

SBA lending criteria is changing!

Surprising changes in the lending markets!

Building success through the sharing of information

By Steve Mariani

July 2023

What's going on in our acquisition lending market today? It seems lender inconsistencies are at an all-time high. When we receive this number of calls, all saying the same thing, we know something is happening and we want to share what we've found out. Although I've written about periods like this happening in the past, this time is a bit different, and navigating today's lenders is more challenging than ever before. Today I will describe the lending scenarios that we are seeing happen all over the country in the SBA acquisition market.

The first thing we took notice of is that by mid-2023 the commercial real estate market competition had greatly increased. Lenders are after any type of commercial real estate (CRE), and they are ready to give away the farm to get it. This competitive market is offering rates as low as Prime MINUS on certain loans. We're seeing lenders offering 3, 4 and 5 percentage points less than the average SBA transaction loan. This is always our first gauge of what's going on in the lenders' back office and how they plan to adjust criteria moving forward.

In my experience, once we see the CRE market receive this much attention, most times it means the acquisition lending criteria is about to tighten. By speaking with so many lenders since May of 2023, to better understand their take on the new rules, I've also learned that many lenders have already begun increasing required coverage ratios and many have even blacklisted certain industries entirely. One lender I spoke with is already requiring their approvals to cash flow when including an additional 2% on the loan interest rate. This additional cushion is over and above their currently required coverage ratios. A few other lenders are now requiring increased coverage ratios for a certain list of industries.

We are all seeing a tightening in underwriting criteria with many lenders right now, but this is not the most concerning market condition we're facing. The biggest concern

we are seeing today is the bait and switch that happens when SBA lender competition reaches these levels. Let me explain what I mean. This does not mean you aren't working with a quality lender, or development officer (BDO). What this typically signals to us is that lender credit boxes are changing (possibly weekly) and not being shared with their development officers in hopes of seeing all the transactions possible.

In any given quarter our firm sees an average of 2 to 4 loan applicants that were fully approved elsewhere and yet not getting to closing with the same lender. Many are through no fault of the buyer and either the lender found something during the closing process or just adjusted their lending criteria before funding. In any case, we are usually contacted to help pick up the pieces on the transaction and bring it to a close. Fast forward to today, and we're fielding almost 4 of these per month, a 300% increase. What this represents to us is that the "Bait and Switch" is in full effect and happening around the country with an assortment of lenders. As lending competition has greatly increased, and salespeople want to look at every possible transaction, many are not considering the effects on the broker, buyer, or the deal itself. We all know that time kills all deals and delaying the closing by 60 or even 90 days puts a great strain on your transaction.

Now that you understand what we are seeing these days coming into our office, how can you, as the broker, avoid losing deals due to lender changes or inconsistencies? This is where your lender relationship and years of working with a specific development officer should be your saving grace. There are many lenders out there now promising all types of aggressive financing for larger, goodwill transactions, but what's important is to rely on the history you have with that lender. Never be afraid to ask about a lender's annual volume along with your direct BDO's volume as well. If you're not familiar or comfortable with a lender, then be sure to check all available references in the industry.

If your transaction is time sensitive and you must rely on a new BDO or lender, locate one that you can trust that has a long-standing track record and your sure can get your seller to the closing. Do your homework upfront and always demand industry references. Always ask what level of closing rate this lender has, as many lenders review hundreds of transactions, just to close a very small percentage.

To increase your success and closing rate, direct your buyers to one of our highly trained SBA managers for their pre-qualification letter (at NO COST) and we will be happy to assist in the screening and closing of your transaction. We guarantee a **YES** or **NO** answer within 3 days of file submission. Try us and see the difference that personalized service, along with top level advice and lending sources, can make. We do not pay fees; we increase your commissions!

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