

# Benefits of SBA Lending: A Win-Win for Everyone

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**Strategic Banking Partners  
Presents**

# **Benefits of SBA Lending: A Win-Win for Everyone**

*Presented by:*

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**Jessica Hart, Vice President, Strategic Banking Partners**

# 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.



*U.S. Small Business Administration*

# Overview

- Why Utilize SBA?
- How SBA Lending can benefit your Bank?
- How to identify a potential SBA Borrower?
- Selling the SBA loan to your Borrower.
- How to overcome Borrower objections?
- Selling the SBA loan to your Loan Committee or Board.
- How to process and close SBA loans quickly and efficiently (it can be done!)?

# Why Use SBA??!??

- SBA's purpose is to help businesses with a reasonable chance of succeeding, access capital on reasonable terms.
- The guaranty can help mitigate the risk of a loan you wouldn't do conventionally for reasons like:
  - Collateral Shortage\*, Longer repayment need, start-up, etc.
- 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".



# 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

# 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
<b>Fees</b>			
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
<b>Total Income (Year 1)</b>	<b>\$35,000</b>	<b>\$120,000</b>	<b>\$180,000</b>
<b>Expenses</b>			
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-
<b>Total Expenses (Year 1)</b>	<b>\$10,500</b>	<b>\$38,250</b>	<b>\$7,500</b>
<b>Net Revenue Year 1</b>	<b>\$24,500</b>	<b>\$81,750</b>	<b>\$172,500</b>

# Bank Benefits Table Explanation

- 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.

# SBA allows you to be flexible

- Terms – SBA programs provide flexibility
  - Working Capital loans typically have a 10 year term
  - 25 year terms are possible for real estate transactions
  - What does a longer term mean for a borrower or lender?
- Equity
  - Down Payment and Equity requirements can be less than a standard conventional loan (range 5% - 25%)
  - Additional sources can be considered
- Collateral
  - Lack of collateral is not a reason to decline a loan.

# How to Identify a Potential SBA Borrower

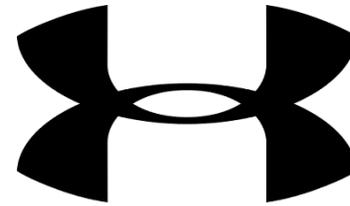
- Businesses in need of financial assistance to:
  - Fund Start-Up operations
  - Grow/Expand
  - Purchase an existing business
  - Buy out a partner
  - Purchase equipment
  - Fund receivables or inventory to assist with the cash flow cycle.
  - Refinance an “Evergreen” line of credit

# Clues that should trigger “SBA” during the conversation

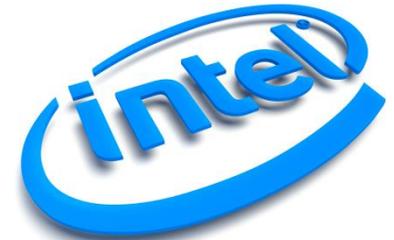
- Start-up business
- Currently short on cash to provide a normal down payment/equity injection
- Riskier industries (Gas Station, start-up, any others?)
- Reliance on projections (due to start up nature of the business or historic uneven revenue and/or profits)
- Lack of collateral to fully secure the loan
- Longer repayment term needed
- Loan amount too large for your lending institution



Did you know...



UNDER ARMOUR



# What's in it for them?

## Selling the SBA Loan to your Borrower

- Reasonable Interest Rate (Variable or Fixed)
- Lower equity injection requirement
- Allows for longer loan terms which helps with:
  - Cash Flow
  - Lower monthly payments
- Has the borrower been able to obtain financing at reasonable terms?
- What about processing times, program fees, etc.?

# Borrower Benefits - Example

<b>Working Capital</b>	<b>Conventional Loan with 0% Guaranty</b>	<b>SBA Loan with 75% Guaranty</b>
Borrower Loan Amount	\$500,000	\$500,000
Borrower's Closing Fees (these can be rolled into the loan)	\$9,150 (sum of Origination Fee & Closing Costs)	\$16,900 (sum of Packaging Fee, Closing Costs & Guaranty Fee)
Bank Origination Fee (1%)	\$5,000	Not allowed
SBA Packaging Fee Paid		\$2,500
Closing Costs (UCC Searches, filing, etc.)	\$4,150	\$4,150
SBA Guaranty Fees: (3%)	-0-	\$11,250
Loan Term	5 years	10 years
Borrower Principal (avg. over one year)	\$7,501.61	\$3,251.76
Borrower Interest (avg. over one year)	\$2,341.68	\$2,503.54
Borrower Payment	\$9,843.29	\$5,755.30

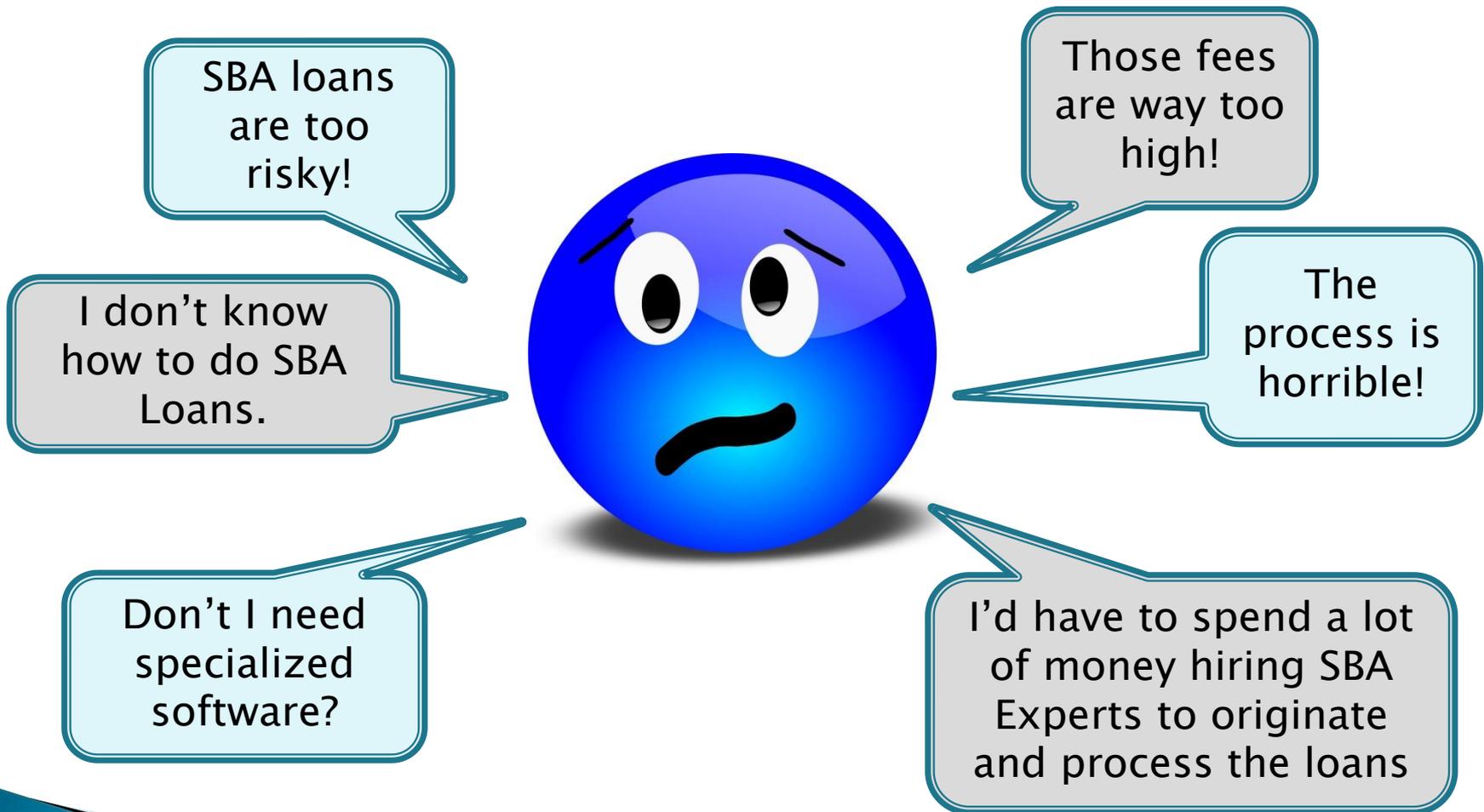
# Overcoming Borrower Objections

- A couple of the top objections from a Borrower:
  - SBA Loans are way too expensive!
  - The process takes way too long, I don't have time to waste!
- What now?
  - Fees – they really aren't that bad
  - Process – SBA continues to improve their process to make it quick and efficient (seriously!)

# Selling the SBA Loan to your Credit Committee or Board

- “SBA Loans are too high of a risk for us!”
  
- Bank Benefits help mitigate the risks
  - Increase Income Opportunities
  - Mitigate risk
  - Expand your lending footprint
  - Produce additional avenues

# Possible Bank Objections



# 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?

# Required Information

➤ Things to ask for at the beginning of the process:

- Background of borrower and Principals
- Detail of their loan request
- Financial Information for the Borrower, Principals, Guarantors, and Affiliates, as applicable.
- Collateral Detail
- Equity Injection
- Other?

# Required Information (cont.)

## ➤ Additional Information to Gather

- Debt Schedule
- Purchase Contracts
- Lease Agreements
- Tax Transcripts\*
  - When do you need to order?
  - What to do when you get them?
- Corporate Documents
  - Can't I get these at closing?

# 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

# 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**
  - 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”.

# Questions?



**Thank You!**

# Contact Information

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