



## CHICAGO BULL

(3-20-2016, CHICAGO TITLE NC BLAWG)

### **SBA Loan Payoffs: What is a Closing Attorney to do?**

When closing commercial transactions, the closing attorney is frequently presented with prepaying/paying off an existing loan originated by the Small Business Administration (SBA). There are two different types of loans originated by the SBA—the SBA 504 loan and the SBA 503 loan. The payoff process is different than any other bank loan and requires the closing attorney to read the payoff conditions *carefully*.

For the prepayment/payoff of a SBA 504 loan, partial prepayments are not accepted. They do allow assumptions as an alternative. Prepayment/payoffs are only accepted on the 3rd Thursday of each month.

SBA 503 loans can be prepaid/paid off only on the 2nd and 4th Thursdays of any month, except November and December when loans can be prepaid only on the 1st and 3rd Thursdays of any month due to holidays.

For the payoff of both a SBA 504 loan and a SBA 503 loan:

- 45 day written notice of prepayment is required.
- A \$1,000 good faith deposit via wire transfer is required to lock in the prepayment date and is not refundable if the loan is not paid off.
- The deposit is due 10 business days prior to the scheduled pre-payment date.
- All deposits and payoffs must be made by wire transfer.
- Prepayment premiums may apply.

As a result of the unique payoff conditions, depending on the closing schedule, the closing attorney should collect and hold the funds until they can be remitted, and a holdback agreement should be acknowledged by all principals. The seller must acknowledge interest will be collected thru the date the payoff funds may be remitted. The buyer must acknowledge the lien will remain of record until the payoff funds are allowed to be remitted. After closing, the closing attorney must be sure to calendar and follow up that the payoff is made on time.

So PLAN AHEAD AND READ THOSE PAYOFF INSTRUCTIONS VERY, VERY CAREFULLY!  
Then be sure to CALENDAR AND FOLLOW UP!

Happy Closings!

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