

“What’s In It for You: Different SBA Products and Why They Work for Lenders”

In my last column, I discussed the reasons why more and more banks are becoming SBA lenders. From mitigating risk to expanding your reach as a lender, SBA products fill a variety of needs for lenders.

This month, let’s dive in to the different products that are available to you.

You probably have heard of our two most popular loan programs: 7(a) and 504. You also probably know that SBA doesn’t make the loans—instead we offer a partial guarantee on loans made and administered by our lending partners, including banks like yours. Right now, we have about 5,000 banks with thousands of branches that have SBA loans in their portfolios.

In order for a small business to qualify for an SBA loan, the lender must certify that the business meets our size standards and would not be able to find credit through traditional channels. We call that the “Credit Elsewhere” test.

The **7(a) program**, which is named after Section 7(a) of the Small Business Act, is our largest and most flexible loan program. 7(a) loans currently carry a guarantee of between 50 and 90 percent, and can be used for anything from inventory, property and equipment purchases, to renovations, real estate, working capital, and even, in some cases, debt refinancing.

Making 7(a) loans has a number of advantages. For instance, I mentioned in my last column that many lenders sell the guaranteed portion of our loans on the **secondary market**, which helps improve liquidity and frees you up to make more loans.

In addition, because they carry our guarantee, our loans have a **reduced capital requirement**. When making a conventional loan, a bank has a capital reserve requirement of 8 to 12 percent for that loan. An SBA guarantee can help relieve that pressure. For SBA loans, banks only need to reserve capital against the unguaranteed portion of the loan. That means that, with Recovery Act policies that set guarantee limits at 90 percent and regular policies that set guarantees at 75-85 percent, lenders can reduce their capital reserves by 75-90 percent as well. This is particularly helpful in the current capital constrained environment

We’ve also recently updated our interest rate policies. SBA loans allow for both **variable and fixed interest rates**. Variable rates can be pegged to a Prime, Libor or the SBA peg rate. SBA rate spreads over these base rates vary based on the size of the loan and the maturity term. Recently, we updated our fixed interest rate policy to allow for long term fixed rates based on swap rate curves. Last month, the SBA maximum fixed base rate for 7(a) loans was 6.48 percent.

SBA loans give you the flexibility to meet the needs of your bank and your customers. They also help with **customer retention**. If you’re a 7(a) lender, you have less to worry about when one of your customers walks through your doors needing a loan, but doesn’t meet your bank’s requirements.

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If your bank is already making 7(a) loans, you can take your SBA lending to the next level with our specialized 7(a) programs.

Our suite of Express loans offers streamlined processes and quick turnarounds to our most trusted lending partners:

SBAExpress loans are smaller (up to \$350,000) and may be used for revolving lines of credit. They carry a 50 percent guarantee. The best part is SBA Express lenders can use their own forms and procedures to approve borrowers on the spot and get final SBA approval almost immediately.

By offering a combination of financial and technical assistance, **Community Express** loans make it easier for you to extend credit to entrepreneurs in underserved communities. You can use these loans of up to \$250,000 to expand your reach into your community, and meet your Community Reinvestment Act requirements.

Lastly, our newest Express program, **Patriot Express**, is designed with America's veterans in mind. Veterans over-index as entrepreneurs, and Patriot Express loans are another way of getting them the tools they need. Like all express loans, you can use your own paperwork, and the SBA turnaround is almost immediate.

By partnering with over 5,000 lenders, SBA has a presence in nearly every community across the country. And, many banks deepen their relationship with the SBA by taking it a step further.

If you're an experienced SBA lender, the **Preferred Lenders Program (PLP)** can help increase your bottom line and give you the flexibility to make more loans. Under the PLP program, we delegate approval, closing, and most servicing and liquidation authority and responsibility to you, the lender. You can manage the loan from beginning to end.

With all of these specialty programs, it's fairly simple to enroll: You can be nominated by one of our field offices, or request a nomination form from our Sacramento PLP Loan Processing Center.

In addition to 7(a), your bank is probably eligible to participate in the **504 Program**. These loans are for fixed assets, equipment, and real estate. On typical 504 projects, the borrower secures a loan from a lender like you with a senior lien covering 50 percent of the project cost, as well as an-SBA guaranteed loan from a Certified Development Company with a junior lien covering 40 percent of the total cost. The business owner contributes at least a 10 percent down payment. Even though the bank's portion isn't guaranteed, you retain first-lien position with as little as 50 percent exposure.

As I've mentioned, we're interested in starting and growing our relationship with you, to help put SBA loans in the hands of small businesses in your communities. Please don't hesitate to call your local district office (there is at least one in every state) and ask your toughest questions. Our specialists can work with you or your staff to help your bank become an SBA lender, or take your lending to the next level. We'll be there every step of the way. I hope you'll be in touch soon.

To find your local office, visit www.sba.gov/localresources/index.html.