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## SELLING SBA LOANS ON THE SECONDARY MARKET: HERE'S SOME GUIDANCE

We continue to see lender confusion about selling premium and servicing fee options when selling the SBA-guaranteed portion of commercial loans on the secondary market.

Some of the upsides to selling: Because the government guaranty helps make SBA loans marketable, your financial institution could see revenue to enable your SBA lending department to become a profit center. You also have the ability to use sales proceeds to originate new SBA loans, a marketing advantage in this economy. And importantly, as the originating lender you'd continue to service the sold loans and maintain relationships with your customers.

*Importantly, the time to consider whether you'll be selling a loan is at origination, not after you've carried the loan on your books for some time. In determining whether to sell an individual loan, it's advisable to consider the value of your entire SBA loan portfolio and determine what portion you plan to sell.*

**So what's the most advantageous way to sell?**
Traditionally there have been three options. For example, here are possible scenarios:

- Selling at the maximum percentage, prime + 2.75%, garnering a 1% servicing fee
- Selling at 110% of the SBA guaranty value, garnering an excess servicing fee of approximately 2%
- Selling at par or 100% of the SBA guaranty value, garnering an excess servicing fee of approximately 4.5%

**Why selling at par is a disadvantage**
*Time was, selling at par or 110% of the SBA guaranteed portion and taking a higher servicing fee was a viable option for long-term income. But with the FASB 166 Update that became effective in January 2010, financial institutions can only retain a 1% servicing fee no matter the selling price, and would only see the excess servicing fee at loan maturity. By then it's more than likely that the loan would be paid in full, garnering no increased fee.*

*That's why the vast number of lenders is now selling at maximum premium - taking the revenue up front with a lower servicing fee knowing they'll probably never see the increased revenue. Yet there are no hard-and-fast rules. You need do consider each loan individually, with variables including the loan amount and the maturity.*

Here's a typical example: Let's take a $400,000 25-year 7(a) loan with a 75% ($300,000) SBA guaranty and a rate of prime + 2.75%. The loan could potentially sell at 112% of the guaranteed portion, bringing in a 1% servicing fee of $3,000, plus $36,000 in premium income, plus $6,000 in interest income and a $1,500 packaging fee for a gross income of $46,000, or a gross return of $46.50%.* *As with all transactions involving revenue, it's advisable to check with your regulator.*

I hope I've cleared up some inherent confusion surrounding this complex area of SBA lending operations. As always, we're here to serve your SBA and business lending needs and act as an ongoing resource. Call us at 415.362.1200. Or visit www.jrbrunoassoc.com.

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