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SMALL BUSINESS

Platform Gives SBA Loan Sellers Broader Options

■ BY EMILY FLITTER

For Arne Monson, who takes care of the Small Business Administration lending activities of hundreds of community banks, selling the loans on the secondary market was once an ordeal.

"We stumbled around trying to find the best buyers of SBA guarantees in the country," he said. "If we were representing a bank and they would have a loan guarantee they'd want to sell, we'd have to contact individual buyers and solicit a bid. It was very time-consuming and clumsy."

Monson, whose Memphis firm, Holtmeyer & Monson, performs SBA-related services — from loan originations to secondary sales — for around 400 banks that lack the capacity in-house, said the headache went away when he signed up to sell loans on a year-old electronic platform, GovGex.com.

"...it's just much more efficient. We don't have to make calls and survey the market. GovGex does that for us." **Anne Monson, Holtmeyer & Monson.**

"Last year for our client banks we probably sold 200 7(a) loans, and this year I would expect we would sell 300 to 350," Monson said. "And it's just much more

efficient. We don't have to make calls and survey the market. GovGex does that for us."

The concept is simple. Lenders list their loans online, so bidders — including the broker-dealers that traditionally buy and securitize SBA loans, as well as investors who want to purchase whole loans directly — can see the bids and comparison shop.

The platform helps banks bid out and sell loans faster, potentially increasing the liquidity they can use to turn around and make new loans.

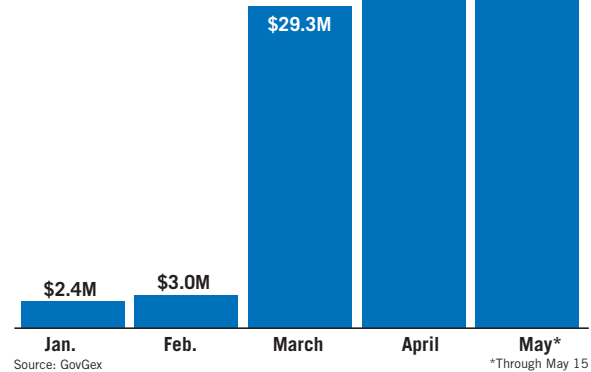
It is creating more competition, which could help lenders, particularly small banks, fetch higher premiums for their loans.

It is even making it easier for small banks to purchase one another's SBA loans at a time when the spreads are favorable, particularly when compared with other government-guaranteed instruments, such as Treasury bonds.

Dan Shoham, the creator of the software used to build the platform, says it "democratizes" the secondary market for SBA loans. Since there is no central clearing

Spring Spike

Value of loans presented for sale on GovGex.com



house for the loans, lenders have typically sold them to the broker-dealers with whom they have the best relationships. Though the loans were put out for bid — usually by fax — lenders often gave favored buyers a "last-look" option before deciding whose bid to accept.

"We're giving access to those who have something that the wider audience would want but they don't have the means to communicate it to the wider audience," said Shoham, the chief executive officer of the platform's owner, Edgewise Analytics Inc. in La Jolla, Calif.

He has argued that increased competition among bidders would produce higher bids. On the platform, institutional investors and lenders can bid directly alongside

the SBA broker-dealers that have traditionally been the only direct buyers of the loans. In the past, the broker-dealers would package the loans into securities and sell them to investors. Now, however, investors can buy whole loans — or they can choose to continue purchasing securities from the broker-dealers.



GovGex creator Dr. Dan Shoham says he is hoping to win over community banks that may have discontinued SBA lending programs.

The concept of a central clearing platform for SBA loans represents a break with tradition in the market, and not all bankers want to lose their special relationships with their preferred buyers.

Craig Chance, the senior vice president for community relations at the \$3.1 billion-asset **Columbia State Bank** in Tacoma, said he relies on his personal relationships with broker-dealers in order to have peace of mind about the process of settling an SBA loan sale.

"To some degree, we may believe, because of the relationships and the skills needed for processing the paperwork, we like to know who we're going to be dealing with. Historically, our method has worked well," Chance said.

Carole Crowley, a vice president at the \$704 million-asset **First Commercial Bank of Florida** in Orlando, expressed a similar view.

"I have a few broker-dealers that I've been dealing with for 15 years or so, not only here but with my previous bank," Crowley said. "Some of these broker-dealers end up being people you go to lunch or dinner with at these conferences, and you know their kids are growing up or they've been through a hurricane or something, and I think I would miss that personal connection."

Nevertheless, "I think if I were selling a dozen loans at a time — I'm usually selling one or two — I think the advantage of getting it done quickly, and if I were new in the marketplace and didn't know anything about selling loans, I would like the automated system," she said.

Shoham said he is attempting to dispel the arguments for sticking exclusively with broker-dealers by showing lenders the downside of the "steak-dinner" method broker-dealers use to ingratiate themselves.

"I tell the lenders, the steak dinner that the salesman took you to will cost you thousands of dollars more than the steak," as a result of lost premiums on loans that were

bought by that broker, Shoham said. The lenders "know it, but they take the steak anyway."

Shoham said he developed GovGex because "I took the view that says this is inefficient in the marketplace." With his electronic platform, "the winning bidder is the one who can most benefit from this particular transaction, not who has the best salespeople."

To the argument that broker-dealers are best equipped to handle the complicated paperwork that goes along with the settlement of an SBA loan sale, he responded: "This is as commoditized a business as it gets. There was absolutely no t-crossing or i-dotting that was done before we came along that is not handled in our system."

Some lenders are embracing GovGex as an investment tool.

Robert Franko, the CEO at the \$232 million-asset **Beach Business Bank** in Manhattan Beach, Calif., said that through the platform, he can see for himself which loans other bankers are selling.

For the first time in its history, Beach Business Bank recently started buying other lenders' SBA loans.

"Right now there aren't that many good loans being originated," Franko explained. "It's not like I can walk out the door and make millions of dollars of good loans. It gives me access to good loans that I might not otherwise have."

Franko also has put loans up for sale on GovGex. Though the financial crisis has depressed prices for SBA loans, he says the mere presence of "a more transparent platform" has led to a slight bump in premiums of late.

Since its launch in May of last year, more than 150 lenders have signed up to sell nearly \$195 million of loans of GovGex. The platform was used to sell \$33 million of loans in April alone, along with nearly \$40 million in first half of May.

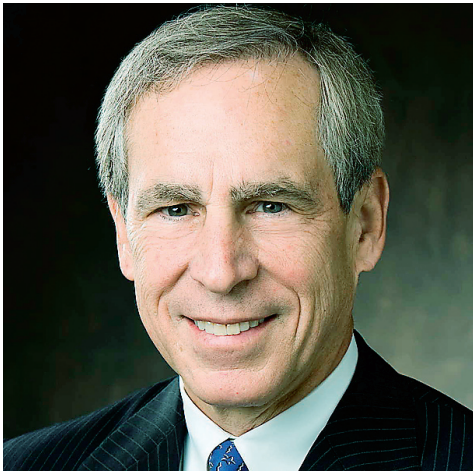
A recent uptick in SBA lending activity — in response to federal stimulus efforts aimed at both boosting loan demand and thawing the frozen secondary market — may add to GovGex's momentum.

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Shoham said he is hoping to attract business from bankers who may have dropped out of SBA lending long ago and are now taking advantage of new government support for the loans.

Broker-dealers themselves are predictably leery of GovGex.

"I don't think that there is an need for an electronic trading platform," said Bob Stevens, a managing director at Coastal Securities Inc. "Since pooling began in



The online platform has allowed Franko's Beach Business Bank to purchase other lenders' SBA loans for the first time.

1985, banks have called broker-dealers directly to sell their loans. My opinion is that that has been working; there's no real efficiencies to be gained by using a third party to get between the broker-dealers and our customers."

The broker-dealers that have traditionally been banks' only bidders for SBA loans do more than just purchase inventory, according to Stevens. "Broker-dealers also

pass along a lot of market information, and they develop relationships which are vital to the bank."

But Chris LaPorte, an SBA trader at Coastal, admitted that his firm has used GovGex, since lenders have begun listing their loans there. "I can see why some that aren't familiar with the broker-dealer community and don't do that many loans would want to use that," LaPorte said.

GovGex does offer some market intelligence to its clients. Sellers and buyers can sign up for its free basic service, which lets them list loans or bid on them, or they can sign up for the platform's paid services, which include a pricing program, a settlement service and an archiving function.

According to Shoham, the pricing service does what broker-dealers do for lenders: It gives sellers a look at current market conditions in order to help them contemplate the bids that they receive.

Joan Earhart, a senior vice president at the \$769 million-asset **Fullerton Community Bank** in California, says that when it comes time to sell SBA loans to investors, she will

call up her contacts in the secondary market and "ask what type of loans the investors are currently looking for — what will be most attractive to them and generate the best return for us." Computer software "can't typically give you that."

Still, Earhart recently signed up for GovGex.

"What they do is reduce the paperwork and the time consumption that's involved in us putting the loans out to bid and then comparing them all," she said. "It does seem to make the initial bidding process easier."

Perhaps the biggest challenge that GovGex is facing is getting the word out. In spite of the recent surge in interest, many lenders still have not heard of the platform.

"Maybe they haven't done a great job of marketing it so that people in my situation know what it is," said John Dutko, a small-business relationship manager at **CornerstoneBank** in Atlanta. "If there was an easier way for me to get more bids or even the same amount of bids, I would definitely use it, but nobody's told me what it is." ■



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