

COMMUNITY *banker*



RISK MANAGEMENT IN COMMUNITY BANKS

page 16



HOW SBA LOANS GROW NON-INTEREST INCOME

The Surprisingly Simple Way to Gain a Lucrative Profit Center

By Arne Monson, President & Co-founder, Holtmeyer & Monson

Community banks share many commonalities, including dual needs to increase non-interest fee income and grow their balance sheets with commercial loans. SBA lending uniquely addresses both concerns. In fact, SBA loans create a tremendous profit center for banks – while enabling them to be a valuable source of capital for creditworthy small businesses.



The highly lucrative nature of SBA-guaranteed loans.

SBA 7a loans carry a full faith and credit guarantee, backed by the government, ranging from 75% to 85% of the loan. Once a loan is closed, the guaranteed portion can be easily sold into an active secondary market. Premium levels for SBA loans are now at historic levels – as high

as 17 points (17% of par). At this level a \$1,000,000 floating rate 25-year loan, with an interest rate of prime + 2.75% and a quarterly rate adjustment, delivers the institution a gross premium of \$127,500 ($\$750,000 \times 17\%$). Guarantees also generate significant ongoing servicing fee income, increasing annual earnings for some community banks by 30% or more.

Creating additional profits can be an easy feat.

Many institutions already offer SBA loans, but are challenged by regulatory compliance or a lack of lenders with SBA experience. Other banks want to provide SBA loans, but are overwhelmed by the technicalities involved. Outsourcing the process to a qualified Lender Service Provider (LSP) is an attractive option for all. The LSP can efficiently handle functions such as loan

packaging, closing services, and securitization and sale of loan guarantees, as well as portfolio management and regulatory compliance issues. This approach can be highly cost-effective and drive additional profits for the bank, without the need for in-house SBA resources.

Substantial returns come quickly.

For example, a bank recently earned more than \$100,000 in non-interest fee income from its first government-guaranteed loan in just two weeks. The institution outsourced the entire process to a lending services provider, from loan application to sale of the guaranteed portion of the loan in the secondary market.

The benefits are available to any bank.

Booking the non-guaranteed

portions of SBA loans, and selling the guaranteed portions, is one of a bank's most lucrative avenues for building profits. Simultaneously, the bank can gain a competitive edge by serving the needs of small business owners. Any bank can experience these results, at no net cost to the institution, by leveraging the expertise and technical assistance of an experienced SBA lending services provider.

Arne Monson is president and co-founder of Holtmeyer & Monson, an ICBA Preferred Service Provider and a Lender Service Provider respected by the SBA and banks alike. Holtmeyer & Monson experts provide lenders with a wealth of experience and technical assistance. Lenders wishing to consult on outsourcing their first SBA loan – or simply want to learn how SBA lending works – may contact the company at 800.340.7304 or visit www.holtandmon.com for more details.