

# 6

## *Borrower Payment Procedures*

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## **ACH payments**

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### *Understanding ACH payments*

#### **What is ACH?**

ACH (Automated Clearinghouse) service is the automatic withdrawal of the monthly loan payments from a bank account chosen by the borrower.

#### **Is there a charge to the borrower for ACH withdrawal (debit)?**

No. It is paid by COLSON.

#### **Can any bank account be used for debiting monthly payments?**

If the borrower is not using a regular checking account for his/her monthly ACH payments, you need to check with the bank to see if the type of account the borrower wants to use can be debited through ACH.

#### **Must a Borrower use ACH?**

Yes. Borrowers are to use ACH unless some specific circumstances warrant a need to wire payments. Borrowers are not permitted to make monthly payments by check without written approval.

#### **Why should the borrower be on ACH for the first 504 Loan payment?**

If the borrower is not on ACH for the 504 Loan first payment, the payment will need to be wired by the borrower. The borrower's bank will charge the borrower a fee to do this. The CDC will have to monitor the COLSON web site, [www.colsonservices.com](http://www.colsonservices.com), to insure that the correct payment is received by COLSON.

#### **May borrowers wire all monthly loan payments?**

Only if the CDC sends a written request to COLSON on behalf of the borrower requesting permission to wire all monthly loan payments. Keep in mind the borrower's bank will charge your borrower a fee to do this each month. The cost is a policy of the borrower's bank and will vary. The cost to wire is the responsibility of the borrower. It is also the CDC's responsibility to monitor the COLSON web site every month to insure that the correct payment is received by COLSON.

## **ACH payments**

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### *Understanding ACH payments*

#### **Can a borrower's account be debited more than once a month?**

No. Only one debit per account per month can be processed and this can occur only on the first business day of the month.

#### **Can more than one monthly payment be debited at the same time?**

Normally, only one monthly payment as specified in the *Servicing Agent Agreement* can be debited at one time.

Under certain conditions, like deferments, catch-up plans and other special circumstances, arrangements are made with the borrower to accommodate irregular payments. These arrangements require the approval and signature of the borrower before irregular payments can be debited.

#### **How can a CDC obtain information on all loans in a CDC's portfolio not on ACH?**

Colson has added a link to the CDCOnline website entitled [\*Loans with no ACH bank\*](#).

Go to:

<https://www.colsonservices.com/cdconline/cdcloginscreen.html>

Enter your CDC log-in information and select Loans with no ACH bank.

## **ACH payments**

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### *Helping a new borrower with ACH*

Here's how you can help insure that the borrower's first payment is properly debited.

#### **Step 1**

Remind the borrower that COLSON Services Corp. is the Central Servicing Agent for the 504 loan program. COLSON will collect the monthly payments for the CDC. The borrower's bank statement will show COLSON Services Corp. and/or The Bank of New York.

Here's what happens to set up the ACH account for automatic debit.

- Send the completed and signed ACH form and a copy of the voided check directly to COLSON in time to meet the pre-note deadline before the debenture funding.
- COLSON will "pre-note" the borrower's account on the first business day after the 15<sup>th</sup> of the month **prior** to debiting the account.
- The "pre-note" will be for the amount of \$0.00.
- The purpose of the "pre-note" is to test the ACH process to check the accuracy of the information on the ACH form.
- The "pre-note" also allows the bank where the borrower has the account for 504 loan payments to verify that the borrower has authorized COLSON to automatically debit the borrower's account.

#### **Step 2**

Send the bank a cover letter explaining what will occur and when. Attach a copy of the ACH Debit form signed by the borrower for the bank's files. This will allow a third party proof of accuracy. Keep in mind that you'll probably be sending this letter to the department of the bank that handles wire transfers of money. It is likely that this is a different banker than the commercial loan officer with whom you've been working. It may even be a different bank from the Third Party Lender or Interim Lender in the 504 project.

#### **Step 3**

Verify that the borrower is on ACH. To do this, go to the COLSON web site or call COLSON. It is not standard procedure for COLSON to notify the CDC that the ACH is operational for a new borrower. COLSON will only contact the CDC if there is a problem.

## **ACH payments**

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*Helping a new borrower with ACH*

### **Step 3** (continued)

You may send the ACH Debit form and voided check well in advance of a debenture sale with the instructions to “hold for \_\_\_(date)\_\_\_” (the date of the funding). COLSON will hold the form and pre-note with other loans scheduled to fund on that date.

### **Step 4**

The account to be debited must have available (collected) funds as of the close of business on the last business day of the month.

## **ACH payments**

### *Sample letter to the bank for ACH debit*

#### ***The CDC Letterhead***

Date

Name of Bank  
Street Address of Bank  
City, State, Zip Code

Attn: ACH Department

Re: ACH Debit for (Name on the Account)

We have an SBA 504 Loan with (Name of Borrower). His/Her monthly payments will be debited from this account.

This is to advise you that:

1. This account will be pre-noted the first business day after the 15<sup>th</sup> of this month by The Bank of New York, New York as a depository for COLSON, the Central Servicing Agent for the 504 Loan Program. The pre-note amount will be \$0.00.

We ask your cooperation in processing this pre-note. We pre-note to help insure accuracy of the information on the ACH form given to us by our borrower.

2. This account will be debited the first business day of each month for the monthly payment on the SBA 504 Loan beginning (Month the payments begin).

If there are problems, or if you have questions and would like to discuss this further, please call us.

Sincerely,

*CDC Executive Director*

Attach: Signed ACH Debit Authorization

## **ACH payments**

### *Timing of the ACH debit cycle*

| <b>Table 6-1: ACH Debit Cycle Timing</b>                            |  |
|---|--|
| <b>Timing of ACH Debit Cycle</b>                                    | <b>Monthly Debit Activity</b>  |
| <b>Three (3) days before the last business day of the month</b>     | COLSON sends debit requests to The Bank of New York.<br>No further changes can be accepted by COLSON |
| <b>Last business day of the month</b>                               | The Bank of New York sends debit request to the borrower's bank.                                     |
| <b>Last business day by the close of business</b>                   | "Good funds" required in borrower's bank account   |
| <b>First business day</b>   | Borrower's payment is due.   |
| <b>Second business day through the 15<sup>th</sup> business day</b> | Most reject notices received by COLSON   |

#### **Three (3) days prior to the last business day of the month**

COLSON activates the ACH debit process by sending an electronic file to its depository bank to initiate the ACH transactions. Since COLSON is not a bank, it cannot directly debit bank accounts of borrowers. COLSON must use a depository bank to do this.

#### **Last business day of the month**

The Bank of New York electronically sends its debit request to the borrower's bank. This allows the borrower's bank one day to arrange the debit transaction.

Most banks require "good funds" as of the close of business on the last business day of the month for debits on the first business day of the month. "Good funds" mean any checks deposited by the borrower to cover the amount of the monthly payment must clear by the last business day of the month.

#### **First business day of the month**

This is the day the borrower's payment is due. Most banks usually perform the debit as the first transaction of the day immediately after midnight. "First business day" means that if the first of the month falls on a Saturday, Sunday or holiday, the account is debited the first workday following the Saturday, Sunday or holiday.

## **ACH payments**

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### *Timing of the ACH debit cycle and ACH rejects*

#### **Second business day of the month**

COLSON begins receiving notification of ACH rejects. Notification of rejects by e-mail will continue until the end of the month. **You should be aware that under what some banks deem “special circumstances,” they have up to 60 days to reject a debited payment.**

ACH will generally notify COLSON of changes in the routing number, bank account numbers and sometimes corrections. However, it will not notify COLSON of all changes. For instance it will not notify COLSON if there has been a change in bank names.

#### **What is an ACH reject?**

A reject occurs when COLSON’s depository bank attempts to debit the borrower’s monthly payment and it is not successful.

#### **Why does an ACH reject occur?**

Examples or reasons an ACH reject may occur:

- Insufficient funds in the borrower’s account
- Check(s) the borrower deposited in the account has/have not cleared
- The type of account does not qualify for ACH
- There were administrative errors in the information and the bank failed to pre-note for \$0.00 prior to the debenture funding
- The borrower changed bank accounts and failed to tell the CDC
- The bank was bought out or merged with another bank and corrections were not made to ACH
- The account was closed by the borrower or the bank
- The borrower notified the bank not to honor the ACH debit (authorization for debit revoked by the borrower)

- The borrower stops payment

## **ACH payments**

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### *ACH rejects*

#### **Who is notified if an ACH payment rejects?**

COLSON will notify the CDC by e-mail and provide a downloadable report on CDC Online. The CDC must contact the borrower and follow up to make certain the monthly payment the borrower owes is wired by the 15<sup>th</sup> of the month.

#### **When is the CDC notified of an ACH payment reject?**

Colson does not automatically call a CDC to notify them of an ACH reject. Colson sends an e-mail notification of ACH rejects and have a downloadable report available on CDC Online. However, COLSON may also call a CDC within 48 hours of being notified that a payment by ACH debit has rejected. COLSON will follow up the phone call with a standard form letter or email notifying the CDC that a borrower's payment has rejected. Colson is moving toward an automatic ACH rejection notification and will provide an update when this feature has been activated. CDCs can access ACH rejects reports using CDCOnline.

#### **When does Colson find out about ACH rejects?**

Currently, COLSON receives notification of rejected ACH payments from borrowers' banks up to the end of each month. This means that the borrower's bank must inform The Bank of New York of the reject by the end of the month. This will be replaced by an automatic notification system at a later date.

If a reject occurs after the end of the month, COLSON will work with the CDC and the borrower's bank to honor the reject if the funds are still available. Otherwise, the borrower's bank is liable for the funds. In these situations, keep in mind

- The borrower still owes the late fees.
- Problems can occur if the reject occurs on a semi-annual payment date.
- The CDC may not be aware of the delinquency in a timely manner because the borrower's name is not on the late reports.

**What is the CDC's responsibility if a borrower's ACH payment rejects?**

The CDC must notify the borrower of the ACH reject and the borrower that payment must be sent by wire transfer by the 15<sup>th</sup> of the month. If monies are not received by close of business on the 15<sup>th</sup>, the borrower is subject to any late fee specified in the borrower's *503 Note* or *504 Note*. The wiring instructions to give to the borrower for wiring his/her monthly payments are found later in this section.

**Can COLSON re-debit the borrower's account if his/her ACH payment rejects?**

No. SBA only permits one debit per month.

**ACH payments**

*ACH rejects and required and optional removal from ACH*

**Can the borrower send a check for the 504 Loan monthly payment if the ACH rejects?**

No. Checks are not accepted for regular monthly payments where the ACH debit was rejected.

**Can the borrower send payments directly to The Bank of New York, New York?**

No. Only a wire transfer will be accepted.

**Can the borrower send payments via ACH credit?**

No.

**Can a borrower send payments via Pay.gov?**

Not on a current loan. If the debenture has been repurchased, the borrower can make payments through pay.gov.

**When MUST a borrower be removed from ACH?**

The borrower will be automatically removed from ACH under the following circumstances when:

- The borrower revokes authorization for the debit.
- The bank account is closed.
- The borrower stops the payment.

- There is an assumption of a 503 or 504 loan. If the loan is assumed, a new ACH form for the assumptor must be sent to COLSON in time for the pre-note test for ACH accuracy.

### **When is it OPTIONAL for a borrower to be removed from ACH?**

The borrower may be removed from ACH under the following circumstances when:

- The borrower shows a pattern of ACH rejects. In this situation the borrower must be removed from the ACH program when there are two (2) consecutive rejects or if the borrower shows a pattern of rejects (e.g., every other payment) because of insufficient funds in the borrower's account.

## **ACH payments**

### *Optional removal from ACH and reinstatement into ACH*

- The payment rejects due to no fault of the borrower. In this situation COLSON will not remove the borrower from the ACH program and will work with the CDC to resolve the problem.

### **What happens when a borrower is removed from the ACH program?**

Colson does not call a CDC if they have sent an ACH e-mail. The chart emailed indicates ("Y" if an ACH is being deleted. COLSON will notify the CDC of its intent to remove the borrower from the ACH program. In some instances, COLSON may also call the CDC and follow up with a standard form letter or email to the CDC within 48 hours of notification of the removal.

### **How is a borrower reinstated into the ACH program?**

The borrower must complete a new ACH debit authorization form and the CDC must send the form with a voided check from the account to COLSON for reinstatement.

If the borrower was removed from the ACH program because of a pattern of ACH rejects, before the borrower can be reinstated, the CDC must provide COLSON with evidence that the payment problem(s) have been resolved.

Note: If the borrower stopped the payment or revoked COLSON's authority to debit the account, the bank normally will not honor a new debit form unless the borrower specifically contacts the bank.

## **ACH payments**

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### *Changes to ACH*

#### **Changes, corrections, additions or deletions to ACH information**

Any changes in information from what was originally submitted on the ACH form at the time of closing must be sent to COLSON on a new ACH form. The new ACH form, signed by the borrower, must be received at COLSON by the 15<sup>th</sup> of the month in order to become effective for the borrower's ACH debit payment the first business day of the following month.

It is not COLSON's policy to notify the CDC that changes are in effect unless the CDC asks COLSON that it be notified. The CDC may do one of the following:

- Request confirmation from COLSON in the CDC's letter requesting the change.
- Call COLSON to confirm a change.
- Check COLSON's web site, [www.colsonservices.com](http://www.colsonservices.com), for verification of the change. Changes to the ACH debit information will not appear until after the bi-monthly update on the 16<sup>th</sup> of the month.

#### **When is a new ACH form required?**

The CDC must send a new form if any of the following occur:

- The authorization to debit funds from the account is revoked by either the borrower or the bank.
- The borrower stops payment.
- The bank account is closed.
- The bank or the account changes.
- Any change is made to the account name.
- Any difference in information from the existing ACH form on file at COLSON.
- When a 503/504 loan is assumed, a new ACH form for the assumptor must be received by COLSON in time to pre-note for the withdrawal of the assumptor's first payment. In other words, the new ACH form, signed by the assumptor, must be received at COLSON by the 15<sup>th</sup> of the month in order to become effective for the assumptor's ACH debit payment the first business day of the following month.

## **ACH payments**

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### *Changes to ACH*

#### **Is a new ACH form required if COLSON is notified directly of a change by the bank?**

No. When COLSON is notified of a change directly by the bank where the debit is being made, COLSON will automatically change the information.

Keep in mind that only certain changes are reported to COLSON through the ACH system. These changes are in the routing number, bank account numbers and sometimes corrections. Not all banks will report changes.

## **Wiring payments**

### *How to wire payments to COLSON*

#### **Wiring payments to COLSON**

Wire payments are made through the Federal Wire System to The Bank of New York, New York. Be aware that not all banks are members of the Federal Reserve System. Therefore, not all banks can be wired funds through the Federal Wire System. The bank may need to go through a Correspondent Bank that is a member of the Federal Reserve System. If this is the case, the borrower and CDC should verify that the wire payment was received.

#### **For 504 Loans**

##### **Wiring Instructions for ACH Payments – 504 Loans**

The Bank of New York, New York

ABA Routing #: **021000018**

SBA Loan Identification # (10 digit number):

Borrower Name: \_\_\_\_\_

For credit to **Colson Services Corp. – 504 Deposit ACH**

For 504 Loan A/C #: **8900606762**

**Payments must be received by the 15<sup>th</sup> of the month or late fees will be assessed.**

#### **For 503 Loans**

##### **Wiring Instructions for ACH Payments – 503 Loans**

The Bank of New York, New York

ABA Routing #: **021000018**

SBA Loan Identification # (10 digit number):

Borrower Name: \_\_\_\_\_

For credit to **Colson Services Corp. – 503 Deposit ACH**

For 503 Loan A/C #: **8900606770**

**Payments must be received by the 15<sup>th</sup> of the month or late fees will be assessed.**

#### **When can wired funds be applied?**

The day funds are received. However, because of delays related to the various time zones, the number of wire payments that are processed that day or other Federal Wire System processing procedures, COLSON may not be informed of wire payments received for the 503/504 loans until after the close of business. Therefore, **PLEASE** encourage the borrower to wire prior to the 15<sup>th</sup> to assure that no applicable late fees get charged because of delays in the receipt of funds. Also, if the account name and number, and/or the 504 Loan number are missing, the application of payment could be delayed or the wire payment returned. If this happens the borrower will be assessed a late fee.

## **Sending Checks**

### *Special circumstances for accepting checks*

#### **What is SBA’s policy on accepting checks as a form of payment?**

- Checks are not accepted for regular monthly payments.
- Checks may be accepted under special circumstances if approved by SBA in writing.
- If a borrower owes a late fee or an amount over the regular monthly payment amount because of accruals, COLSON will accept a payment by check for the accrual amount or late fee amount only, but not the monthly payment.
- If a loan is delinquent, COLSON will accept a check payment.

#### **What information needs to be on the check?**

- Checks are made payable to COLSON Services Corp.
- The 10-digit SBA Loan Number should be written on the check.

|                                 |  |               |
|---------------------------------|--|---------------|
| Name of Account                 | _____  | 101           |
| Address                         | _____ 20 _____                               |               |
| Pay to the                      |  |               |
| Order of                        | <b><u>COLSON Services Corp</u></b>           | \$ _____      |
|                                 |  | _____ Dollars |
| <i>Small Business Bank</i>      |  |               |
| <i>City, State, Zip Code</i>    |  |               |
| For:                            | <b>SBA Loan Number:</b> <input type="text"/> | _____         |
| I: 123456789 I: 9912345678 0101 |  |               |

#### **What if the check rejects?**

- COLSON policy is to call the CDC, then mail the check and rejection notice with a standard form letter to the CDC within 48 hours of receipt of the returned check.
- COLSON may require bank checks (also called “teller’s checks” or “counter checks”) or certified checks from borrowers that have had a check payment reject.

## **Post-debenture purchase payments through pay.gov**

CDCOnline Assists CDCs Track Post Debenture Purchase Payments

### **How Colson Services Interacts with Pay.gov**

Borrowers can now remit post debenture purchase payments to SBA electronically using an account debit or credit card. Colson Services Corporation receives a direct data feed from the SBA Denver Office on post-debenture purchase payments and provides this information to CDC on the CDCOnline website.

**Pay.gov is a secure web portal has been established with the US Treasury at: <https://www.pay.gov>** . Pay.gov is convenient, easy, and available 7 days a week - 24 hours a day. The site accommodates remittance of payments and associated data electronically to federal agencies.

Borrowers can remit funds and data on a one-time basis, or can they can sign up as a registered user (click on the link: “Should I Register?” to obtain a User ID and password). Becoming a Register User will provide borrowers with a payment history for all Pay.gov transactions sent to SBA.

Details on the Pay.gov registration screen interface are provided below:

### **➔ REGISTERED USER – Frequent Users**

**“Should I Register?”** – This option is available for users choosing to sign up and obtain a User ID and password for future use. Benefits of using this option are:

- 1) Selected form will be pre-populated with your name or company and address.
- 2) Ability to schedule future payments.
- 3) Setup and cancel reoccurring payments.
- 4) Ability to cancel a scheduled payment that is to be processed in the future.
- 5) System maintains a list of previously saved and/or transmitted forms for easier research.

After you “Login” to the “User Center” area you are able to locate and select the form to make your payment. To select a form follow these simple instructions:

- 1) Select “**Find Public Form**” (Search available for both Registered and Non-Registered Users)
  - a. Search and locate the appropriate form “By Agency” or “By Form Name” or “By Advanced Search”.
  - b. Scroll down through the list to locate the 1201 Borrower Payment form.
  - c. The selected form will pre-populate your name or company name and address.
- 2) Complete the required information on the form and transmit your payment.
  - a. Print and keep a copy of the confirmation for your records or type in your e-mail addresses and have Pay.gov send you a confirmation.
- 4) To schedule another payment, select and complete a new form.
- 5) To view a list of previously transmitted payments by form, select “Submitted Forms”.

### **➔ NON-REGISTERED USER (One-time User)**

Using one of the non-registered methods to access the SBA Payment forms to schedule a payment has the following restrictions:

- 1) One-time payment per session.

- 2) Any information entered into a form will not be available if you need to make more than one payment. Information must be re-typed for each form that is needed to make another payment.
- 3) Multiple payments can be made one at a time by re-selecting the form from the “Find Public Forms” option.
- 4) Pay.gov generated confirmation of your payment can only be either printed online or received via your email address.

**“Frequently Used Forms”** – Select “SBA Payments” (Borrower and Lender Payments).

- 1) Select “1201 Borrower Payments”

**Processing Questions** – contact Pay.gov, Customer Service at 1-800-624-1373 Option 2

**Payment Questions** – contact SBA, DFCActionDesk at 1-800-260-4806 Option 1