

- (c) The borrower may prepay at any time, but calculations will include all monthly payments scheduled up to and including the one due on the semi-annual payment date.

2. Documentation Required for the Prepayment.

a. CDC's 8 calendar day notice for prepayment.

The CDC must schedule the debenture prepayment with the CSA at least 8 calendar days prior to the requested prepayment date. The prepayment may be scheduled online in the 504 prepayment section of the CSA's website (www.colsonservices.com) or via fax by Work-up Request Form or letter from CDC.

b. The request letter.

If scheduled by letter, the CDC's letter must include:

(1) Identification of the debenture.

This includes the type (503 or 504), date of issue, face amount, debenture interest rate, and maturity date.

(2) Prepayment date.

The CDC must identify the date by which the borrower plans to make the prepayment.

- (c) A borrower may prepay a 503 debenture only on the 2nd or 4th Thursday of the month, except, during November and December, when the prepayment is on the 1st or 3rd Thursday.

- (d) A borrower may prepay a 504 loan at any time. However, the debenture can only be prepaid on the 3rd Thursday of the month before its semi-annual payment date.

(3) Statement whether there is an outstanding deferment or delinquency.

If SBA advanced (paid) part or all of a semi-annual installment on behalf of the borrower, the amount shown as due on the debenture will be less than the amount that the borrower owes on the note.

(4) Contact person.

Name and telephone numbers (fax and voice) of the person handling the transaction for the CDC.

c. Corporate resolution.

- (1) The CDC must prepare and retain in its loan file a corporate resolution authorizing debenture prepayment. The resolution submitted must contain wording approved by the SBA. No changes are allowed.
- (2) The resolution is not required for SBA-serviced loans.

d. Full compliance necessary.

The CDC must obtain all required documentation before submitting the letter request to the CSA. With SBA's approval, the CSA has the authority to waive the 8 calendar day notice requirement, but a waiver will be considered only in rare and extraordinary circumstances. In any event, the CDC must comply with the requirements of the prepayment procedural steps, in paragraph 3, "Prepayment Procedural Steps."

3. Prepayment Procedural Steps.

The CDC must ensure compliance with the requirements of the preceding paragraph. The references to CDC for this paragraph also refer to SBA if the loan is SBA serviced.

a. Prepayment estimates and/or scheduling prepayment.

- (1) Prepayment may be scheduled and/or prepayment estimates obtained via the CSA's website (www.colsonservices.com), or
- (2) The CDC may send by facsimile transmission, a "Workup Request Form," (see Appendix 24) to the CSA to schedule prepayment or for receipt of the prepayment estimate. The CSA will send the estimate to the CDC.

b. Notice to CSA.

- (1) The CDC must submit a memo to the CSA, stating that it has completed the prepayment requirements.
- (2) The CDC must prepare a corporate resolution authorizing the prepayment and retain the original in the loan file. A copy does not need to be sent to the CSA.
- (3) The CDC may submit this notification by facsimile transmission or via the CSA's website (www.colsonservices.com).
- (4) The CDC must submit this notification to the CSA for their receipt at least 8 calendar days prior to the prospective prepayment date.

c. Debenture prepayment rescheduling or cancellation.

- (1) The CDC must provide written notice to the CSA for any loan that will not prepay as scheduled.
- (2) If the debenture prepayment is to be rescheduled in the future the CDC must again follow the prepayment procedural steps as outlined above in paragraphs 3.a. and 3.b.

d. Prepayment price determination and notification.

- (1) For 503 debentures, on the day before the scheduled prepayment date, CSA will notify the CDC by facsimile transmission of the official prepayment amount.
- (2) For 504 debentures, on the day after scheduling the prepayment the CDC may retrieve the prepayment amount via the CSA's website so long as it's after the 6th business day of the month of prepayment.
- (3) The CDC must notify the borrower or the borrower's designated agent.

e. Escrow account funds.

For 503 debentures, the CSA automatically applies the reserve/escrow funds to the prepayment.

f. Prepayment funds transfer.

- (1) The borrower must wire to the CSA funds equal to the quoted prepayment amount.
- (2) The CSA will not accept checks. The borrower must not send funds to the SBA.
- (3) For 503 debentures, the borrower must wire the funds by noon (Eastern Time) on the prepayment date.
- (4) For 504 debentures, the borrower must wire the funds by noon (Eastern Time) no later than the third Thursday of the month.
- (5) Timeliness is Critical.
 - (a) The CSA must receive the correct payment by the date and time specified above. If the payment is not timely, the CSA will terminate the transaction and the CDC must reschedule.
 - (b) For 503 debentures, it will be necessary to obtain a new prepayment amount from the FFB.

- (c) For 504 debentures, it may be necessary to revise the quote based on the next semi-annual debenture payment.
- (d) In either case, additional funds may be required to close the transaction and complete the prepayment at a later date.

4. Release of Debenture and Note.

- a. SBA will release the note and collateral after the CDC completes the prepayment and SBA receives from the CSA confirmation of the receipt of funds.

Do not wait for the PMQD screen to show "PIF."

- b. For 503 debentures, the SBA will return the canceled debenture to the CDC.
- c. For 504 debentures, the debenture trustee will return the debenture after the next semi-annual date.

5. Alternatives to Prepayment of Debentures.

- a. In the normal course of operations, businesses and properties are bought and sold. A borrower who sells his/her business or property may have sufficient funds to prepay the debenture but may not wish to endure the economic hardship or financial disadvantage of the prepayment premium.

The CDC and SBA, in an effort to assist the borrower, may consider alternatives to prepayment.

(1) Sale and assumption.

See chapter 5.

(2) Substitution of collateral.

See chapter 5.

(3) Cash escrow account.

- (a) For 503 debentures, SBA may permit the borrower to sell the facility and place sufficient cash in escrow to ensure that the 503 loan will be paid in a timely manner or to prepay the loan.
- (b) If a cash escrow account is established from the sale of assets, you should transfer loan servicing to SBA, unless the CDC continues to service the loan for sale of other assets.
- (c) The cash escrow account must be established at the CSA.

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