MBL Member Business Lending, LLC

MBL's Main Street Journal

July 2012

Small Loan Advantage

As part of the updated version of the SOP 50 10 5(E) the Small Loan Advantage (SLA) program has been revised to include credit scoring of each application prior to loan approval and the extension of SLA to all SBA participating lenders.

The maximum loan amount under SLA has been changed from $250,000 to $350,000. Revolving lines of credit continue to be prohibited under SLA.

Originally, SLA was open only to Preferred Lender Program (PLP) lenders. SBA has now expanded SLA to permit all 7(a) lenders with an executed Loan Guaranty Agreement (SBA Form 750) to submit applications for loans under SLA.

All applications for SLA will begin with pre-screening for a credit score. The lender will enter certain information into E-Tran and a credit score will be issued. If the application receives an acceptable credit score it may be submitted under SLA via E-Tran. If the loan application does not receive an acceptable credit score, the lender may submit a standard 7(a) loan application through the LGPC or, if the lender is an SBA Express lender, a SBA Express application via E-Tran for a 50 percent guaranty.

The SLA credit score is calculated based on a combination of consumer credit bureau data, business bureau data, borrower financials and application data. The minimum SLA credit score is based on the lower end of the risk profile of the current SBA portfolio and may be adjusted up or down from time to time. SBA will post on its website the minimum SLA score for applications. The current minimum SLA score is 140, which is subject to change.

While each SLA application will be pre-screened to determine its credit score, SLA lenders must perform a thorough and complete credit analysis of the applicant in order to ensure that the loan is of such sound value as to reasonably assure repayment and this credit analysis must be documented in the loan file. The SLA lender's credit memorandum must, at a minimum, include a combination of factors for underwriting and credit decision consistent with its similarly sized, non-SBA guaranteed commercial loans. This includes cash flow analysis and owner/guarantor analysis. Lenders may use their own credit scoring criteria to assess the character, reputation and credit history of the applicant. The lender's credit decision must consider the length of time in business under current management and, if applicable, the depth of management experience in this industry or a related industry. Lenders must review the strength of the business. The lender must verify the accuracy of the applicant's financial data against income tax data.

Adequate equity is important to ensure the long term survival of a business. The lender must determine if the equity and the pro forma debt-to-worth are acceptable based on their policies and procedures for their similarly-sized, non-SBA commercial loans.

Lenders are not required to take collateral for SLA loans of $25,000 or less. For SLA loans over $25,000 and up to $350,000, the lender must follow the collateral policies and procedures that it has established and implemented for its similarly-sized non-SBA guaranteed commercial loans, but at a minimum the lender must obtain a lien on the borrower's business assets to secure the SBA-guaranteed loan.

All SLA application packages must include the forms and information the lender requires in order to make an informed eligibility credit decision. The only form SBA requires of the Small Business Applicant is SBA Form 1919. SBA Form 1920 SX, Part B and C are also required and a credit memorandum addressing all of the requirements. All SLA applications must be submitted using E-Tran. All SLA loans will use the Standard 7(a) Authorization Boilerplate. When closing a SLA loan, the lender must use the same closing and disbursement procedures and documentation as it uses for its similarly-sized non-SBA guaranteed commercial loans. The lender has the option of closing SLA loans with the lender's own note and guaranty agreements rather than SBA Forms 147,148 and 148L.

Please join MBL for a training session devoted to the SLA program on Wednesday, July 11th (details on the following page). MBL's subject matter experts will explain the SLA program's technical requirements and discuss how MBL will support credit unions offering SLA loans. They will also share ideas for cost effective implementation of the SLA program in a credit union environment.

Small Business Study Supports Lifting MBL Cap

Small business lending has been slowing at banks, but not at credit unions. This is according to a report that supports the need for the member business lending bill that would raise the MBL cap.

Rohit Arora, CEO of Biz2Credit.com, said his firm's research suggests the credit union MBL cap needs to be raised. Additionally, the research shows that credit unions are helping to get small businesses back on their feet. "This is a very clear sign that what credit unions are doing is a solution to our economic problems. The biggest opponents of the (MBL) bill have been the small banks (under $10 billion), who see this as more competition. However, one thing our data consistently shows is that if the bill gets passed there is enough demand that everyone will benefit."

Credit unions' 2012 small business loan approval rate increased to 57.6 percent in May. This approval rate is up 0.2 percent from April and up more than six percentage points higher than in May 2011.

Small business loan approvals by big banks were at 10.6 percent in April and dropped to 10.2 percent in May. Small bank approvals fell from 45.9 percent in April to 45.5 percent in May. Credit unions' small business loan approval percentage has topped big and small banks each month from March 2011 through May 2012. These findings are from an analysis of 1,000 loan applications on Bis2Credit.com.

The fact that credit union small business loan approvals are up is the "bright spot" in the economy, stated Arora. He shared concern over the fact that big and small banks, after picking up their small business lending activity in the last 12 to 18 months, have cut back over the last few months.

"Big banks have cut back over the last three months and small banks the last two," Arora said. "With banks, overall, we may be back to square one."

The poor job reports and problems with the global economy may be contributing to the slowdown of bank lending, Arora suggested. He is also concerned about small businesses asking for fewer loans. "Demand is also going down. Small businesses are uncertain about the economy now and there is an increased hesitancy to invest in expansion."

SBA Base Rates July 2012

WSJ Prime	3.25%*
1-Month LIBOR Base Rate	3.24%*
SBA Fixed Base Rate	4.57%*
SBA Peg Rate	2.50%**

*Effective for the first business day of July 2012
**Effective for the period between July 1, 2012 to September 30, 2012

Monthly Training Seminar

MBL will offer an online seminar on the revised Small Loan Advantage program in July. The seminar is part of MBL's free monthly seminar series and is open to all credit union business lending staff.

Small Loan Advantage
Wednesday, July 11th
2:00 – 3:00 p.m. (MDT)
Session number: 808 449331
Session password: Wednesday1
A link to the training will be provided in a separate email.

For more information contact Sarah Hettinger at (801) 545-7958 or SHettinger@mblllc.com.

MBL Holiday Closures

Independence Day
July 4th, 2012

Labor Day
September 3rd, 2012

The MBL Mission:
"To aid, counsel, and assist our participating credit unions and the member businesses they serve"