

## ACQUIRING AN SBA PORTFOLIO? KNOW WHAT YOU'RE BUYING - AND PREPARE

"SBA loans have a guaranty so we're good."

How often we hear that statement from clients going through a merger or an acquisition! Yet especially during this time of accelerated mergers and acquisitions, it's only right to assume there might be "problem apples" in that barrel of SBA loans you're acquiring. There's the assumption that because you have the guaranty there's less risk involved, yet that isn't always the case.

Let's say your institution has acquired an SBA portfolio through a merger or acquisition (not an FDIC closure) and you find issues during liquidation that occurred at origination with the original lender. Will the SBA allow consideration on the issues of denial and repair given that your institution has a solid history with the SBA? Unfortunately not. FDIC closures are the only instances where the SBA can give consideration. In these cases the FDIC will certify the loan(s) and you would provide the certification when submitting the loan for the guaranty. In a regular merger/acquisition your institution is held accountable for the originating lender's actions or inactions.

So how to address this issue? Know what you're purchasing! It's the best way to protect your institution and the SBA.

*When you're considering acquiring an existing portfolio, as part of your due diligence, it's important to review the entire portfolio or in the case of a large portfolio, take a "strategic sampling" rather than a small random sampling.*

That's where our expertise comes in.

What's a strategic sampling? Clients often ask us to review a portion of the portfolio, say 10 percent, when we're working on a loan review. You need to go a step further with an acquisition. Determine which loans you want to look at. Deficiencies of the loans in default? Which loans are chronic and which aren't? New loans or older loans? Loan concentrations? *We can help you make meaningful choices and assist you before you purchase the portfolio.*

As your consultants we will identify any deficiencies and let you know whether they're correctable. And importantly, just because there are deficiencies, don't assume they can't be corrected. Some can. Some can't. We will help pinpoint how much of the guaranty is at risk because of non-correctable deficiencies, and which loans could possibly be denied. The cost of conducting a pre-acquisition review can easily pay off in maximizing recoveries later on and avoiding surprises and/or losses that could have been prevented.

In this still fluctuating economic climate, surprises are the last thing you or the SBA need. Call us. We can help!

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