



SBA Complete

Lending confidence.

The Intricacies of SBA Lending: What You Need to Know



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Is your financial institution looking to get into the SBA lending market?

Starting an SBA program requires significant resources and expertise.

To participate fully and successfully, lenders must understand the market well, often invest in training and specialized staff, and integrate new risk and compliance protocol to ensure you meet government requirements.

As you consider the development of this program to help strengthen your business communities, there are several important strategic questions to answer.

Strategic Questions to Ask Yourself

- Do lending teams and bankers have the skills to service these loans, or do you plan to hire them?
- Does your back office have the capacity and know-how to support SBA lending such as underwriting, post-closing reviews, and possess a solid understanding of privacy issues (BSA, GLBA, IT security)?
- What about servicing requirements for SBA loans and 1502 reporting?

This eBook defines six key areas that any potential SBA lender should consider before embarking on an SBA strategy.

SBA Loan Programs are Diverse

The SBA offers many different loan programs for specific purposes. From driving growth to refinancing debt, servicing rural communities to covering business damages in the event of a natural disaster. These are just some of the loan programs offered by the SBA and each has unique requirements.

SBA loans are structured under government-directed guidelines with maximum loan amounts, guarantee percentages, use of proceeds, maximum interest rates, guarantee fees, eligibility criteria, and more.

It can be a complex landscape to navigate without the proper expertise.

Structuring and underwriting these loans is a multifaceted, requiring credit analysis (as well as integration with bank credit models) in compliance with all SBA requirements.

Furthermore, without dedicated team members, many financial institutions rely on groups of disconnected employees to handle the process, many of whom lack an understanding of SBA lending processes. For example, a bank may use their commercial underwriter to write up the loan, then a “packager” to prepare the SBA loan application, and a closing department to close and fund the loan. Processing loans this way increases the chance for discrepancies that could potentially put the guaranty at risk.

***It can be a complex landscape to
navigate without the proper expertise.***

SBA Complete's expert team understands the intricacies of each SBA lending program. We serve as a natural extension of your organization.

Contact us at 1-800-801-2378 to learn more.

2 Not all SBA Lenders are Created Equal

SBA lenders compete in a multi-layered playing field. To service small businesses more efficiently, the SBA has different categories of lender programs – the General Program (GP) and the Preferred Lender Program (PLP).

PLP status is the most desirable accreditation that an institution can receive since it gives the lender the authority to make the final credit decision which simplifies and expedites the loan-approval process for all parties. Whereas non-preferred lenders must submit loans to the SBA for approval, a process which can take several weeks – delaying approvals and yields.

But achieving PLP status requires in-house staff expertise and a track record of success in the processing and servicing of SBA loans. PLP status is a key to success and requires a commitment to best practices.

*SBA Complete provides quick access to an experienced team.
Get your program up and running fast and execute the loan
program much more quickly, with or without PLP status.*

3

SBA Loan Guarantees are Not Always a Guarantee

While SBA loans can reduce the risk of lending to certain small businesses, an SBA guarantee, even after loan approval, is by no means certain. You must follow SBA rules.

When a loan is guaranteed by the SBA, certain conditions must be met by you as the lender, such as how you close and administer the account. If a startup struggles to repay the loan, and your underwriting wasn't as thorough as it could have been, the SBA may question the guarantee.

When you place a request for SBA to honor its guaranty, the SBA reviews it to determine if your lending institution has complied with the SBA loan authorization for the loan, SBA requirements, and prudent lending practices

To ensure compliance, you need a clear policy on acceptable loans and SBA credit parameters.

Peace of mind. It's what you get when using the industry's top SBA lending experts. SBA Complete will ensure that the guaranty is in place for the life of the loan by knowing and following SBA's requirements.

4

SBA Lending Expertise Comes at a Price

Using SBA loans as a vehicle for your business community's growth is a complex and skilled process. Front line staff need to be experienced bankers with a thorough understanding of small business market dynamics and extensive working knowledge of the guaranteed loan programs, policies, and procedures of the SBA and the USDA.

SBA departments must be adequately staffed to underwrite, process, close, sell and service SBA loans. That's a lot of talent to find in one person.

To source such talent, typically, banks have two options. Each have their pros and cons, risks and rewards:

Option 1: Train Existing Lenders and Operations

To keep costs low, you may consider training existing lenders. But this scenario isn't without its risks:

PROS	CONS
Lower Cost	Lengthy ramp-up periods
Better awareness of local opportunities	Less opportunities throughout the training process
Better connection with local retail teams	Potential for incorrect documentation and poor client experience

Option 2: Hire Seasoned SBA Lenders and Back Office Staff

Alternatively, your institution could source seasoned talent, an option that also poses risks to success:

PROS	CONS
Faster ramp-up periods	Higher initial cost
Higher volumes	Potentially less awareness of local opportunities
Significant knowledge of SBA process and proper documentation	Potentially less connection with local retail teams

Outsourcing your SBA department operation eliminates the problem of trying to find quality SBA staff. Learn about SBA Complete's outsourcing solutions at sbacomplete.com.

5 Servicing SBA Loans Requires Specialized Diligence

Once an SBA loan has been approved by the agency, lenders must administer loans in accordance with SBA guidelines, regulations, and policies as outlined in the complex requirements of SOP 50 57.

Servicing includes the following responsibilities:

- Collections and distribution of loan payments.
- Monthly 1502 reporting to collect payment and loan information and ensure compliance with SBA regulations.
- Servicing actions, should the loan terms or conditions need be modified.

Add SBA lending to your credit products without the burden of servicing the loans. SBA Complete can handle servicing your current portfolio or development of a new portfolio.

6 Risk Mitigation Has Unique Challenges

An increased level of oversight and today's evolving economic and regulatory conditions mean it is important to understand and manage the risk associated with any potential SBA lending strategy:

CREDIT RISK: As with any loan, the lender assumes the credit risk, not the SBA.

PREQUALIFICATION AND DOCUMENTATION RISK: Many banks underwrite, package and close SBA loans without a specialized team, which can lead to the loss of the SBA guarantee. According to the SBA, documentation errors are one of the top three reasons for guarantee denial. You need a team who can mimic the SBA's auditing team's loan review process as closely as possible.

GUARANTEE RISK: Lenders should be vigilant about due diligence during the underwriting process, in accordance with SBA requirements, to avoid putting the SBA guarantee in jeopardy.

SERVICING RISK: The SBA may refuse or revoke your SBA lending status should you fail to demonstrate the continued ability to evaluate, process, close, disburse, service and liquidate small business loans.

Understand and reduce your portfolio risk with SBA Complete.

Contact us at 1-800-801-2378.

A Full-Service Outsourced Solution for Safely Developing SBA Loans in Your Communities

SBA Complete provides smart SBA outsourcing solutions without the large staffing cost, mismanaged risk, and long ramp-up periods.

An alliance with SBA Complete puts you in a position to develop one of the most reliable and accurate small business loan programs in the country. SBA Complete can help you to increase earnings, expand liquidity, improve asset quality, improve your capital ratios, reduce concentrations and mitigate risk. All without the burden of costly expenses associated with operating your own SBA department.

Our trusted SBA consultants are among the most experienced and well-respected in the industry. We are the go-to firm for loan reviews, due diligence, policies and procedures, and everything SBA.

We offer an attractive solution for servicing all government guarantee loans. Our team has the expertise necessary to get it done right, increasing efficiency and reducing risk for your organization.

Create a SBA Lending Center with No Upfront Cost



NO UPFRONT COSTS

Our clients avoid the significant overhead of building SBA teams.



EXPERTISE

We've seen every SBA lending scenario and our clients benefit from this knowledge.



QUALITY SUPPORT

Our clients' associates get hands-on support to help make SBA conversations easier.

Contact us at **1-800-801-2378** or
Visit us online at **SBACOMPLETE.COM**

