

Coleman

2018

**SBA Lender
Benchmarking
Study**

**A View of SBA 7(a) & 504 Lending
Programs Indicators and Components**

**Coleman Publishing
28081 Marguerite Parkway #4525
Mission Viejo, CA 92690
www.colemanreport.com**

Executive Summary

There are many questions about the SBA 7(a) & 504 lending industry that are shared among professionals throughout training courses, conferences and webinars. How does your lending institution compare with other associations? What are the standard practices for BDO's, Underwriters, Closers, Servicers, Liquidators, and SBA Lending Department Managers? Are there case studies of best practices? What support should the Small Business Administration provide to the industry?

Because we know we can learn from our peers and one another, Coleman launched the first SBA Industry Benchmarking Study to explore these questions. The goal was to gather industry data on SBA lending programs thus providing lending institutions a resource for benchmarking to develop a body of knowledge for the government guaranteed

lending community. Coleman launched this project in January 2017 by collecting 211 polling questions and analyzing thousands of submitted questions from SBA 7(a) lenders. This report shares the benchmarking data. This report shares a series of in-depth case studies and interviews collected from webinar and training responses that delve beyond the numbers that we can all use to make effective decisions about SBA lending programs.

Bob Coleman, Founder & Editor, Coleman Report



How to Use This Report

The polling and analysis were designed to help SBA lending institutions benchmark against others to pinpoint effective industry best practices. This report provides detailed profiles of all facets of SBA lending, from sales and underwriting to servicing and liquidation, management to loan structure.

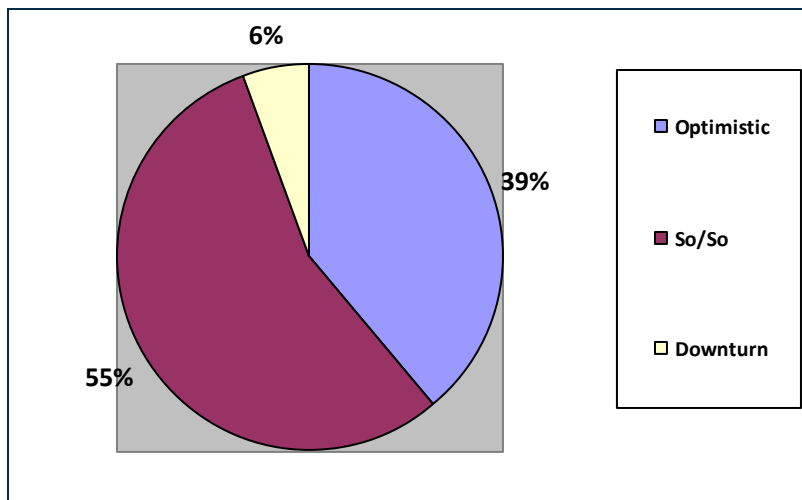
2018 Benchmarks

• Economy	4
• SBA One	8
• Credit Elsewhere	12
• Credit Memo	14
• Projections	16
• Equity Injection	18
• Cash Flow	25
• Collateral	29

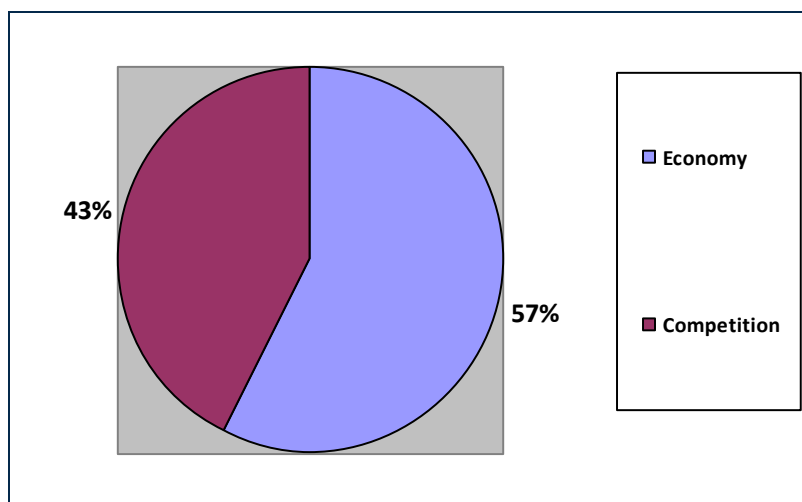
2018 Benchmark Economy

Economy

How Optimistic are you about the U.S Economy?

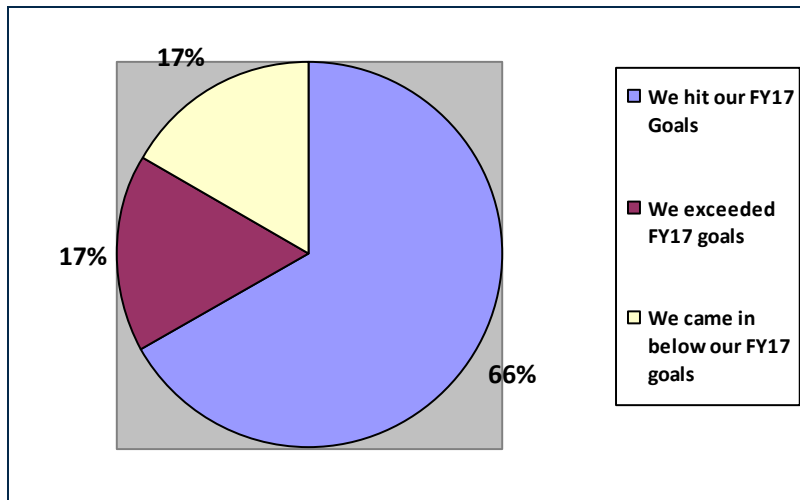


What is your biggest challenge in FY18?

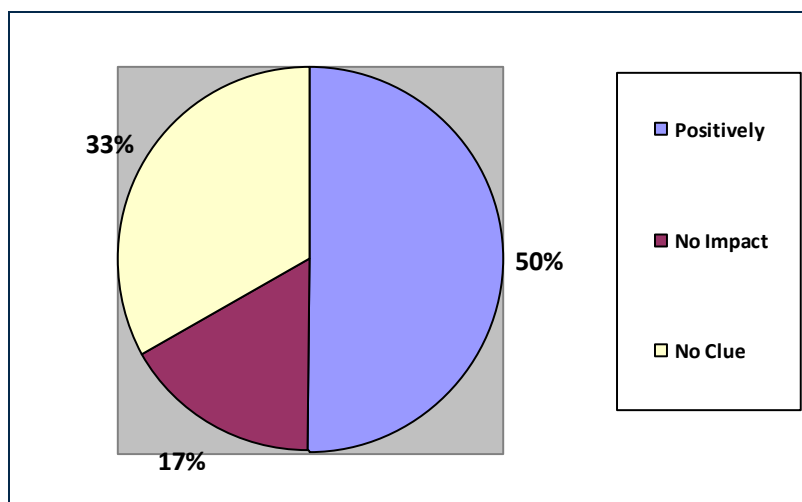


Economy

Did your company fulfill FY17 Goals?

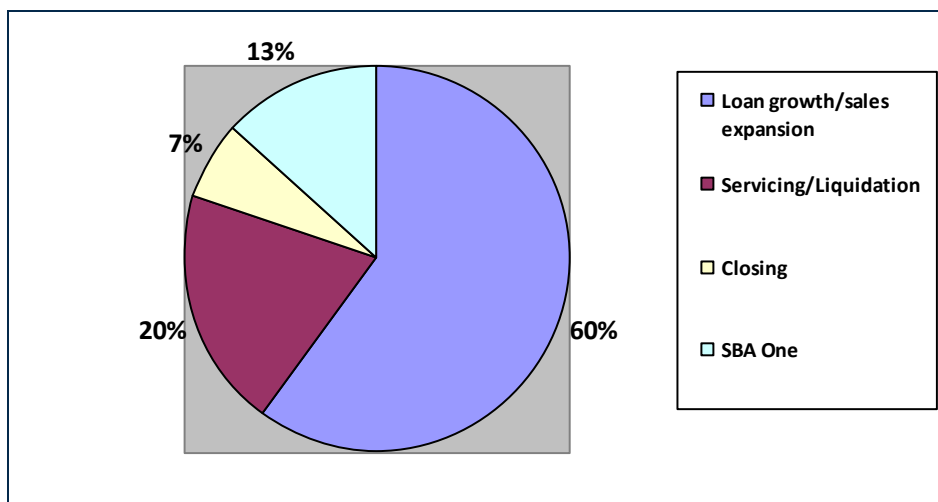


How will the tax cuts affect your customers?

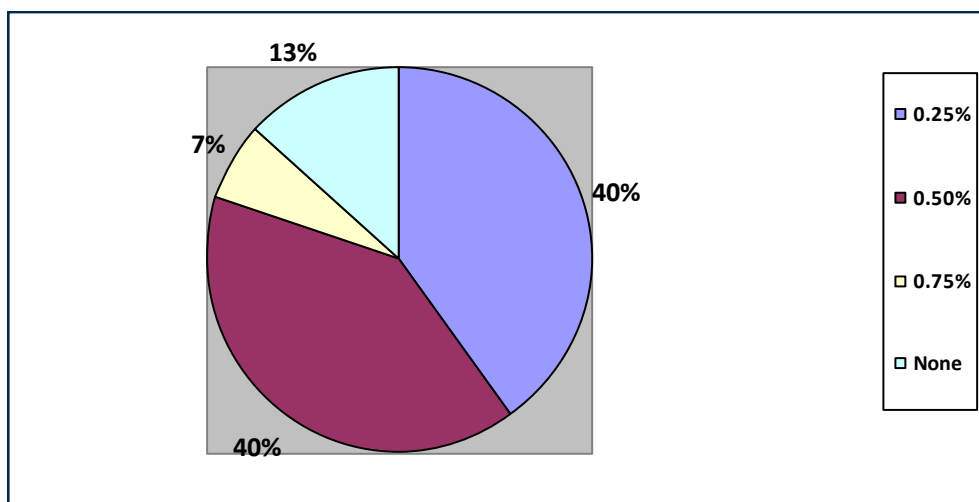


Economy

For FY18, what is the biggest challenge to your SBA loan department?



How much do you see Prime Increasing by FY18

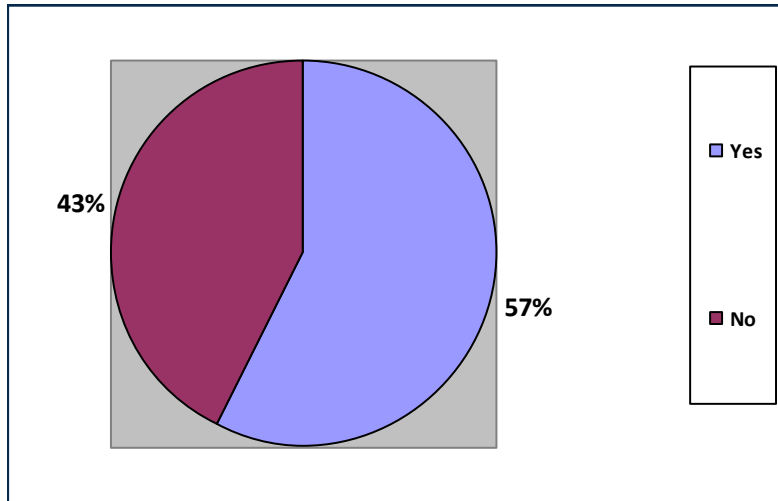


2018 Benchmark

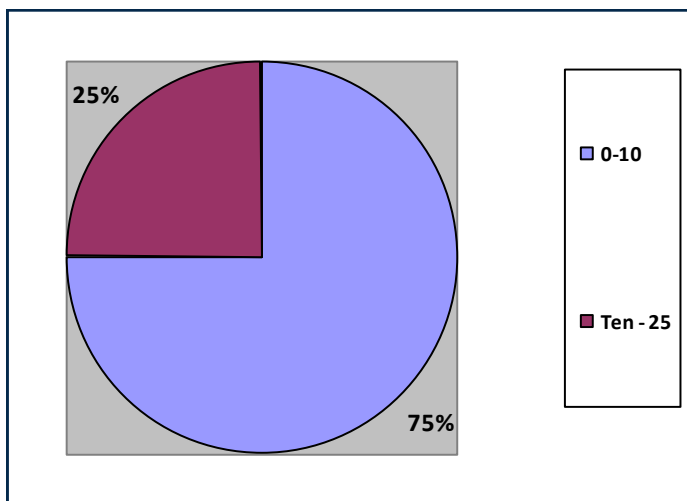
SBA One

SBA One

Is your institution set up on SBA One?

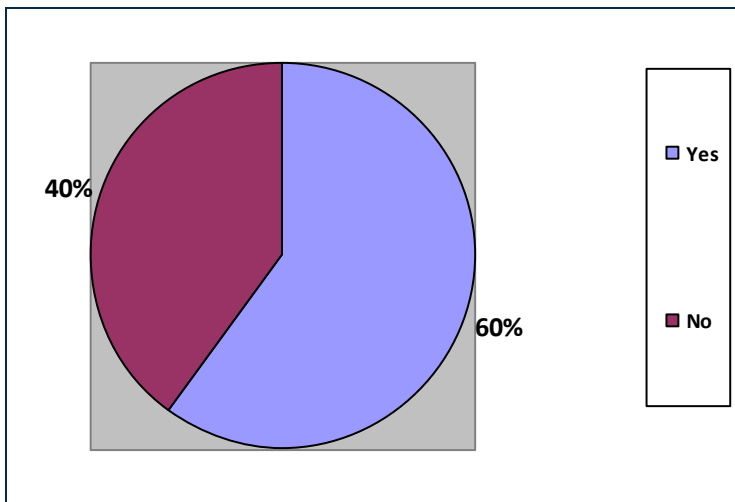


How many loans has your institution originated using SBA One?

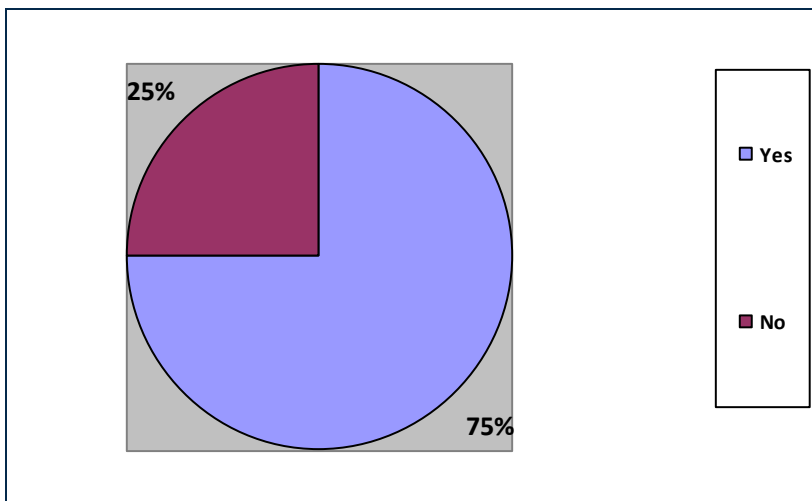


SBA One

When using SBA One to produce your closing documents, do you ever find areas of the note or guaranty that need revision?

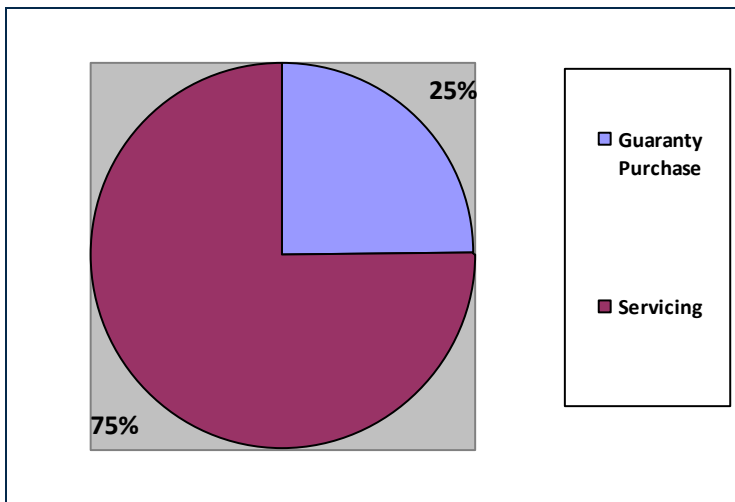


Have you ever had a loan that you are putting into SBA One, lock up and not let you continue?

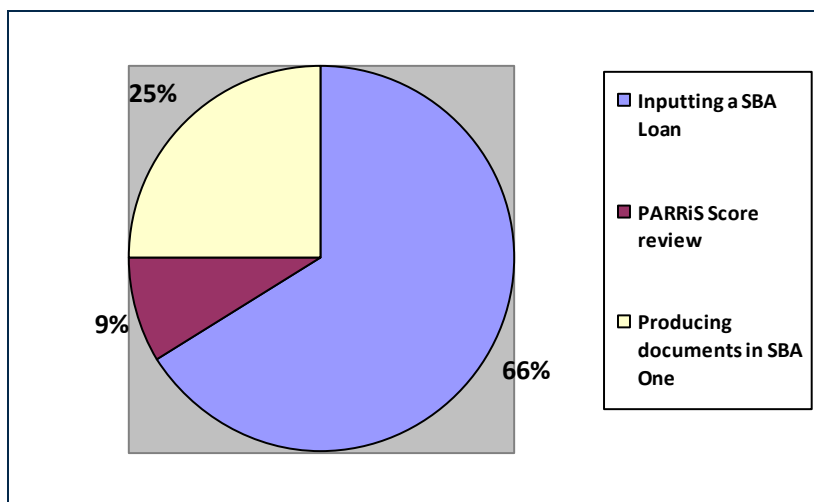


SBA One

Which new function of SBA One would you like to see implemented first?



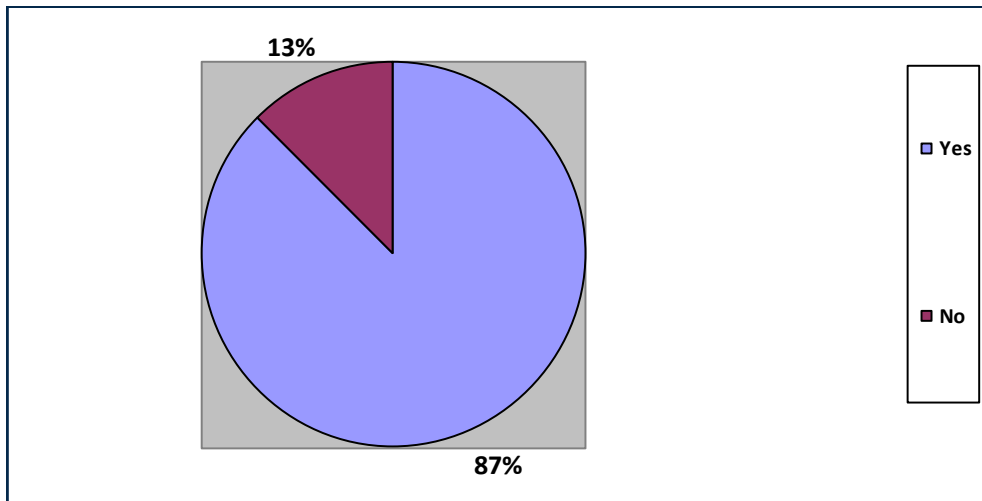
What is the most important area of training for SBA One for you?



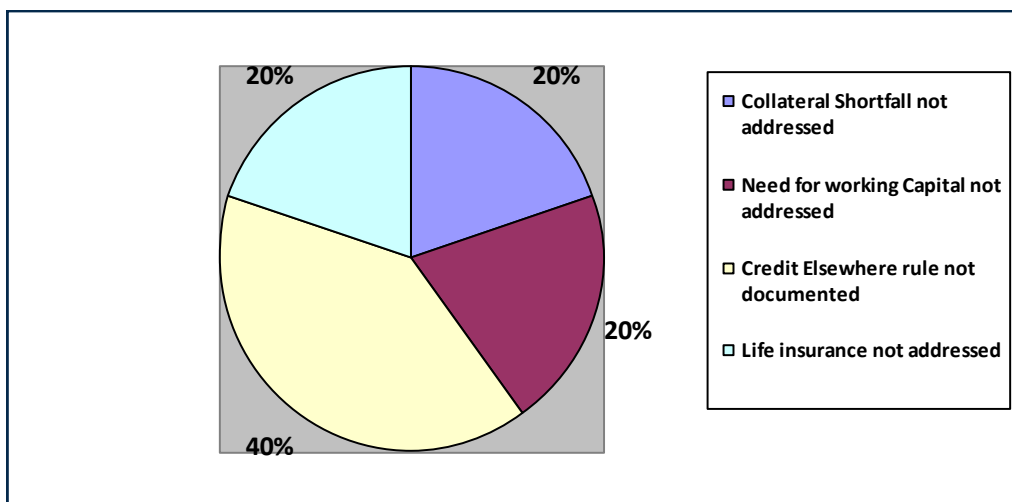
2018 Benchmark Credit Elsewhere

Credit Elsewhere

Do you know how to document credit elsewhere?



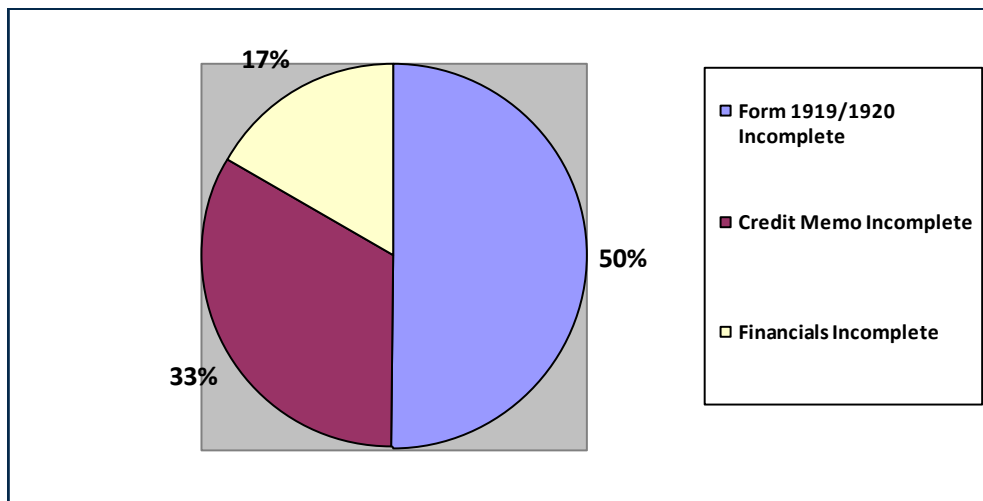
What is the number one reason for an incomplete credit memo?



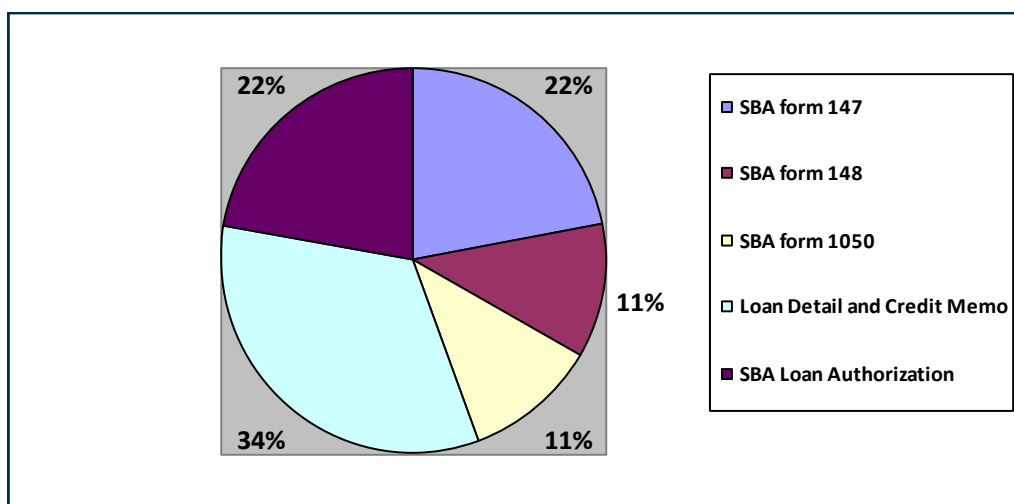
2018 Benchmark Credit Memo

Credit Memo

What is the number one reason for a screen out at LGPC?



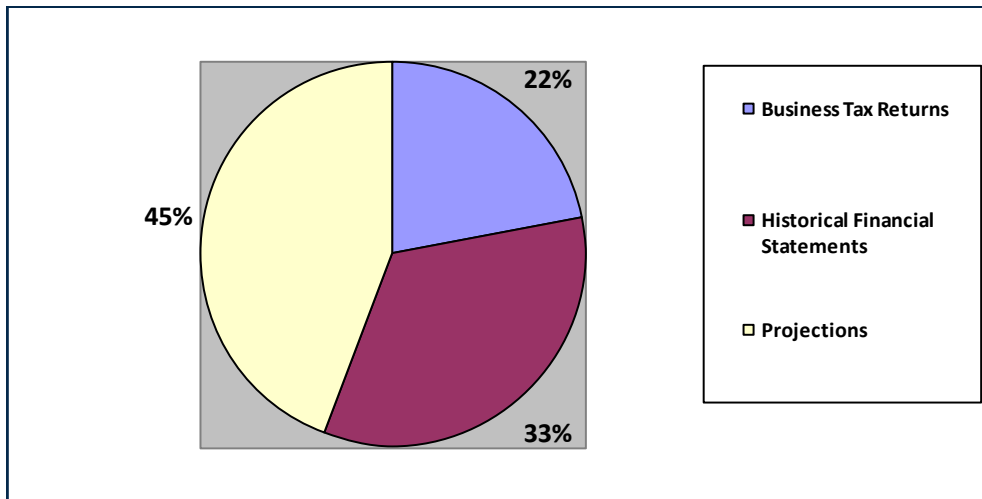
Which of these documents is your institution producing using SBA One?



2018 Benchmark Projections

Projections

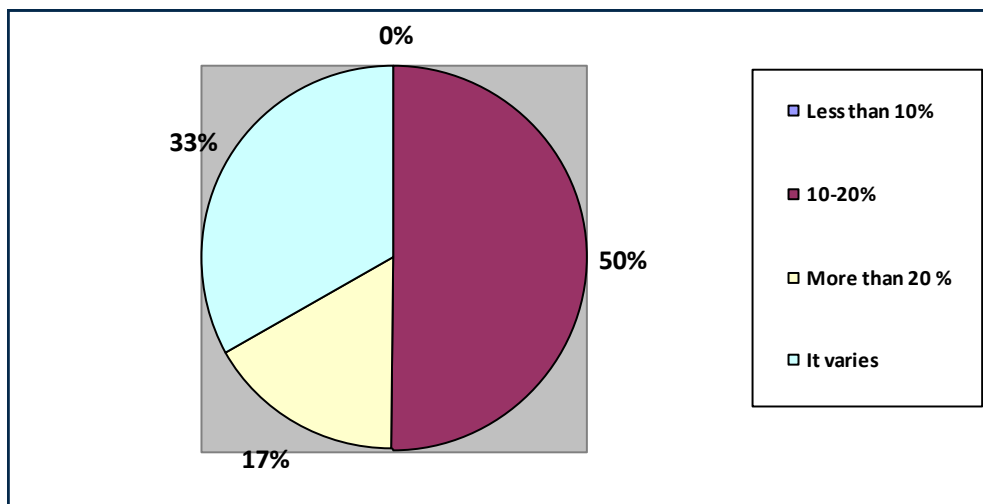
SBA's minimum debt service coverage calculation must be from:



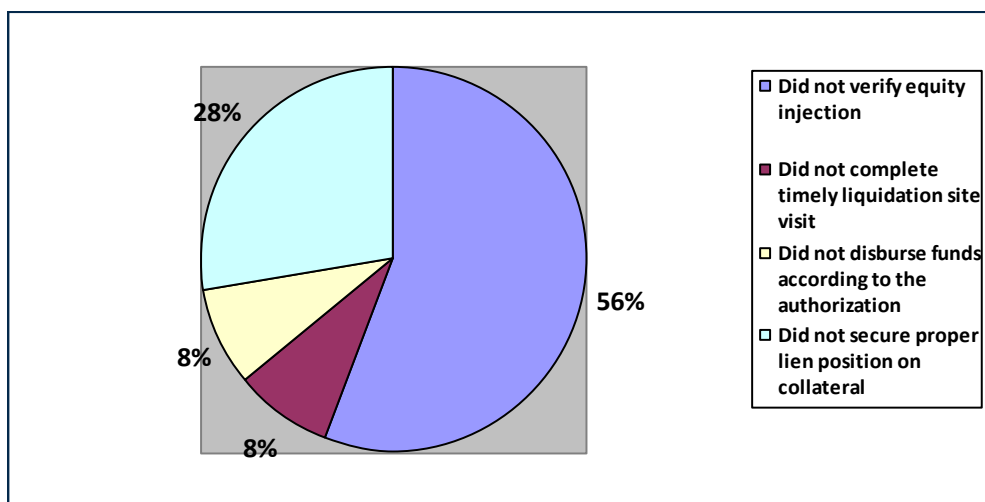
2018 Benchmark Equity Injection

Equity Injection

What is the typical equity injection that your institution requires on a startup business for a SBA loan?

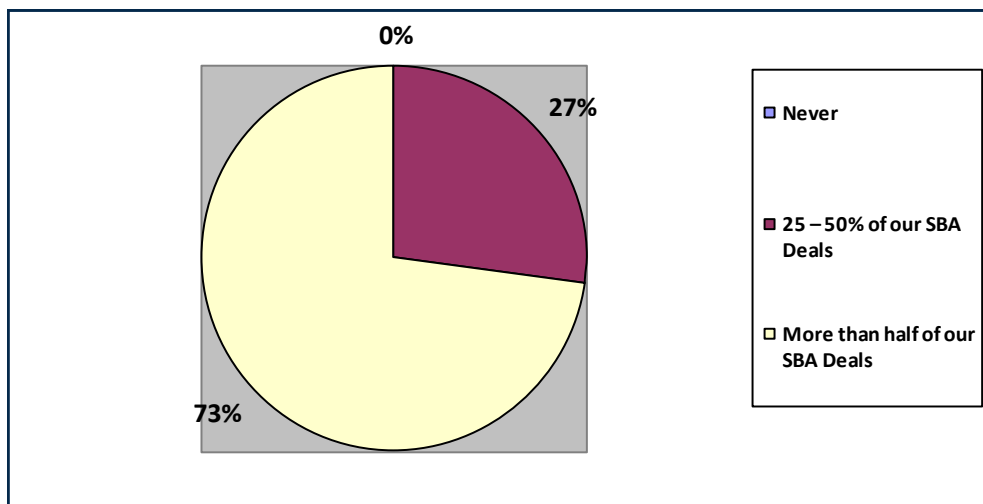


What is the most common reason for a repair on a SBA Guaranty?

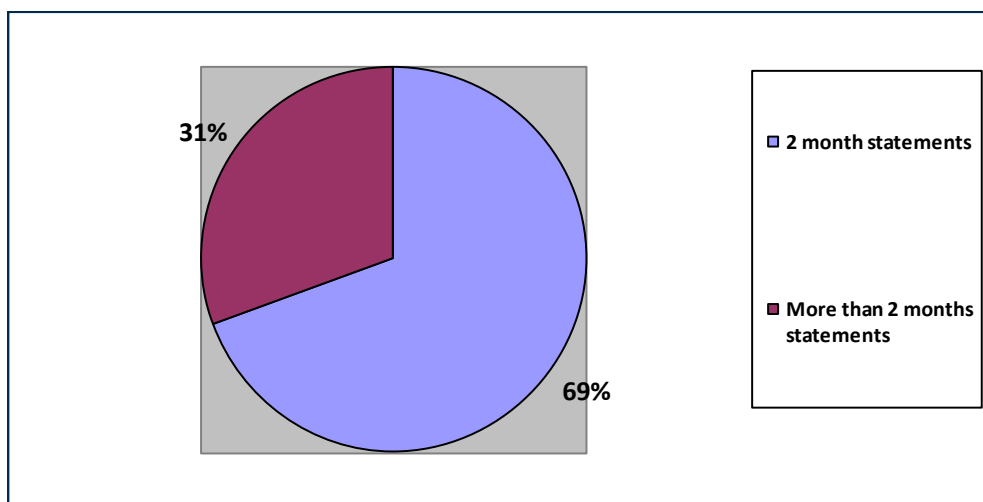


Equity Injection

How often is an equity injection required on your SBA loan requests?

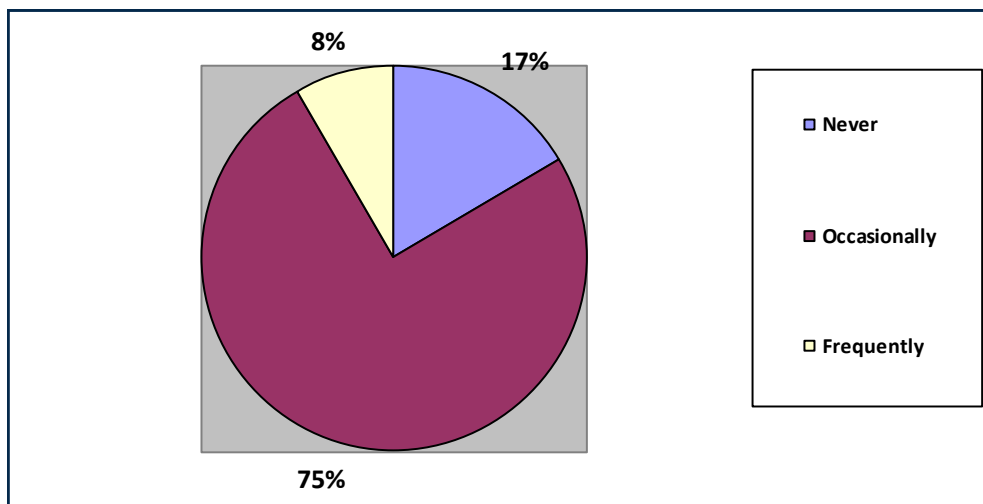


If a SBA borrower is making a \$250,000 equity injection from a cash account, how many statements do you require to verify?

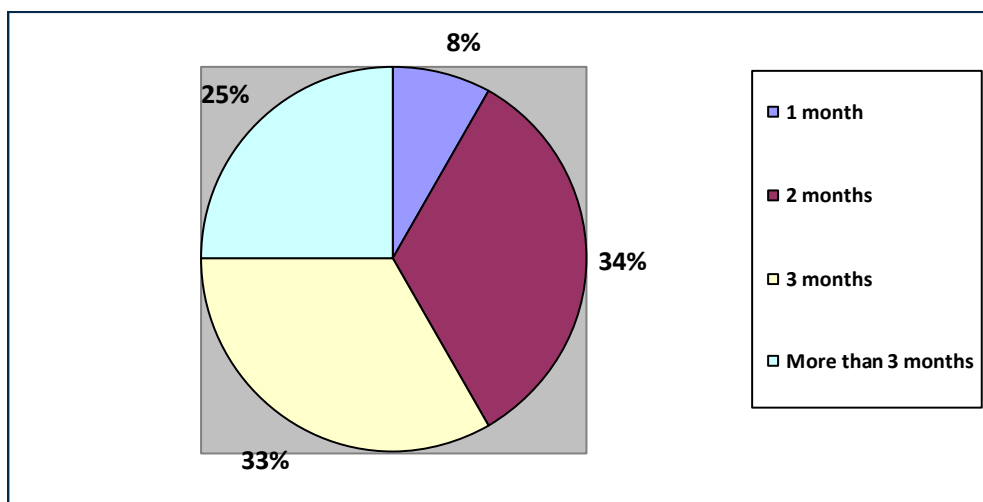


Equity Injection

How often are standby agreements needed on your SBA deals to create an equity injection from owner financing?

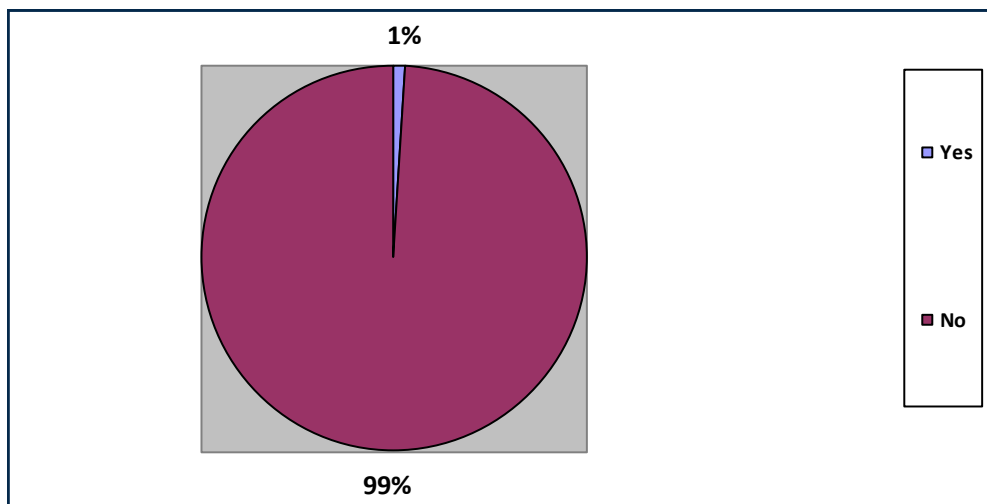


When documenting equity injection, how many months proof do you collect to prove that the equity injection exists?

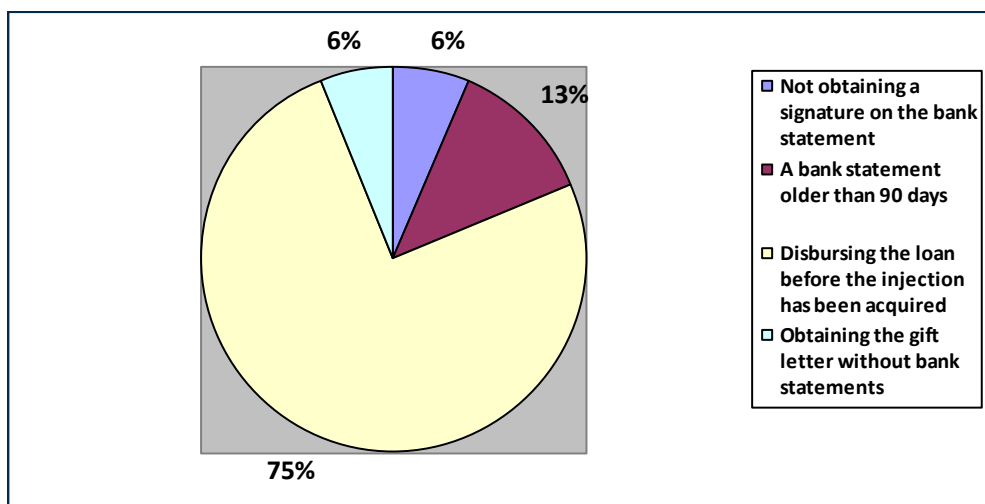


Equity Injection

Have you ever received a fraudulent bank statement in support of equity injection?

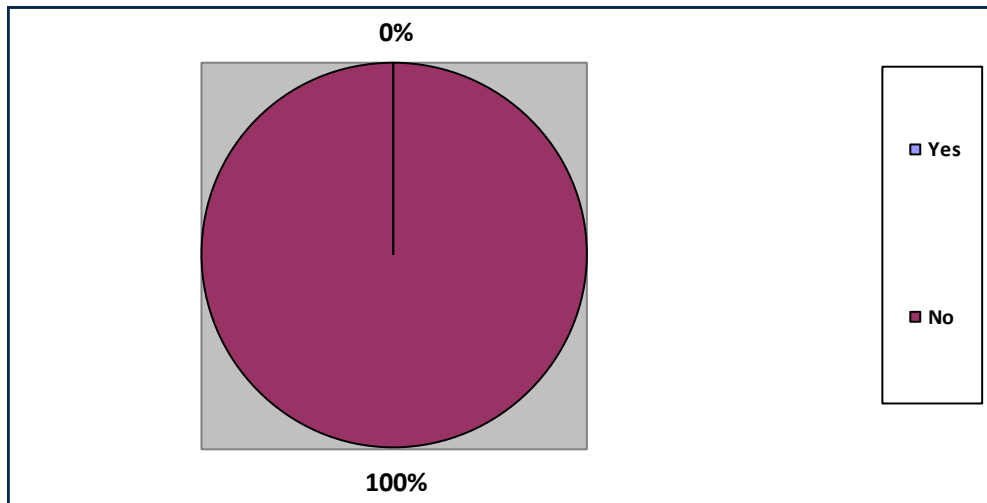


What is the most common equity injection mistake?



Equity Injection

Have you ever gotten a repair or denial for not properly documenting equity injection on a SBA loan?



Email Question: If I have the receipts from a store with dedicated cash and no cancelled checks. Are we allowed to accept (equity injection) like this and how much is ok to accept?

Response from Lance Sexton

As long as the receipts are marked paid and you have a valuation of the assets, you should be fine.

Equity Injection

Email Question: What about situations wherein the funds have been in the business account at the Bank for several months prior to closing/disbursement. Do we still need to source those funds prior to them being deposited in the business account if those funds have been on deposit for several months prior to disbursement?

Do you have to verify large deposits in Giftor accounts?

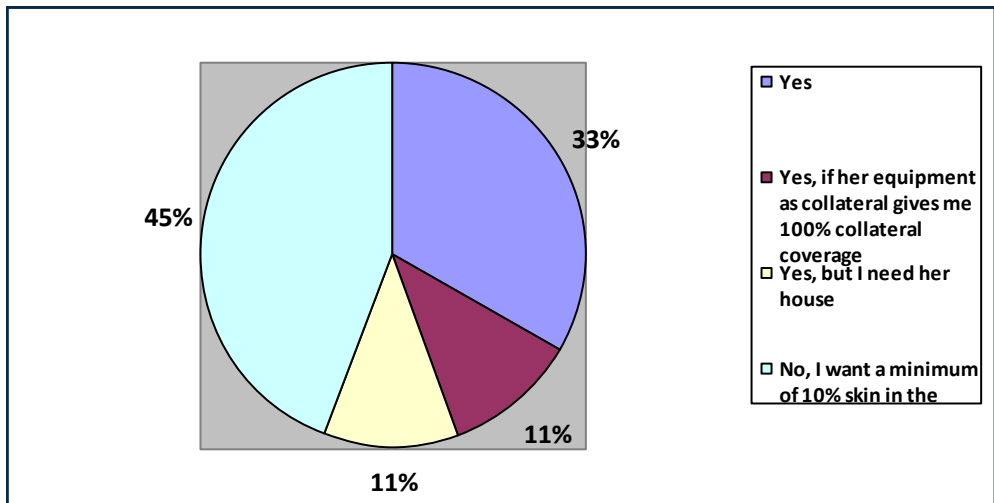
Response from Lance Sexton

Show print screens from your in-house system showing several months of balance information and that will be sufficient.

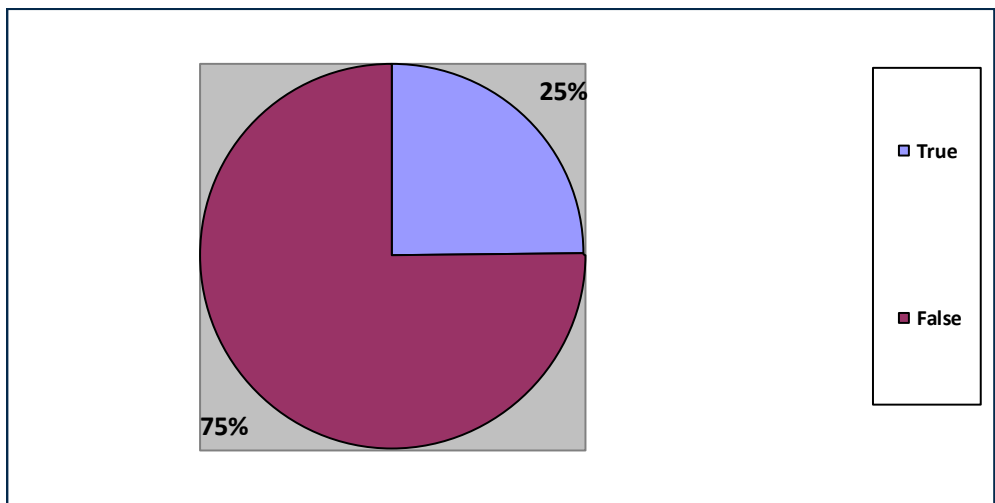
2018 Benchmark Cash Flow

Cash Flow

I will approve a 100% CRE SBA 7(a) to a Veterinarian with perfect credit and excellent cash flow:



Underwriters may add unreported cash sales to your cash flow analysis



Cash Flow

Email Question: In your opinion what is the SBA's position on credits in which the borrower is servicing the loan consistently every month but not in accordance with the terms and conditions of the Note due to cash flow issues? The loan was in liquidation as of December 1, 2015 and in accordance with SOP 50 57 2, a wrap-up package should be in prior to or by December 1, 2017.

Response from Lance Sexton

The problem is to put it back in servicing it has to be caught up in three on-time consecutive payments. Usually that will be the result of a workout plan. In this instance I would seriously consider a written workout agreement. A workout agreement can use a combination of servicing actions such as deferments, re-amortization and modifications all found in the SOP 50 57.

Cash Flow

Email Question: \$100,000 deal- 40% Collateralized. Customer doesn't want to use primary residence because they plan on moving in 5 years (\$400,000 equity in property) but has an investment property (Doesn't cash flow so can't do it conventionally) that has \$500,000 in equity. Can I use the investment property to cover the cap by itself or do I HAVE to do primary residence first?

Response from Lance Sexton

Just the amount disbursed. Usually the loans are set up with interest only payments for the disbursement period.

Email Question: For debt service coverage ratio of 1.15, does the SBA look at it as just the business itself or on a global cash flow? Example: if you have a small business which only has enough to cover its debts and bills, the debt service shows 1.10, where if you include the owners income and affiliates shows a global cash flow of 1.40? Would this be acceptable with the SBA as the SOP only states the small business applicant.

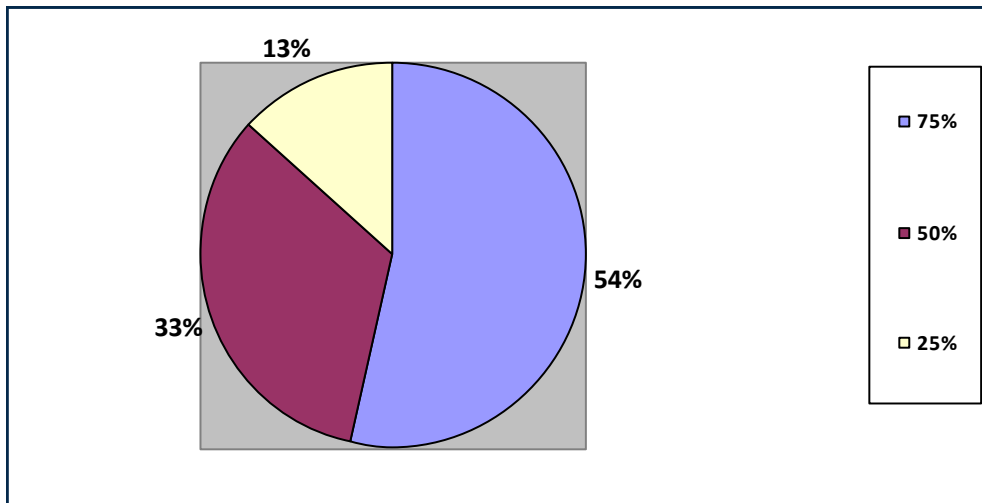
Response from Lance Sexton

You will want to go back and look at the owners draws and non-recurring expenses that happen more than once. You need to be able to document.

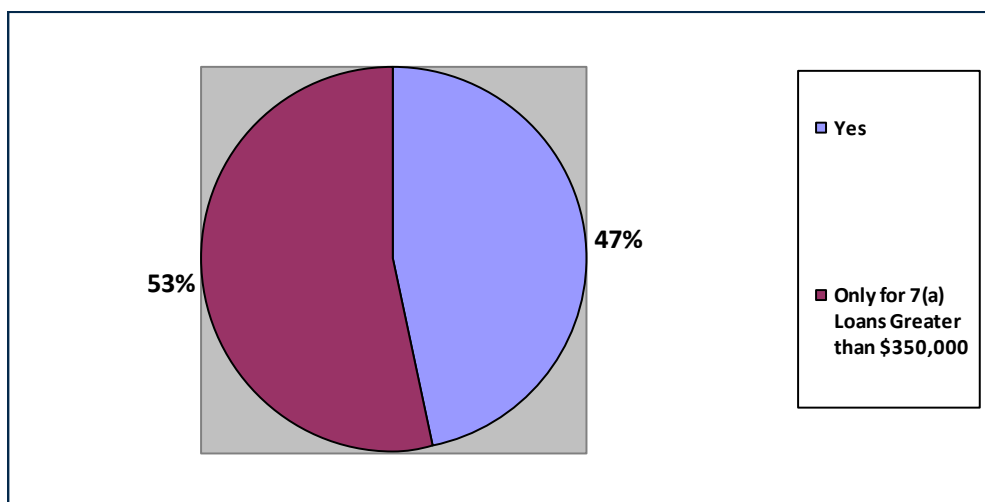
2018 Benchmark Collateral

Collateral

Failure to perfect and protect collateral positions account for what % of Repairs?

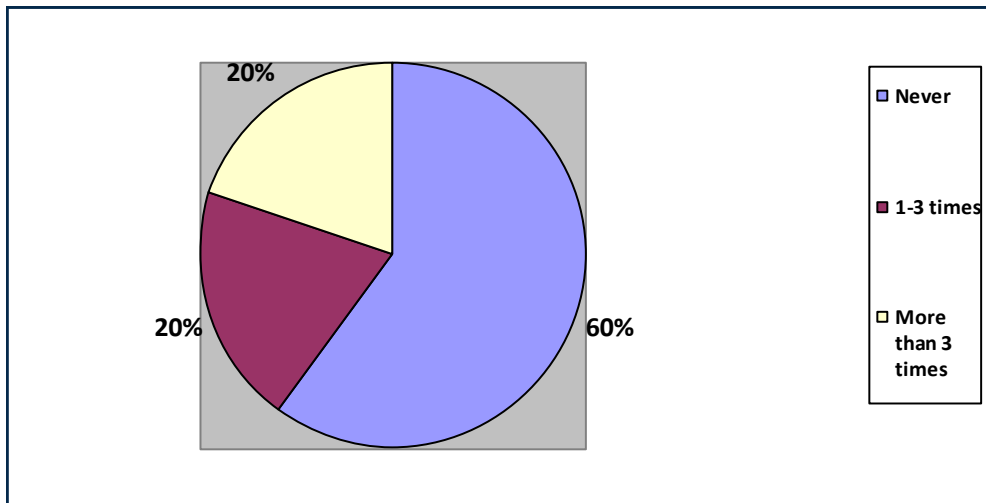


In the event of a collateral shortfall you must obtain life insurance

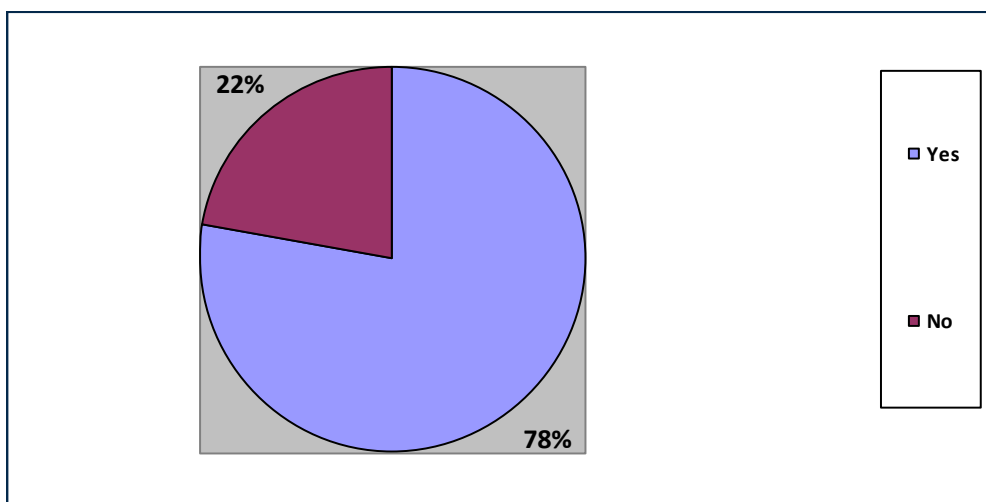


Collateral

How many times during the liquidation of an SBA Loan have you abandoned collateral?



Do you need an environmental report for a dry cleaning acquisition loan with no RE as collateral?



Collateral

Email Question: I am currently working on a loan where the collateral is FF&E's on a store that is in a flood zone. The borrower does not own the building –he is renting the space. Since we are not taking the real estate as collateral is a flood policy for the contents required?

Response from Lance Sexton

You have to have flood insurance. The problem is if you have a liquidation and the collateral was impacted by a flood, you will be violating the care and preservation of collateral.

Collateral

Email Question: I am doing an SBA 7(a) term loan (\$225,000) for a business and they have a Paid off investment property (\$800,000). I am clearly going to take that as collateral but would I need to do a blanket UCC filing on the business as well even though the real estate would completely collateralize the loan?

Response from Lance Sexton

That is correct. When refinancing debt, you will need to take at least the same collateral as is securing the debt being refinanced.

Collateral

Email Question: Just to clarify I can do an SBA Express LOC using A/R's as collateral for a small amount \$150K correct? I wouldn't have to do a CAP Line for something this small?

Response from Lance Sexton

You can do a \$150,000 revolver secured by AR with Express.

Email Question: I'd prefer that our lending policy manual exclude a requirement for taking a mortgage on a borrower's house, even if there's insufficient business collateral, for loans < \$150,000. In your opinion, would that constitute imprudent lending? Is there a different standard depending on how much equity there is in the home, or for different loan sizes?

Response from Lance Sexton

You are going to calculate a net recoverable value on that particular collateral item. You are going to have legal expenses, real estate broker expenses, you're going to have care and preservation expense. You have to show there is a zero net recoverable value, yet we still did not release. A couple years down the road they sold their house for us to release it. The net recoverable value was not significantly higher. There is not a lot of monitoring that takes place after the loan is charged-off and off SBA's books.

Collateral

Email Question: On SBA Express- I am told that we have to use our own banks policy and we use 75% LTV for Real Estate, Equipment etc.

Response from Lance Sexton

Express Lending is really a Prudent Lending Decision type of lending. However, the place where most participant banks become more flexible is with their required LTV. The SOP 5010 5 I states that collateral should not be a reason for declining a SBA Loan only that you must secure the loan to the maximum extent by taking all available collateral. On existing businesses, banks will frequently fold in the to be acquired assets into the balance sheet and if the proforma equity position is adequate, they will do the deal. This is certainly a case where 100% financing is possible.

Collateral

Email Question: The scenario is you have a borrower that's filed a chapter 11 and has filed a motion to value your collateral. They successfully argue your collateral is worth less than the balance on the loan and the bank gets crammed down to the value. The debt is then modified so the borrower makes payments on the new balance (value of the collateral) over a 5 year period. The bank now has a secured portion and unsecured portion of the debt.

The borrower is paying as agreed and could potentially be current under their BK plan for the next 5 years at which point the debt is considered satisfied per the BK and the borrower is no longer obligated to pay on the unsecured debt.

At what point can you call on the guaranty? My assumption is if the borrower is paying under a confirmed plan that's the equivalent of paying as agreed under an approved workout. If this is the case it would seem as though you would not be able to call on the guaranty until the borrower has finished the plan as you wouldn't be able to show that lender efforts are complete?

Response from Lance Sexton

When a BK court issues terms of a payment plan, you have to comply. It would depend on how it is processed but in most cases you could submit for expedited processing of the guaranty payment. All that said, I would go ahead and submit the guaranty purchase package with details on the Ch-11 to SBA and let them make the call.

Collateral

Email Question: I have a loan in liquidation and there are payroll taxes due. The borrower is assisting us in selling the collateral and wants us to use the collateral proceeds to pay the payroll taxes instead of paying down the loan balance , is that ok or do we use the collateral to pay down the loan?

Response from Lance Sexton

The proceeds of the liquidation should pay down the loan not pay the payroll taxes.

Contact Information

Bob Coleman

Founder & Editor

Coleman Report

bob@colemanreport.com

818-790-4591

www.colemanreport.com