2021 SBA transaction lending updates

Building success through the sharing of information

By Steve Mariani

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Ironically enough, with the acquisition lending markets at a new high in 2021, we are still seeing much lender confusion coming in and dust remains up in the air. What's really going on in today's market? Today I share what we feel is the most up to date and accurate criteria along with our outlook on the remaining months of 2021.

We start by addressing the questions we hear around our office daily. The first is about any remaining incentives provided by the SBA through the CARES ACT that affects loans written today and through September 30, 2021. Currently the SBA is still waiving the SBA Guaranty Fees, which is typically the largest portion of most loans closing costs. As examples: a $1M SBA loan guaranty fee is $26,250 and on a $5M loan it equates to over $138,000. These numbers matter and are incentives to our higher net worth borrowers. This funding and fee waiver expires either on September 30, 2021, or once the allocated CARES ACT funds are fully exhausted, whichever comes first.

The word on the street says the funding should not run out before the expiration date, but we are monitoring the program on a regular basis to keep our clients completely informed. Another "off the record" comment you might be excited to learn on this subject is that during my lender conversations this week, I did hear about a possible extension to the program. I have no more details as of today but be assured that I will continue to monitor the progress and share with the broker community as more information becomes available.

The CARES ACT also provides initial payment assistance for new loans written prior to the expiration. Currently the new loans that close under the program will receive three months of SBA loan payments of up to $9,000 per month. When monthly payments are below $9,000, then the full payment will be made for the borrower. If the monthly payment is above $9,000 then the balance would be reduced by $9,000 and the balance of the payment would be due. This applies to all new loans and saves our clients many hundreds of thousand of dollars.

The above items are all excellent borrower incentives and has caused an increase in volume across the country, but there is still more. Along with the 3 months of payments being made by the SBA and the waiving of the guaranty fee, one of the biggest drivers of lender volume is the increase in SBA guaranty from 75% to 90%. Here is why and the behind the scenes understanding of lender differences. When it comes to volume SBA lenders there are 2 types (and this is very important), those that portfolio the loans and those lenders that sell them on the secondary markets. This is the single most important question I ask every lender that solicits our business. We are contacted weekly by those claiming to be "Aggressive Goodwill" lenders. Once we determine that a lender portfolio's their loans, we cross them off as a possible volume vendor at our shop. After 25 years in the industry, we've determined that portfolio lenders cannot produce the results needed under only the SBA rules and conditions. What we see is that many portfolio lenders will add their own underwriting criteria and rules on top of those required by the SBA.

What many clients and brokers don't realize is that there are many SBA "optional" rules that lenders can utilize to benefit borrowers as these same rules usually do not benefit the lender. Hence the reason most people are not made aware of these beneficial avenues and why we make it our top priority to make the borrowers aware of the rules that can be advantageous to them.

The 90% guaranty is the most important lender incentive! This allows the "selling" lenders to re-capitalize their balance sheets by selling 90% of the loan as opposed to only 75% without the CARES ACT. We find much greater underwriter flexibility when evaluating each request with a 90% insurance policy behind it. As you can imagine, a 10% possible exposure to loss is a big drop from having an exposure of 25%, which is typical.

The biggest concern amongst brokers, based off what we are hearing today, is securing new listings. As I have mentioned in previous newsletters, a few avenues and businesses that may be good prospects for selling would be those less affected by COVID or companies that have worked through it and are on the uptick showing revenue levels close to or at pre-COVID levels. We are currently financing a few restaurants that served take out only for a few months and are now back open on some level and producing profits. There are also many businesses that secured PPP money and never needed it. These are your more established owners with conservative backgrounds. We are seeing many that received first round PPP and invested it back into the company only because they could and never "HAD" to. Their businesses were operating as if no pandemic was taking place already and operators were now just upgrading or expanding to keep their business healthy. All great possible opportunities although I understand that locating them is more of the struggle.

Our team at Diamond Financial remains committed to the success of the broker industry and the promotion of business transfers. We will answer any question and always share information. All current documents relating to the COVID-19 pandemic can always be found **here**. Meet the new members of our team **here**& see the list of our most recent deals **here**.

To increase your success, just try directing your buyers to one of our highly trained staff managers and we will be happy to assist in the closing of your transaction. Try us and see the difference that personalized service makes.

I will be speaking at the IBBA Conference on Friday October 15th from 10:00-11:30am on "SBA Acquisition Financing post Covid, Tips to secure approvals". Learn more **here**. I will also be at The Experience on September 8-10th in Las Vegas, Nevada as well. Learn more **here**.

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