Benefits of SBA Lending: A Win-Win for Everyone

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Benefits of SBA Lending: A Win-Win for Everyone

Presented by:

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ACKNOWLEDGMENT

We would like to thank Mary Wamsley and Jessica Hart for their time and providing information regarding their experience in lending and working on SBA loans from their perspective. All opinions, conclusions, and/or recommendations expressed herein are those of the presenter(s) and do not necessarily reflect the views of the SBA.

Presenter Background

- Mary Wamsley
  - President and CEO, Strategic Banking Partners
  - Over 30 years in Commercial banking and lending and 20 years concentrated in SBA Lending
- Jessica Hart
  - Senior Vice President, Strategic Banking Partners
  - Over 14 years in banking and lending and 6 years concentrated in SBA

Overview

- Why use SBA?
- Identifying a potential SBA Borrower
- Overcoming Borrower objections
- How SBA Lending can benefit your Bank?
- Making the process quick and efficient (it can be done!)

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Why Use SBA??!??

- SBA's purpose is to help businesses with a reasonable chance of succeeding obtain access to capital on reasonable terms.
- The SBA guaranty helps mitigate the risk of a loan you wouldn't do conventionally.
- SBA is not in the business of encouraging banks to make bad loans.

Remember: *"SBA will not make a bad loan good, but will make a good loan possible".*

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SBA allows You to be Flexible

- Terms – SBA programs provide flexibility
  - SBA loans can be approved with a longer maturity than you may do conventionally
- Equity
  - Lower equity injection requirements
  - Additional Sources
- Collateral
  - **Lack of collateral is not a reason to decline a loan.**

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How to Identify a Potential SBA Borrower

- Businesses in need of financial assistance to:
  - Fund Start-Up operations
  - Grow/Expand
  - Purchase an existing business
  - Purchase equipment
  - Refinance an "Evergreen" line of credit

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Clues that should trigger "SBA" during the conversation

- Start-up business
- Currently short on cash
- Riskier industries
- Lack of collateral
- Longer repayment term required
- Loan amount too large for your lending institution

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Overcoming Borrower Objections

- A couple of the top objections from a Borrower:
  - SBA Loans are way too expensive!
  - The process takes way too long, I need the money now!
- Response to those objections:
  - Fees aren't that bad and they can be financed!
  - SBA is continuously working on improving efficiencies
  - Lower cash injection requirement
  - Longer term
  - Reasonable Interest rate
  - Has the Borrower been able to obtain financing elsewhere?

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Borrower Benefits - Example

Working Capital	Conventional Loan with 0% Guaranty	SBA Loan with 75% Guaranty
Borrower Loan Amount	$500,000	$500,000
Bank Origination Fee (1%)	$5,000	Not allowed
SBA Packaging Fee Paid	N/A	$2,500
Closing Costs (UCC Searches, filing, title etc.)	$4,150	$4,150
SBA Guaranty Fees: (3%)	N/A	$11,250
Total Costs to the Borrower	$9,150 (sum of Origination Fee & Closing Costs)	$17,900 (sum of Packaging Fee, Closing Costs & Guaranty Fee)
Loan Term	5 years	10 years
Borrower Principal (avg. over one year)	$7,195.30	$2,943.70
Borrower Interest (avg. over one year)	$2,471.10	$2,607.33
Borrower Payment	$9,666.40	$5,551.03

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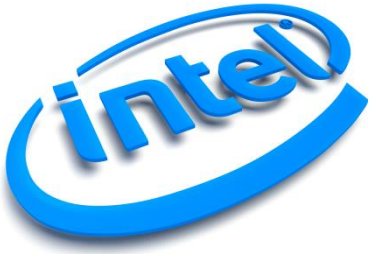
Did you know…



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Bank Benefits
What's in it for Us?

- Increase Loan Portfolio
- Increase Profitability
- Broaden Customer Base and Build Loyalty
- Cross-sell Opportunities
- SBA Loans provide CRA benefits to participating lending institutions
- Decrease reserves and increase capital
- Generate Fee Income

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Possible Bank Objections

SBA loans are too risky!

Those fees are way too high!

I don't know how to do SBA Loans.

The process is horrible!

Don't I need specialized software?

I'd have to spend a lot of money hiring SBA Experts to originate and process the loans

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Bank Benefits - Example

	Conventional Loan	SBA Loan	SBA Loan Sold in Secondary Market
Loan Amount (Total $)	$500,000	$2,000,000	$2,000,000
Number of Loans	1	4	4
Guaranty Portion	-0-	75%	75%
Bank Amount Held	$500,000	$500,000	$500,000
Fees			
Origination Fee	$5,000	Not Allowed	Not Allowed
Interest Income (6%)	$30,000	$120,000	$30,000
Premium (10%)	-0-	-0-	$135,000
Servicing Fee Income	-0-	-0-	$15,000
Total Income (Year 1)	**$35,000**	**$120,000**	**$180,000**
Expenses			
Cost of Funds (1.5%)	$7,500	$30,000	$7,500
SBA Servicing Fee (Colson)	N/A	$8,250 (avg.)	-0-
Conv. Servicing Fee (.6%)	$3,000	-0-	-0-
Total Expenses (Year 1)	**$10,500**	**$38,250**	**$7,500**
Net Revenue Year 1	**$24,500**	**$81,750**	**$172,500**

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Explanation - Bank Benefits Table

- Bank Loan – $500,000 loan amount
  - Number of loans for the SBA columns are 4 because with the 75% guaranty on a $500,000 loan, you can make 4 of those totaling $2,000,000 while only the guaranteed portion is counted against your capital

- Fees
  - SBA does not allow any upfront fees to be charged to the Borrower by the Lender
  - Interest Income is based on 6.0% interest rate, typically floating, adjusting quarterly with the WSJ Prime Rate
  - Expenses – COF is an estimate of the bank's COF and the SBA Servicing Fee is the ongoing SBA fee paid monthly through Colson Services.

Keys to Getting an Approval Quickly & Efficiently

- Eligibility
- Detailed Credit Memo
- Keep your Borrower informed
- Know what you need from the Borrower and ask for it upfront.
- How do you know what to request?

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Required Information

- Things to ask for at the beginning of the process:
  - Background of borrower and Principals
  - Detail of their loan request
  - Financial Information
  - Collateral Detail
  - Equity Injection
  - Other?

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Keys to a Quick and Swift Closing

- Arm yourself with the right resources:
  - SBA Loan Authorization
  - SBA Experienced Attorney
  - Third Party Vendor or Service Provider
- Outline the responsibilities of each party involved, for example:
  - Closing Attorney to prepare documents
  - Borrower to obtain any last minute documents needed
  - Account officer or other designated party to assist with the closing process
- Keep your Borrower informed at all times!
- Maintain a checklist

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The Voice of REASON

- RISK – SBA loans can carry more risk
  - SBA Loans have a higher default rate than conventional loans
  - SBA expects the Lender to follow the Agency's Standard Operating Procedures to maintain program integrity and partner compliance
    - Origination SOP: **SOP 50 10 5 (H)** (Current version)
    - Servicing SOP: **SOP 50 57 2** (Current version)
  - Lenders are expected to take a first lien on all available collateral*
  - Lender must complete detailed credit analysis of the borrower and request to ensure they are following "Prudent Lending Standards".

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Questions?

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Or contact your local LRS – www.sba.gov

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