program Requirement.

(b) Actions by CDCs only (other than PCLP CDCs). SBA must give its prior written consent before a CDC, other than a PCLP CDC, takes any of the following actions with respect to a 504 loan:

1. Alters substantially the terms or conditions of any Loan Instrument.
2. Releases collateral having a cumulative market value in excess of 10 percent of the Debenture amount or $10,000, whichever is less.
3. Accelerates the maturity of the note.
4. Compromises or releases any claim against any Borrower or obligor, or against any guarantor, standby creditor, or any other person that is contingently liable for moneys owed on the loan.
5. Purchases or pays off any indebtedness secured by the property that serves as collateral for a defaulted 504 loan, such as payment of the debt(s) owed to a lien holder or lien holders with priority over the lien securing the loan.
6. Accepts a workout plan to restructure the material terms and conditions of a loan that is in default or liquidation.
7. Takes any action for which prior written consent is required by a Loan Program Requirement.

(c) Documentation requirements. For all servicing/liquidation actions not requiring SBA’s prior written consent, Lenders and CDCs must document the justifications for their decisions and retain these and supporting documents in their file for future SBA review to determine if the actions taken by the Lender or CDC were prudent, commercially reasonable, and complied with all Loan Program Requirements.

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