

Selling SBA Loans in the Secondary Market

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U.S. Small Business Administration

Selling SBA Loans in the Secondary Market

Presented by:

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U.S. Small Business Administration

ACKNOWLEDGMENT

We would like to thank Michelle Shadix and Gary Griffin 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.

Participants looking for SBA Pool Assemblers/Broker Dealers are free to choose from any of their choice.

QUESTIONS

This presentation is meant to be interactive so please type in your question to Rick as we proceed and we will address it as we go along!

TYPES OF LOANS

7(a) Guaranteed loan

504 Loan

WHAT IS A BROKER/DEALER?

- A person or firm in the business of buying and selling securities
- Registered with the SEC, FINRA, major exchanges, and states in which business is conducted

BENEFITS OF SELLING

- Increase Return on Capital
- Increase Non-Interest Income
- Continue Earning Interest on Unguaranteed
- Servicing Asset
- You Service the Loan (maintain customer contact)

SBA 7(A) POOLED LOAN STATISTICS

2016	\$4.7B (as of August)
2015	\$6.3B
2014	\$5.8B
2013	\$4.0B
2012	\$4.3B

******Out of \$25B pooled in the past 5 years, only 14% total was monthly adjustable. The balance was calendar quarterly with a few fixed rate pools.******

COMMON LOAN STRUCTURE

POOLABLE

- Real Estate loans – 25 year final maturities tied to Prime calendar quarterly adjust
- Business Acquisition/Equipment loans – 10 year final maturities tied to Prime calendar quarterly adjust
- Working Capital/Equipment loans – 7 year final maturities tied to Prime calendar quarterly adjust

TRADED INDIVIDUALLY

- Adjustable - Annual, 3 year, 5 year
- Fixed for term
- Floating rate loans with odd maturities, floors/caps, and/or loan sizes

COMPONENTS OF GAIN ON SALE

- FASB 166 (1.00% Rule)
- Premium Income
- Deferred Gain – Fair Value of Unguaranteed Portion
- Capitalize Servicing Rights
- Interest Income on Unguaranteed

STANDARDIZED INFORMATION NEEDED TO BID

- Loan Name
- SBA Number
- Note and Maturity Dates
- Note Amount
- Current Balance
- Guaranty %
- Guaranteed Balance
- Current Interest Rate
- Margin
- Frequency of Adjustment
- Floors/Caps
- Pay Frequency
- City/State/Zip of Business
- NAICS Code

*****LOAN MUST BE FULLY DISBURSED IN ORDER TO SELL***

SETTLEMENT INFO/DELIVERY DOCS

- Original SBA Form 1086, completed and executed by lender (Copy provided with the PP)
- Certified Copy of Promissory Note & any modifications
- Wiring Instructions
- Complete package sent to Broker/Dealer via package delivery service
- Broker/Dealer reviews and sends to Colson Services
- Settlement *typically* occurs within 5 – 7 business days

1502 REPORTING / COLSON SERVICES

- Coupon (Rate) less 1% servicing passes through –
Guaranteed / sold portion only
- 2 lines on 1502 for 1 month after settlement occurs
- Future servicing needs all handled through Colson Services
- Any prepayments require 10 business day notification to
Colson

SBA 7(A) MARKET INDICATIONS

By Bob Coleman
Editor, Coleman Report

SBA 7(a) Secondary Market Quotes as of September 20, 2016

Maturity	Spread	Price
8 Years	P + 2.75	109.000
10 Years	P + 2.75	111.500
15 Years	P + 2.75	113.250
20 Years	P + 2.75	114.500
25 Years	P + 2.75	116.250

Source: Government Loan Solutions

PENDING LEGISLATION

- Continuing Resolution
- Current Cap is \$26.5B
- S. 2992 Small Business Lending Oversight Act of 2016
- Proposed retention of 15% of unguaranteed portion (you currently can sell/participate all but 5%)
- Split of premium over 108
- 0.03% or 3bps fee collected per loan approved
- Additional funds will be used for oversight of the program
- Administrator will have authority to increase annual allocation as long as we have a ZERO subsidy

504 LOANS

- Purchasers of whole loan
- Includes construction if desired
- Retain customer
- Long term fixed rates for borrowers
- Premium based on spreads to originating lender

MORGAN STANLEY RATE SHEET



SBA 504 First MORTGAGES with Morgan Stanley

Available in all 50 states

WHOLESALE LOAN PROGRAM PARAMETERS (In all 50 states)

- 25 year fully amortizing loans with rates fixed up to 25 years
- Direct table funding or loan purchases – 100% loan sale
- New and existing SBA-504 first mortgages
- Multi-purpose properties only (office, warehouse, industrial, retail, manufacturing, medical, dental, R&D)
- No special purpose: gas, hospitality, car wash, auto, care facilities, storage
- Real estate only with maximum 60% loan-to-value on first mortgage
- Minimum DSCR of 1.2 in last fiscal year and interim
- Operating company coverage min of 1.0 with additional tenant income to reach 1.2 is acceptable
- No personal or corporate bankruptcies or foreclosures
- Minimum personal FICO of 680
- Premiums based on index plus spread and prepay with max premium only dictated by first year of prepay

INTEREST RATE PAR SPREADS

INTEREST RATE INDEX	RESET FREQUENCY	SPREAD OVER INDEX
WSJ Prime Rate Index	Quarterly	-0-
90 Day LIBOR Swap Index	Quarterly	250 basis points
1 Year LIBOR Swap Index	Annually	250 basis points
3 Year LIBOR Swap Index	Every 3 Years	250 basis points
5 Year LIBOR Swap Index	Every 5 Years	250 basis points
10 Year LIBOR Swap Index	Fixed for 10, adjusts every 5 thereafter	250 basis points
10 Year LIBOR Swap Index	25 years fixed for life of loan	290 basis points

- Each 0.25% in rate above the par rate earns 1% in premium
- The initial rate will be the interest rate floor
- Increase par rate of .25% for loans in judicial foreclosure states of Florida, Indiana, Louisiana, Maine, New Jersey, Ohio, Oklahoma
- Par rates reduced by .25% for loans in **all states** that have Loan-to-Value of 40% or less
- Swap rates – <http://op.wsj.com/T1qrVtE>

PREMIUM OPTIONS PREPAYMENT PENALTY

PREPAYMENT PENALTY	QUARTERLY ADJUSTABLE	3 & 5 YR RESETS	10 YR & 25 YR FIXED
Declining 5%, 4%, 3%, 2%, 1%	1.00%	Minimum	Not Available
Flat 5% for first 5 Years	1.50%	.50%	Minimum
Declining 7%, 6%, 5%, 4%, 3%, 2%, 1%	1.75%	.75%	.25%
Flat 5% for years 1-6, declining 4%, 3%, 2%, 1% for years 7-10	2.00%	1.00%	.50%
Declining 10%, 9%, 8%, 7%, 6%, 5%, 4%, 3%, 2%, 1%	2.50%	1.50%	1.00%
Flat 10% for first 10 years	3.50%	2.50%	1.50%

- Borrower may make annual additional principal reductions without penalty up to 20% of the original note balance.
- The referring lender retains any origination fee. Note, Morgan Stanley will keep .50% to pay the SBA participation fee.
- Lenders who fund at least \$5 million in a calendar year will receive an annual volume incentive.
- The premium cannot exceed the first year's prepayment penalty %.
- A 365/360 rate accrual basis is required. The premium will be reduced by .50% if another basis is used.
- Minimum prepayment penalty of 5% flat for 5 years for loans in judicial foreclosure states of Florida, Indiana, Louisiana, Maine, New Jersey, Ohio, Oklahoma

FOR MORE INFORMATION CONTACT:

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SBA 504 1ST MORTGAGES

EX: 5 YR. FIXED RATE ON A \$5 MILLION 1ST MORTGAGE

5 Year Libor Index: 1.15% today

Par Spread: 250 basis pts over index

Par Rate: 3.65%

Increase rate: 50 basis points

Premium on rate: 2 points

Borrower Rate: 4.15%

Prepayment: 5/4/3/2/1

Premium on PPP: Par

Origination Fee: 1% to selling lender + .5% to SBA

Premium: 2%

Total Income 3% = \$150,000

SBA 504 1ST MORTGAGES

EX: 25 YR. FIXED RATE ON A \$5 MILLION 1ST MORTGAGE

10 Year Libor Index: 1.5% today

Par Spread: 290 basis pts over index

Par Rate: 4.4%

Increase rate: 25 basis points

Premium on rate: 1 point

Borrower Rate: 4.65%

Prepayment: 10/9/8/7/6/5/4/3/2/1

Premium on PPP: 1 point

Origination Fee: 1% to selling lender + .5% to SBA

Premium: 2%

Total Income 3% = \$150,000

Questions?



Contact Information

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Or contact your local LRS – www.sba.gov