

10

503 Loans

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503 loans

General information about 503 loans

The immediate predecessor to the 504 loan program as we know it today was the 503 loan program. The CDC industry began in 1980 when legislation under the Small Business Investment Act permitted the creation of local and state development companies to offer 503 loans as an economic development-financing program.

The last 503 loan was approved in May 1986. The last 503 loan was funded in March 1989.

Not all CDCs have 503 loans in their portfolio. And, eventually 503 loans will no longer exist as they are repaid. Thus, 503 loans are being addressed separately in this manual. There are several distinctions that cause 503 loans to be treated differently in some situations.

Differences between 503 and 504

1. Four terms were available for 503 loans: 10, 15, 20 and 25 years.
2. Since 503 loans were sold to the Federal Financing Bank, both the voluntary prepayment monies and SBA monies to purchase 503 debentures are paid to the Federal Financing Bank. If SBA purchases a debenture, the prepayment penalty must still be paid.
3. On 503 loans, the *Servicing Agent Agreement* was originally the *Fiscal Agent Agreement*, which subsequently became known as the *Fiscal Agent/Servicing Agent Agreement*. This is the document in your closing files you use to calculate a prepayment estimate since it will identify the borrower's debenture interest rate.
4. There is a different calculation for the prepayment premium on 503 loans. It may be a premium or a discount. It is in place for the life of the loan. The Federal Financing Bank calculates the **ACTUAL** prepayment amount the day before the borrower must wire prepayment monies.
5. The escrow reserve account earns interest, which must be reported annually to the IRS by COLSON for any non-exempt borrower.
6. CSA servicing fees and CDC servicing fees are different on 503 loans with the *Fiscal Agent Agreement* edition dated prior to August 1985.

503 servicing fees

Understanding how 503 servicing fees are calculated

The servicing fees that are received by the CSA and CDC are determined by the edition date of the *Fiscal Agent Agreement*.

503 loans with a *Fiscal Agent Agreement* edition dated prior to August 1985

1. **CSA Fee:** $1/8^{\text{th}}$ of 1% (0.00125) per annum based on the declining balance for the first five (5) years. $1/16^{\text{th}}$ of 1% (0.000625) per annum based on the declining balance for payments beginning year six (6) through the life of the loan. The fee will change monthly.
2. **CDC Fee:** $1/2$ of 1% (0.005) per annum based on the declining principal balance. The fee will change monthly.

503 loans with a *Fiscal Agent Agreement* edition dated August 1985 or after

1. **CSA Fee:** $1/10^{\text{th}}$ of 1% (0.0010) per annum based on the outstanding principal balance to be determined at five (5) year anniversary intervals at the beginning of the interval.
2. **CDC Fee:** $1/2$ of 1% (0.005) per annum based on the outstanding principal balance to be determined at five (5) year anniversary intervals at the beginning of the interval.

503 borrower's monthly payment

The borrower's monthly payment will remain the same for the life of the loan. However, since there is a decline in servicing fees received by the CSA and the CDC, that difference is deposited in the borrower's escrow reserve account. It is part of the total dollar amount listed under "DEPOSIT" on the *Individual Borrower Activity Report*, and it is listed as "Difference to Escrow Account" for the monthly payments shown on the *Application of Funds Report*.

Prepaying a 503 loan

Information you should know

503 prepayments

503 loans carry a prepayment requirement for the life of the loan. It may be a penalty if the borrower's debenture interest rate is higher than current government instruments of similar maturities at the time of prepayment. If the borrower's debenture interest rate is lower than similar maturities at the time of prepayment, the borrower may receive a discount on s 503 Loan prepayment.

1. The escrow portion of the escrow reserve account is the principal and interest payment that has already been applied to the loan to meet debt service requirements.
2. The reserve portion of the escrow reserve account is made up of the interest earned on the account as well as an amount initially put into the account for 503 loans and the difference between the original CSA and CDC fee and the current fee paid. Any monies considered part of the reserve are credited toward the amount needed for prepaying the 503 loan at the time of prepayment.
3. **ALWAYS** provide an estimated prepayment amount for the borrower before going through with a request to prepay a 503 loan. You may request that COLSON provide an estimate through a work-up or you can prepare a prepayment estimate for the borrower based on calculations you complete.
4. Prepayments on 503 loans closed on or after August 1985 require a non-refundable \$1,000 good faith deposit.

When may a 503 borrower prepay his/her 503 loan?

January through October – 2nd or 4th Thursday of the month.

November and December – 1st or 3rd Thursday of the month.

What do I send to COLSON to request a 503 prepayment estimate?

Fax or email a *COLSON Work-Up Request Form*. See Chapter 8 of this manual. Alternatively, you may prepare a request to COLSON for a 503 prepayment estimate on your CDC letterhead and fax or email it to COLSON.

Is there any deadline in requesting prepayment estimates from COLSON?

Yes. It generally takes 3 to 5 business days for a response, so plan accordingly.

Prepaying a 503 loan

Information needed to prepare a prepayment estimate

If you choose to use the standard *COLSON Work-Up Request Form* or prepare a letter on your CDC letterhead requesting a prepayment estimate, the following information is needed by COLSON:

Table 10-1: Prepaying a 503 Loan	
Information needed by COLSON	Where is the information found?
Identification of the borrower	Borrower name on the <i>Fiscal Agent Agreement</i>
This is a 503 prepay estimate request	State this in the work-up form or memo to COLSON
10-digit SBA Loan Number	COLSON reports
Date of debenture Issue	<i>Debenture Amortization Schedule</i> or <i>Fiscal Agent Agreement</i> or COLSON reports
Face amount of debenture (original 503 loan amount)	<i>Fiscal Agent Agreement</i> or <i>Debenture Amortization Schedule</i> or COLSON reports
Debenture interest rate	<i>Fiscal Agent Agreement</i> or <i>Debenture Amortization Schedule</i>
Maturity date	<i>Fiscal Agent Agreement</i>
Semi-annual payment date	<i>Fiscal Agent Agreement</i> or <i>Debenture Amortization Schedule</i>
Date borrower plans to wire prepayment	State this in the work-up form or memo to COLSON
Special status of loan	State whether borrower is delinquent or is on a deferment plan
Name, phone and fax numbers and email address of the CDC contact person who will handle the prepayment request	

Prepaying a 503 loan

503 Prepayment Estimate from COLSON

COLSON SERVICES CORP.
CENTRAL SERVICING AGENT 503/504 PROGRAM
101 Barclay Street; 8th Floor East
NEW YORK, NY 10286

DATE ISSUED
CONTROL NUMBER: 1500

CDC NAME
ATTN:
CDC STREET ADDRESS
CDC CITY, STATE, ZIP CODE

RE: 503 ESTIMATED PREPAYMENT

BELOW IS THE 503 PREPAYMENT ESTIMATE THAT YOU REQUESTED.

SBA LOAN NUMBER: 1999999999
PREPAYMENT DATE: JUNE 12, 2007
SBC NAME: JOE DOAKES INC

FACE RATE OF DEBENTURE	8.6770%
BALANCE AT LAST SEMI-ANNUAL PMT	\$ 86,827.65 (A)
PMT AMT (SEMI-ANNUAL)	\$ 7,642.34
NEW RATE (ESTIMATED)	5.3296%
DAYS FROM LAST PAYMENT	40
DAYS TO NEXT PAYMENT	144
FULL PERIODS REMAINING	15
VN	0.674518386364212466
AN	12.2370709690874227
INTEREST DUE	\$ 825.65 (B)
PREMIUM (DISCOUNT)	\$ 11,429.46 (C)
* RECOVERABLE EXPENSES	\$ 0.00 (D)
SBA ADVANCES	\$ 0.00 (E)
TOTAL DUE (A+B+C+D+E+)	\$ 99,082.76

THIS CALCULATION IS BASED ON THE DEBENTURE BALANCE AND DOES NOT INCLUDE ANY FUNDS THAT MAY BE IN THE ESCROW RESERVE ACCOUNT.

SOURCE: WALL STREET JOURNAL SOURCE DATE: MAY 22, 2007

THIS IS AN ESTIMATE ONLY AND IS NOT TO BE USED TO FORWARD ANY FUNDS TO PREPAY A LOAN.

* THIS AMOUNT DOES NOT INCLUDE ANY EXPENSES INCURRED AFTER THE ABOVE DATE.

IF WE CAN BE OF ANY FURTHER ASSISTANCE TO YOU, PLEASE DO NOT HESITATE TO CALL CUSTOMER SERVICE AT 800-225-4285.

Prepaying a 503 loan

Calculating a 503 prepayment estimate amount

Table 10-2: Calculating a 503 Prepayment Estimate	
Process	Formula
Step 1	$V_n = \frac{1}{(1 + i/2)^n}$
Step 2	$A_n = \frac{1 - V_n}{i/2}$
Step 3	$P = \frac{S \times A_n + S}{1 + (r/365 \times i)}$
Steps 1 – 3 determine the present value of the income stream	
Step 4	$(ri / 365 \times if \times F)$

What does each part of the formula mean?	Where is the Information Found?
V_n = Outcome of calculation in Step 1	Outcome of calculation in Step 1
i = Treasury new issue rate. Enter this number as a decimal.	<i>Wall Street Journal</i> : look for Treasury Bond/Note Yield for comparable maturity month/year.
n = Number of full semi-annual periods remaining to maturity of the debenture	CDC provides information.
A_n = Outcome of calculation in Step 2.	Outcome of calculation in Step 2.
P = Net Price to be established (present value of the income stream).	The result of prepayment calculation.
S = Dollar amount of a semi-annual payment.	<i>Debenture Amortization Schedule</i>
r = Number of calendar days from the date of prepayment to the next interest payment date.	CDC provides information.
ri = Number of calendar days from the date of prepayment to the prepayment date.	You will have to figure this. r + ri must equal the actual days in the semi-annual period. This will be between 181 and 184 days.
if = Face rate of the debenture. Enter this number as a decimal.	<i>Debenture Amortization Schedule</i>
F = Outstanding principal amount of the debenture.	<i>Debenture Amortization Schedule</i>

Prepaying a 503 loan

Example of calculating a 503 prepayment estimate

F = principal outstanding – debenture	\$86,827.65
S = semi-annual payment	\$ 7,642.34
issue date	May 5, 1986
prepayment date	June 10, 2003
if = debenture interest rate	.086770
i = Treasury new issue rate	.053196
(In this example the Treas. rate is LOWER than the debenture interest rate, resulting in a penalty owed. If the Treas. Rate is HIGHER than the debenture interest rate, the prepayment amount would be discounted.)	
n = semi-annual payments remaining	14
r = number of days from the date of prepayment to the next interest payment date	144
ri = number of days from the last payment date to the prepayment date	40

Process	Formula	Example Using Formula
Step 1	$V_n = \frac{1}{(1 + i/2)^n}$	$V_n = \frac{1}{(1 + .053196 / 2)^{14}} = 0.674518386364212466$
Step 2	$A_n = \frac{1 - V_n}{i / 2}$	$A_n = \frac{1 - 0.674518386364212466}{.053196 / 2} = 12.2370709690874327$
Step 3	$P = \frac{S \times A_n + S}{1 + (r / 365 \times i)}$	$P = \frac{7,642.34 \times 12.2370709690874327 + 7,642.34}{1 + (144 / 365 \times .053196)} = 99,082.76$
Step 4	$(ri / 365 \times if \times F)$	$(40 / 365 \times .086770 \times 86,827.65) = 825.65$

Totals

Total Due	\$ 99,082.76
Accrued Interest Due	- \$ 825.65
Remaining Principal Balance on Debenture	- \$ 86,827.65
Premium (Discount) Due	\$ 11,429.46

Prepaying a 503 loan

Prepayment timing for a 503 loan

Timetable	Process Stages of Prepayment timing for a 503 loan
30 days before the prepay date	Borrower gives the CDC written notice of the intent to prepay
15 calendar days before the prepay date	CDC sends documentation for prepayment to COLSON
The afternoon of the business day before the prepay date	<ul style="list-style-type: none"> • COLSON sends faxes or emails to the CDC with the required prepayment amount • CDC notifies the borrower of the amount of money to be wired to prepay
503 prepay date <i>(Jan thru Oct: 2nd or 4th Thursday of the prepay month. Nov & Dec: 1st or 3rd Thursday of the prepay month.)</i>	Borrower wires prepayment monies by 12 Noon Eastern Time

Note: The **good faith deposit is no longer required** effective February 4, 2008, as per SBA Notice 5000-1047.

If **prepayment monies are not received** by the prepay date deadline of 12 noon Eastern Time the prepayment will be cancelled and the deposit will be forfeited.

Prepaying a 503 loan

What happens after the prepayment monies are received?

What COLSON will do

1. Reconcile the account to make certain the correct amount of monies were received.
2. Transfer funds to the Federal Financing Bank.
3. Notify SBA Central Office, the appropriate SBA CLSC, the SBA accounting department and the CDC that the loan has been prepaid.
4. Change the borrower's status to "prepaid" on the COLSON web site reports. (Also, the borrower name will no longer appear on the hard copy reports.)

What SBA Central Office will do

It will mark the debenture "Paid in Full" and send it to the CLSC.

What the SBA CLSC will do

1. Agree to release the collateral providing that either the debenture marked "Paid in Full" has been received or the PMQD05 screen for the prepaid loans shows PIF next to the SBA status.
2. Mark the *503 Note* "Paid in Full" and send it the CDC, which then forwards it to the borrower.
3. Previously the CLSC signed the collateral release documents and sent them to the CDC. Now SBA has given CDCs the authority to sign the release documents.

What the CDC needs to do

1. Inform the borrower to expect a refund after the prepayment. The refund is a result of interest that has accrued from the first of the month in which the borrower has prepaid until the prepayment date.
2. Notify the bank where the monthly payments have been debited that the borrower has prepaid the loan and ask that the bank revoke the authorization for any future debits.
Remember: Prepayment does not automatically remove the borrower from the ACH program. **The CDC must notify the borrower's bank to revoke the authorization.**
3. Prepare and execute collateral release document(s) to release liens on collateral taken as security for the 503 loan.

Reports specific to 503 loans

Individual Borrower Activity Report

COLSON SERVICES CORP. 503 ESCROW RESERVE ACCOUNT INDIVIDUAL BORROWER ACTIVITY REPORT FOR THE PERIOD OF xx/xx/xx THRU xx/xx/xx				
NAME OF BORROWER			LOAN NO: xxxxxxxxx	
STREET ADDRESS OF BORROWER			TAX ID: xxx-xx-xxxx	
CITY, STATE, ZIP CODE OF BORROWER				
DATE	DESCRIPTION	WITHDRAWALS	DEPOSITS	BALANCE
01-01	OPENING BALANCE			Balance in this account at start of calendar year
01-02	PAYMENT RECEIVED		Monthly Principal Monthly Interest Any difference due to a decline in servicing fees	Prior month's balance plus deposit
01-03	INTEREST ACCRUAL		Interest accruing on account for the previous month is listed under deposit column	Prior month's balance plus interest accrued for the month. Total interest accrued for the Calendar Year is reported to the IRS.
02-01	SEMI-ANNUAL DEBENTURE	Semi-annual debenture payment to Federal Financing Bank listed under withdrawal column		
03-31	CLOSING BALANCE			The balance in the account at the end of the statement period.
Text at the bottom of the page will give the interest rate each month and explain unusual circumstances that may have occurred on the account				

Reports specific to 503 loans

Individual Borrower Activity Report

Deposits

Within 48 hours of receiving a monthly payment, and after payment of servicing fees and late fees, the balance is entered into the borrower's escrow reserve account. The principal payment, interest payment, and any difference due to a decline in payment of servicing fees to the CSA and CDC are deposited. This is part of the "Deposit" on the *Individual Borrower Activity Report* and is listed as a "Difference to Escrow Account" in the *Application of Funds Report*.

Withdrawals

1. **Semi-Annual.** Withdrawals from the escrow reserve account are to make the semi-annual debenture payment to the Federal Financing Bank and are noted in the column "Withdrawals" on the *Individual Borrower Activity Report*.
2. **Other.** Other interest withdrawals that can occur from the borrower's account are:
 - a. **Withdrawal of interest earned.** At the borrower's request, and with SBA approval, interest earned on the 503 escrow reserve account may be released to meet Federal income tax liability on the escrow reserve account if there is no shortage in the account and all monthly payments are current. The borrower makes the request through the CDC to the CLSC at least 45 days prior to the borrower's filing of Federal income tax returns and must be for a minimum of \$100.
 - b. **Back-up withholding required by the IRS.** 32% back-up withholding of interest earned on the borrower's escrow reserve account will be withdrawn automatically each month and sent to the IRS under the following circumstances:
 - 1) If a 503 borrower has not completed and returned an IRS Form W-9 to COLSON; or
 - 2) If the CSA is notified by the IRS that the taxpayer identification number is not correct (the name and taxpayer identification number must match exactly); or
 - 3) If COLSON is notified by the IRS to withdraw backup withholding and send it to IRS.

The amount withheld and sent to the IRS will be shown on the *Individual Borrower Activity Report* for each month that withholding occurs. The total amount withheld for the year will also be included on all non-exempt borrowers' IRS Forms 1099-INT.

Reports specific to 503 loans

Example 4th quarter Individual Borrower Activity Report

COLSON SERVICES CORP.
503 ESCROW RESERVE ACCOUNT
INDIVIDUAL BORROWER ACTIVITY REPORT
FOR THE PERIOD OF 01/01/03 THRU 12/31/03

JOE DOAKES INC
123 MAIN STREET
PODUNK CITY, VA, 12345

LOAN NO: 1234567890
TAX ID: 987-65-4321

DATE	DESCRIPTION	WITHDRAWALS	DEPOSITS	BALANCE
01-01	PENDING BALANCE			10,235.20
01-03	PAYMENT RECEIVED		1,787.22	12,022.42
01-31	INTEREST ACCRUAL		113.92	12,136.34
02-01	SEMI-ANN DEBENTURE	10,723.29		1,413.05
02-02	PAYMENT RECEIVED		1,787.22	3,200.27
01-31	INTEREST ACCRUAL		49.65	3,249.92
03-02	PAYMENT RECEIVED		1,787.22	5,037.14
03-31	INTEREST ACCRUAL		67.53	5,104.67
04-03	PAYMENT RECEIVED		1,787.22	6,891.89
04-30	INTEREST ACCRUAL		75.99	6,967.88
05-02	PAYMENT RECEIVED		1,787.22	8,755.10
05-31	INTEREST ACCRUAL		137.34	8,892.44
06-30	INTEREST ACCRUAL		173.36	9,065.80
07-30	INTEREST ACCRUAL		116.92	9,182.72
08-01	SEMI-ANN DEBENTURE	9,182.72		0.00
08-02	PAYMENT RECEIVED		1,787.22	1,787.22
08-20	SEMI-ANN DEBENTURE	1,540.57		246.65
08-30	INTEREST ACCRUAL		1.50	248.15
09-02	PAYMENT RECEIVED		1,787.22	2,035.37
09-30	INTEREST ACCRUAL		5.53	2,040.90
10-03	PAYMENT RECEIVED		1,787.22	3,828.12
10-31	INTEREST ACCRUAL		9.83	3,837.95
11-02	PAYMENT RECEIVED		1,787.22	5,625.17
11-30	INTEREST ACCRUAL		13.27	5,638.44
12-02	PAYMENT RECEIVED		1,787.22	7,425.66
12-31	INTEREST ACCRUAL		17.76	7,443.42
12-31	CLOSING BALANCE			7,443.42

THE INTEREST ACCRUED IS YOUR PROPORTIONATE SHARE OF THE INTEREST EARNED ON THE 503 DEPOSIT ACCOUNT. THE NET AVERAGE ANNUALIZED YIELD BY MONTH:

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
4.80	4.88	4.97	4.97	5.11	5.38	5.16	5.43	5.39	5.40	5.49	5.51

YOUR 2003 YEAR TO DATE INTEREST ACCRUED IS: 782.60 (reported to the IRS on 1099 as interest income for non-exempt borrowers)

IF YOU HAVE ANY QUESTIONS ABOUT THIS ACTIVITY REPORT PLEASE CALL:
CDC NO: 01-001 BEST CDC AT 800-123-4567

Reports specific to 503 loans

Example 4th quarter Individual Borrower Activity Report

Explanation of this example 4th quarter report

The 503 borrower and CDC each receive this report quarterly. The report is sent the week of the 15th of the month following the end of the quarter. The CDC receives one report per 503 borrower. Each report is cumulative for the calendar year. The fourth quarter report shows all activity in the account for the full calendar year. It shows the total interest accrued that COLSON reports to the IRS on the 1099-INT.

This example 4th quarter report shows account activity on a specific 503 loan. If a borrower is paying as agreed, the report shows five monthly payments being deposited, with increasing interest accrual as a result of those deposits. The sixth monthly payment does not show as a deposit. The next line will show the withdrawal of the semi-annual debenture payment. The following line will show the deposit of the 6th payment of the semi-annual cycle being deposited. The transactions are listed in this order because the debenture payment is withdrawn on the first and the monthly payment is posted on the second business day of the month.

In this example:

1. The borrower did not pay in June and July – the “Description” states interest accrual only for these two months.
2. The semi-annual payment was due in August. The entire amount in the escrow reserve account was applied to the semi-annual payment. However, this was not adequate to cover the full semi-annual payment.
3. When the borrower made a payment of \$1,787.22 that was received August 2, the portion needed to complete the semi-annual payment was withdrawn (\$1,540.57), leaving a balance of \$256.65 in the borrower’s account.
4. This example shows that interest in the account may be used as part of the monies to make the semi-annual payment to the Federal Financing Bank when the borrower fails to make a payment.

Remember to always review the “Description” column carefully

This column specifies the account activity. If the line entry reads “Guarantee Repayment” this means that SBA had to advance the monies for the semi-annual debenture payment.

Reports specific to 503 loans

IRS Form 1099-INT

9292 VOID CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112 2004 Form 1099-INT	Interest Income
PAYER'S Federal identification number	RECIPIENT'S identification number	1 Interest income not included in box 3		Copy A For
RECIPIENT'S name		2 Early withdrawal penalty	3 Interest on U.S. Savings Bonds	<i>Internal Revenue Service Center File with Form 1096.</i>
Street address (including apt. no.)		4 Federal income tax withheld	5 Investment expenses	For Privacy Act and Paperwork Reduction Act Notice, see the
City, state, and ZIP code		6 Foreign tax paid \$	7 Foreign country or U.S. possession	2004 General Instructions for Forms 1099, 1098 5498, and W-2G
Account number (optional)	2 nd TIN not. <input type="checkbox"/>			

Form 1099-INT

Cat. No. 14410K

Department of the Treasury – Internal Revenue Service

Do Not Cut or Separate Forms on this Page - Do Not Cut or Separate Forms on this Page

This IRS form applies to non-exempt 504 borrowers and 503 borrowers only and shows the interest income the 503 borrower has earned on the escrow reserve account for the previous calendar year. COLSON is required by the IRS to report any interest income earned to IRS.

- COLSON is listed as the payer and provides its phone number, address and Federal identification number.
- The “Recipient” information is taken from IRS Form W-9 and provides the borrower name, address and identification number.
- The interest income amount is the interest earned and can be found on Box 1 of the *Individual Borrower Activity Report* for 503 loans.
- If there is a number other than “0.00” in box 4, it means that COLSON was instructed by the IRS to withhold funds for back-up withholding. See the *Individual Borrower Activity Report* in this chapter for a discussion on back-up withholding.
- Non-exempt 503 borrowers will receive IRS Form 1099-INT that will be sent no later than January 31st for the previous calendar year.
- Borrowers with questions should contact the CDC and not COLSON.

Reports specific to 503 loans

1099 Worksheet

(FSBSEL03)						
COLSON SERVICES CORP. 503/504 LOAN PROGRAM – 2003 1099 WORKSHEET						
TALLY	LOAN ID	BORROWER NAME REPORTED	TIN NUMBER	INTEREST EARNED	INTEREST WITHHELD	INTEREST FLAG
	1234563004	ROBERT A & JAMIE BASSET	12345678	0.00	0.00	Y
	1234563005	WEST REALTY ASSOC	23456789	310.39		
	1234563001	SAM W TATTER AND ROBERT	34567899	1,426.47	15.43	Y
	1234553008	THOMAS A BECKET	45678099	2,668.27		
	1234578301	J.A.G. REPAIRS	56789099	544.45		
	1248653009	GAMBLE, JAMES	67890123	0.00	0.00	
	1251233002	MASTERS, NATION	22233344	1,370.46		

This 1099 Worksheet is sent annually to each CDC that has 503 loans in its portfolio and is to assist the CDC in answering questions that its borrowers may have about IRS Form 1099-INT, or the reporting of interest earned. This report mailed to the CDC and is available on the COLSON web site on or about January 31.

- The loan ID is the SBA loan number.
- The taxpayer ID number is for the name is from the IRS Form W-9.
- The total interest earned is for the prior calendar year on the 503 loan.
- The amount reported can also be found on the *Individual Borrower Activity Report*.
- The “Y” denotes a “non-exempt” borrower and the information will be reported to the IRS.

Servicing actions unique to 503 loans

Assumptions and borrower bankruptcy

Assumptions

Don't forget about the escrow reserve account when reviewing a request for assumption of a 503 loan by an unrelated third party. **This account belongs to the LOAN**, not the borrower. You may need to remind the borrower of this if you do not see reference to it in the agreement between the existing borrower and the assumptor.

Since the escrow reserve account belongs to the loan, it needs to be transferred to the assumptor when the loan is assumed. A new IRS Form W-9 must be completed by the assumptor to allow COLSON to report the interest income earned on this account annually for the balance of the life of the 503 loan and the mortgage interest paid each year.

The CDC must inform Colson what portion of the interest earned should be reported under the original borrower's name and number and what portion under the assumptor's (i.e. interest from January 1 to April 15 for original borrower, remainder to assumptor.)

Borrower bankruptcy

Unlike 504 loans, SBA agreements do not require SBA to purchase the 503 debenture under specified circumstances. When the borrower has filed a petition in bankruptcy, it may be important the SBA purchase the debenture quickly so that SBA's "proof of claim" can include the premium or discount amount. If there is a discount, the SBA will pass on any discounts it receives to borrowers in liquidation only after any loan deficiencies are paid in full.

In the case of chapter 11 bankruptcy, a 327-action recommending purchase of the 503 debenture should **NOT** be sent to the SBA CLSC until one of the following has occurred:

1. The bankruptcy has been dismissed.
2. The bankruptcy has been converted.
3. It is clearly evident from the plan that there will **NOT** be a full recovery for SBA.