

# LEVERAGING SBA LOANS

to strengthen loan portfolios





The background of the image is a dense, out-of-focus collection of wooden letter blocks, similar to those used in children's toys or traditional typesetting. The blocks are in various shades of green and brown, with some showing signs of wear and age. They are scattered across the entire frame, creating a textured, layered effect. A semi-transparent dark green rectangular box is centered over the image, containing the text in a bright yellow-green color.

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# 01 A BRIEF HISTORY OF THE SBA AND HOW BANKS BENEFIT



**The SBA is there to help small business owners and entrepreneurs pursue the American dream.**

The U.S. Small Business Administration (SBA) was created in 1953 through President Eisenhower signing the Small Business Act. The SBA is an independent agency of the federal government whose purpose is to aid, support, and protect the interest of small business concerns, to preserve free competitive enterprises, and to maintain and strengthen the overall economy of the United States. The SBA is the only cabinet-level federal agency fully dedicated to small business and provides counseling, capital, and contracting expertise as the nation's only go-to resource and voice for small businesses. In short, the SBA is there to help small business owners and entrepreneurs pursue the American dream.

What does the SBA mean for bankers? For starters, small businesses are the foundation of the US. 53% of Americans own or are employed by a small business. And with SBA loans, the SBA will purchase the guaranteed portion of a loan if a borrower defaults on the loan. By taking on SBA loans, banks can loan to more borrowers and allows for banks to offer lower rates and longer terms. By taking on SBA loans, financial institutions can see a positive impact on their balance sheet through capital, assets, management, earnings, liquidity, and sensitivity to market.





**SBA loans can improve the risk-based and leverage capital ratios of an institution, which is especially beneficial when the goal is to use SBA loans to refinance existing conventional loans.**

The SBA loan guarantee mitigates risk in your existing loan portfolio (assets) while reducing unwanted subsets and assisting in retaining clients. Since the FDIC has widely recommended the utilization of the SBA program, implementing it will improve bank earnings, capital ratios, and liquidity as well as reducing risk that reflects positively on the bank management. The natural growth of SBA lending on existing capital provides a not insignificant amount of support for the market risk taken on by financial institutions.

To make its lending programs more user friendly for both small business owners and bank lenders, the SBA has streamlined most of its lending programs through electronic submissions and communications. Part of this process allows lenders to grant loans outside of traditional lending conditions. This enables riskier borrowers to receive funding and the SBA guidelines allow for longer loan terms than in traditional cases.

# 02

## WHAT DOES THE SBA DO?

The SBA provides resources and funds for the common issues that small businesses might run into. This includes capital access as well as things like workforce capacity, and inventory and supply chain shortfalls.

SBA provides several capital access resources for small businesses to utilize when operating their business such as the:

1

### **7(a) PROGRAM**

offers loan amounts up to \$5,000,000 and is an all-inclusive loan program deployed by lending partners for eligible small businesses within the U.S. States and its territories

2

### **SBA EXPRESS**

loan program provides loans up to \$350,000 for with an option to revolve

3

### **COMMUNITY ADVANTAGE**

loan pilot program allows mission-based lenders to assist small businesses in underserved markets with a maximum loan size of \$250,000

4

### **504 LOAN PROGRAMS**

designed to foster economic development and job creation and/or retention.

5

### **MICROLOAN**

program involves making loans through nonprofit lending organizations to underserved markets.



The SBA also provides low-interest disaster loans to help businesses and homeowners recover from declared disasters. The assistance comes in the form of low-interest loans to businesses, renters and homeowners located in regions affected. The loans can be used to cover repairs and replacement of physical assets damaged in a declared disaster or cover small business operating expenses after a declared disaster. Disaster Relief Loans are often approved within 21 days, although at times they have taken longer given the magnitude of the disaster, such as after Hurricane Katrina.

During the Coronavirus Pandemic in 2020, the Paycheck Protection Program was utilized as an SBA loan to help businesses keep their workforce employed during the COVID-19 crisis. The loan was designed to provide a direct incentive for small businesses to keep their workers on the payroll. The SBA will forgive these loans based on program guidelines and if the money is used for payroll, rent, mortgage interest, or utilities.

SBA Loans allow banks to lift their communities in times of crisis such as Hurricane Katrina or the Coronavirus Pandemic.

# 03 ENTREPRENEURIAL DEVELOPMENT PROGRAMS

The U.S Small Business Administration administers the Small Business Development Center Program (SBDCs) to provide management assistance to current and prospective small business owners. SBDCs offer one-stop assistance to individuals and small businesses by providing a wide variety of information and guidance in central and easily accessible branch locations. SBDC assistance is tailored to the local community and the needs of individual clients. Each center develops services in cooperation with local SBA district offices to ensure statewide coordination with other available resources

The SBDC Program is designed to deliver up-to-date counseling, training, and technical assistance in all aspects of small business management.

SBDC services include, but are not limited to, assisting small businesses with financial, marketing, production, organization, engineering and technical problems and feasibility studies. Assistance is provided to both current and potential small business owners. Women's Business Centers (WBCs) are designed to assist women in starting and growing small businesses, though their services are available to all. Service Core of Retired Executive (SCORE) is the nation's largest network of volunteer, expert business mentors. SBA's Office of Veteran Business Development operates twenty-two Veteran Business Outreach Centers (VBOC) through grants and cooperative agreements with organizations which provide technical assistance to businesses owned by veterans and family members.





# 04 LEVERAGING THE SBA GUARANTEE

While many bankers are already familiar with the SBA loan guarantee, they may not be as familiar with the other resources offerings that the SBA provides to help banks' small business customers.

Small business customers look to their local banks to help them maintain confidence in their business and assist them with their loan and deposit needs so they can thrive. While it might seem counterintuitive, commercial banks absolutely rely on small business for source of income and they need to continue to make 'good' loans to small business to keep the economy growing.

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## BUSINESSES ELIGIBLE FOR AN SBA LOAN GUARANTEE

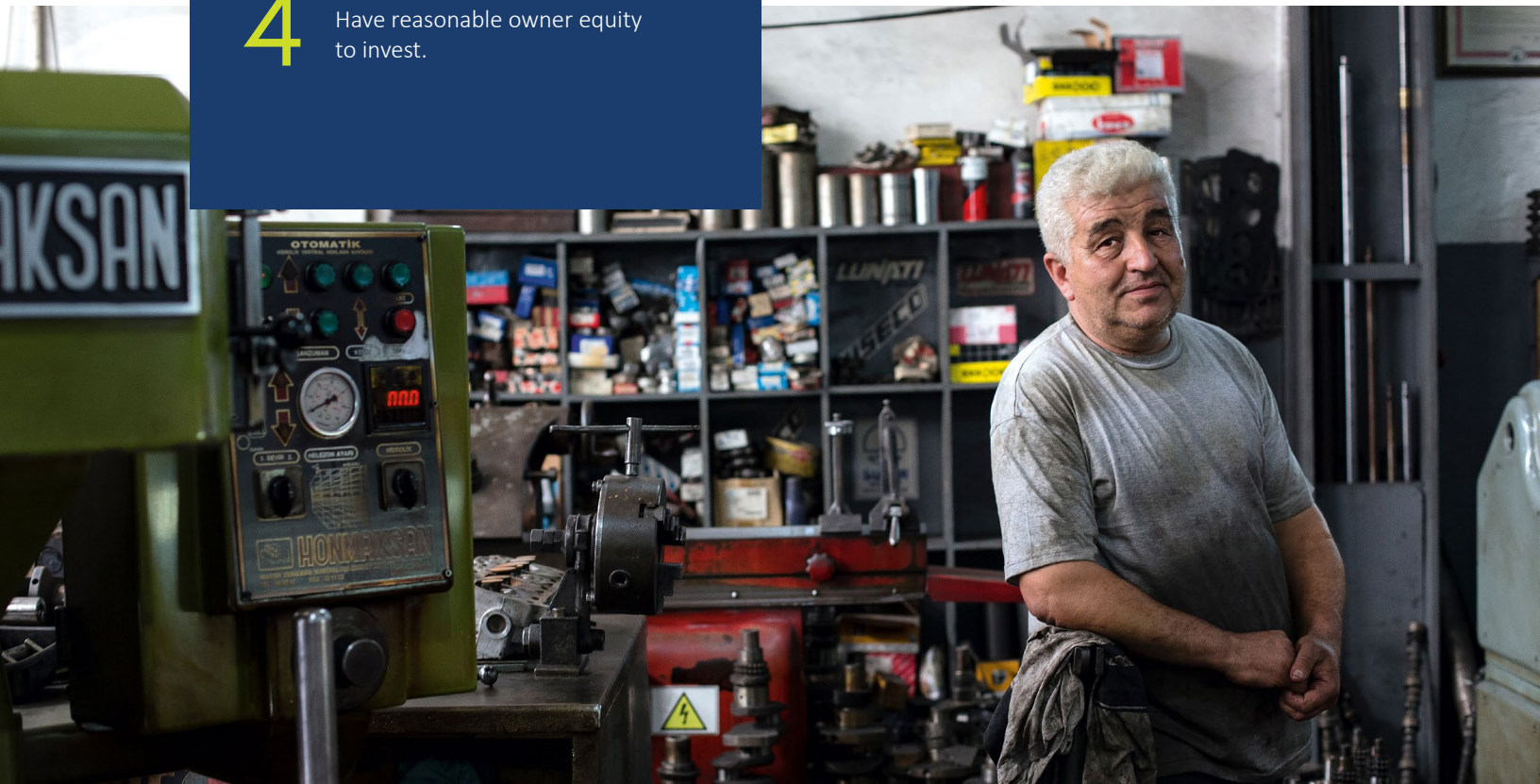
**1** Meet the SBA's size standards, which are mostly based on the average annual receipts or the average number of employees.

**2** Operate for profit.

**3** Be engaged in, or propose to do business in, the U.S. or its territories.

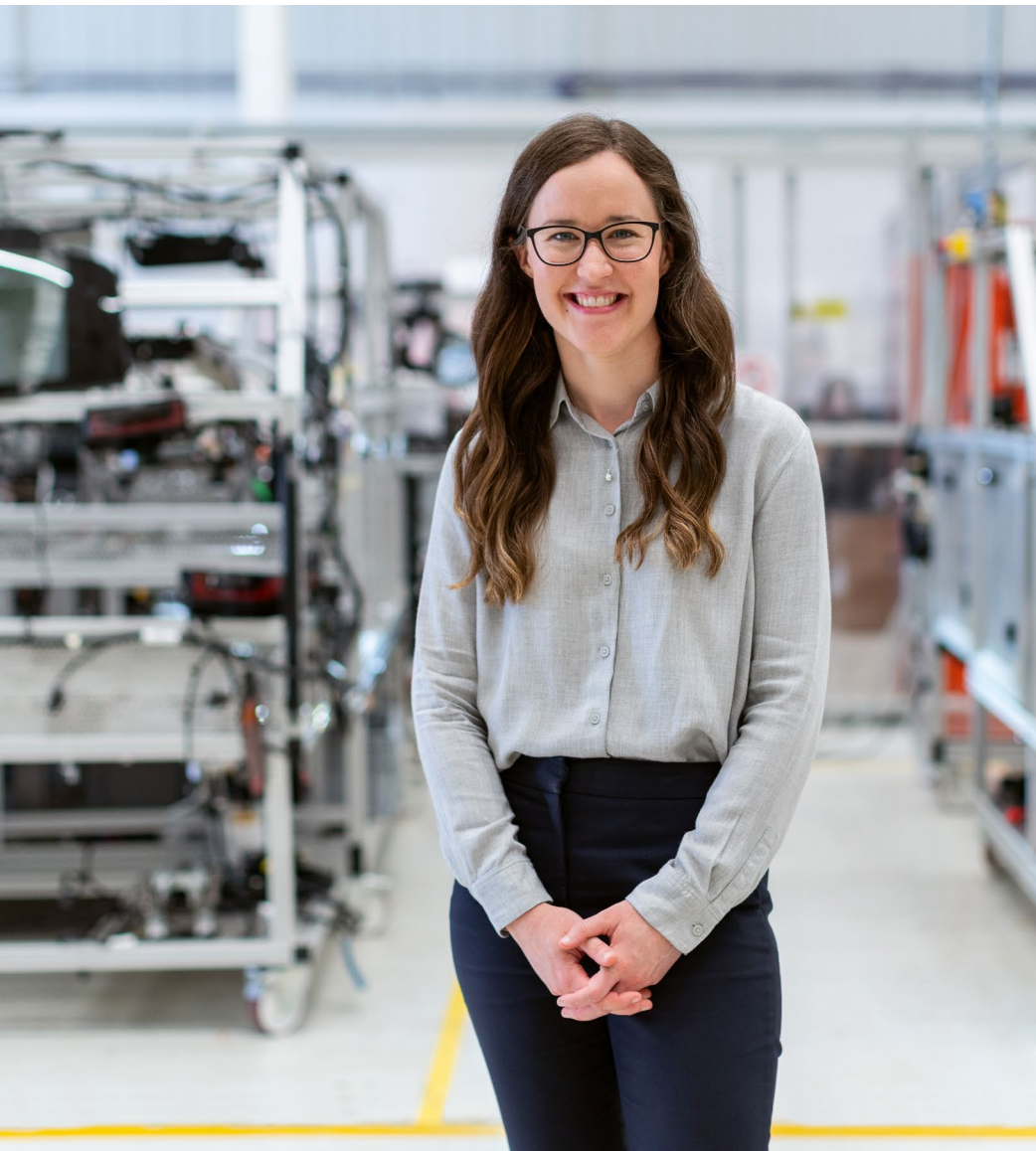
**4** Have reasonable owner equity to invest.

If you are a lender, odds are you frequently encountered a potential borrower where you could not determine an appropriate structure within normal guidelines of the financial institution. In those situations, it is worth considering a loan guaranty through the SBA. Using an SBA loan guaranty allows you to grow your loan portfolio while mitigating risk. The SBA will provide a guarantee up to 75% (sometimes more) of the loan amount. Many, if not most business lending situations would qualify for an SBA loan guarantee. For example, eligible businesses must do the list of things to the left.



## HOW SBA LOANS CAN BE USED

If your borrower is expanding, hiring additional employees, or refinancing an existing loan, an SBA loan is a great option. Financing terms are not venture capital rates and are typically more manageable than other financing options. Typically, SBA loan proceeds can be used for:



- 1 Short-term and long-term capital
- 2 Purchase equipment
- 3 Purchase real estate
- 4 Construction or renovation
- 5 Acquire a new business
- 6 Start-up business ventures
- 7 Refinancing existing debt (under certain circumstances)





As a lender, you are expected to close the loan in the same way you would close a non-SBA loan while adhering to SOP guidelines. As with all loans, the lender must prudently close the loan, secure collateral, obtain and perfect the required lien positions and meet any other loan condition.

Before you decline your next business loan opportunity, check with your local SBA office, and ask how the loan guaranty program can help. Something to remember is that an SBA guaranty does not make a bad loan good; it makes a good loan bankable.

Not only will you, the lender, benefit from pursuing an SBA loan guaranty, but so will your borrower. There is no doubt that you or your financial institution battles with requests for loan amortization or a below threshold down payment. The SBA program guidelines often allow for longer amortizations or lower down payments than traditional lending allows. Knowing that you can mitigate 75% or more of the loan's risk means the possibility of being more flexible your lending policies. Additionally, you can grow your relationship with the borrower to graduate them to a traditional lending setting.

Through its various programs, the SBA provides other resources such as tracking to ensure both rural and urban borrowers receive assistance, reviewing and advocating for changes to regulation that govern small businesses, celebrates small business owners and all they do in the community, even regional based awards and supplying advertising to encourage consumers to shop small on a national scale.


By using the SBA to grow your loan portfolio, you can support the local economy through economic growth, tax generation revenue, creating more jobs and encouraging innovation in your community.





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Baker Hill is your trusted partner to help quickly implement marketing campaigns amidst the COVID-19 pandemic. Request a consultation to see how Baker Hill NextGen® can help your institution with these specific concerns and much more.

## ABOUT BAKER HILL

Baker Hill empowers financial institutions to work smarter, reduce risk and drive more profitable relationships. The company delivers a single unified platform with modern solutions to streamline loan origination and portfolio risk management for commercial, small business and consumer lending. The Baker Hill NextGen® platform also delivers sophisticated analytics and marketing solutions that support sound business decisions to mitigate risk, generate growth and maximize profitability. Baker Hill is the expert solution for loan origination, portfolio risk and relationship management, CECL and analytics for financial institutions in the United States. For more information, visit [www.bakerhill.com](http://www.bakerhill.com).

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