

4/20/2010

SBA Lending 2010

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Outline

- Background
- Role of the SBA
- What is a Small Business?
- Programs Available
- What's changed with the AR&R Act?
- What is a typical SBA borrower?
- How does a bank look at an SBA Loan?
- Resources

SBA Background

- Created by the Small Business Act in 1953
- Predecessor agencies go back to 1932 (Depression)
- Has granted some form of aid to almost 20 million small businesses
- Last year, SBA backed more than \$13 billion in small business loans, \$1.2 billion for disaster loans and helped small businesses secure \$103 billion in government contracts
- Over the last 10 years has helped almost 435,000 small businesses get more than \$94.6 billion in loans, more than in the entire history of the agency before 1991.

What is the role of the SBA?

To maintain and strengthen the overall U.S. economy through:

- Financial assistance
 - **\$13 billion** SBA Gross Loan Approvals on a National level in 2009
- Counseling
- Protection of interests
- Preservation of free competitive enterprise

SBA Loan Approvals - Minnesota

As of 3/31/10:

- Volume = \$300,050,200
- Loans = 1,356

- MN ranks second in the nation in number of loan guarantees and fifth in the nation in dollars of loan guarantees

SBA Portfolio Performance 2000 - 2009

Charge offs by industry:

All Other Plastics Product Manufacturing – 2.58%

Machine Shops – 1.20%

Wood Kitchen Cabinet and Countertop Mfg – 2.45%

Gasoline Stations with Convenience Stores - .92%

Book Stores – 5.05%

Record, CD Stores – 8.42%

CPA - .75%

Landscaping Services – 2.21%

Chiropractors – 3.21%

Hotels/Motels - .40%

Limited Service Restaurants – 3.03%

Dry Cleaning and Laundry Services – 2.46%

How do SBA programs work?

- Commercial lenders make and administer the loans
- The business applies to a lender for their financing
- The lender decides if they will:
 - A. Make the loan conventionally or
 - B. Require an SBA guaranty on the loan

Preferred Lenders Program (PLP)

- The bank makes the credit decision, closes loan and handles servicing.
- Follows guidelines in SBA SOP (guidelines/rule book)
- Benefits of PLP: Quicker turnaround for loan approvals and funding.

What is a “Small Business”?

“One that is independently owned and operated and which is not dominant in its field of operation”

- Small Business Act of 1953

What is a “Small Business”?

- Nike
- Apple
- Staples
- AOL
- Microsoft
- FedEx

7(a) Program

General Business Purpose Financing

Typical Structure:

- Working Capital up to 10 years
- Equipment up to 10 years
- Real Estate up to 25 years (No Balloon)

Maximum Loan Amount:

\$2,000,000

America's Recovery & Reinvestment Act (AR&R)

What major impacts did the “Stimulus Bill” provide?

7a Program:

- Temporary Elimination of all loan guaranty fees
- Temporary increase in the guaranty percentage to 90%
- America's Recovery Capital (ARC) Stabilization Loans
- Temporary Alternate Size Standard:
 - 1) Business Net Worth <\$8.5MM
 - 2) Net Income <\$3MM
- Change will benefit 70,000 small businesses

What is the typical SBA client profile?

- Borrower would benefit from a longer term loan
- Borrower has good cash flow, but is short on collateral requirements
- Borrower has good cash flow and available collateral, but would prefer to put less equity down (Example: 10% vs 20%+ on real estate transaction).
- Expanded “credit box” for lenders.

What types of SBA transactions help small businesses?

- A small business owner being able to own their own building for as little as 10% down.
- A partner being able to buyout a partner and own 100% of the business.
- **A third party purchasing an existing business.**
- **An individual starting their own business.**
- A business being able to expand to a new location.
- A business being able to restructure debt on more favorable terms to improve cash flow.
- A business owner being able to finance new equipment over a much longer loan term.

What is a challenging SBA transaction?

- Nonprofits are not eligible
- A for profit business that is not profitable
- Investment business – rental property, mini-storage, etc.

“An SBA Guaranty Can’t Make a Bad Loan Good, it Makes a Good Loan Better”

- ✓ 90% guaranty can be impaired / reduced
- ✓ PLP status at risk
- ✓ Negative impact to bank’s profitability
- ✓ SBA guidelines / rule book – prudent underwriting

How does a Bank look at an SBA loan?

What does a bank look at?

- Personal Financial Statement / Equity / Liquidity
- Credit Report
- Three years of Personal Tax Returns
- Projections
- Business plan
- Management Resume
- Business Information – Historical financials
- Collateral Offered
- Business Debt and Lease Schedule
- Statement of Personal History

Major Elements of a Banker's Analysis

- "The Five C's" of Credit

- Cash Flow
- Collateral
- Conditions
- Character
- Capital

Business Resources

- SBA.gov
- Small Business Planning Center
 - Minnesota Small Business Resource Guide
- SBDC
- SCORE
- MCCD
- Women Venture



Questions?

Summary

- SBA Financing is an important source of small business capital
- Small Businesses are a critical part of our economy
- AR&R Changes:
 - Fee Reductions, Up to 90% guarantees
 - More businesses qualify for SBA assistance
- Spectrum of Financing sources