

# **504 Quarterly Connect Call**

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Office of Capital Access

March 6, 2018

# Agenda

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Bill Manger – Welcome, Loan Activity

Stephen Kucharski- OPSM Updates

Dianna Seaborn – OFA Updates

Linda Reilly, Hien Nguyen, Babak Hosseini, and David Miller – 504 Updates



# Office of Capital Access

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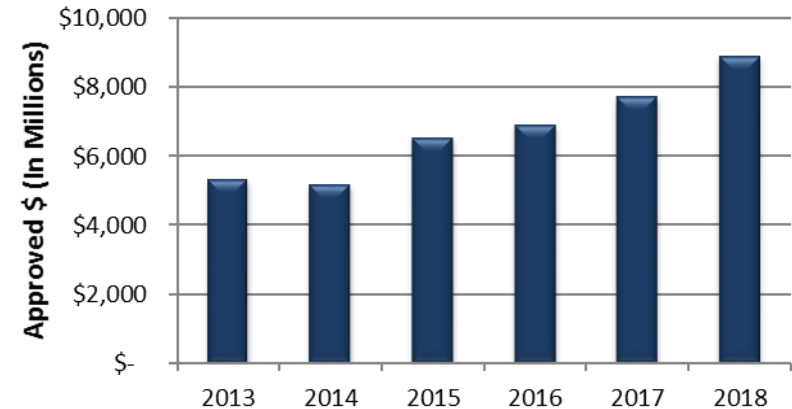
William Manger, Associate Administrator



# YTD Activity – Total 7(a) and 504

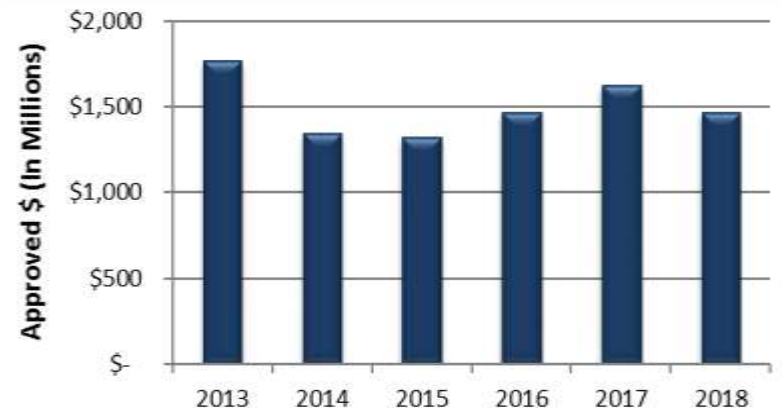
## 7(a) Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2018	20,243	\$ 8,929,490,600
2017	18,194	\$ 7,741,800,600
2016	19,017	\$ 6,900,894,800
2015	18,110	\$ 6,557,638,200
2014	14,113	\$ 5,182,541,000
2013	14,218	\$ 5,345,217,600



## 504 Lending Activity

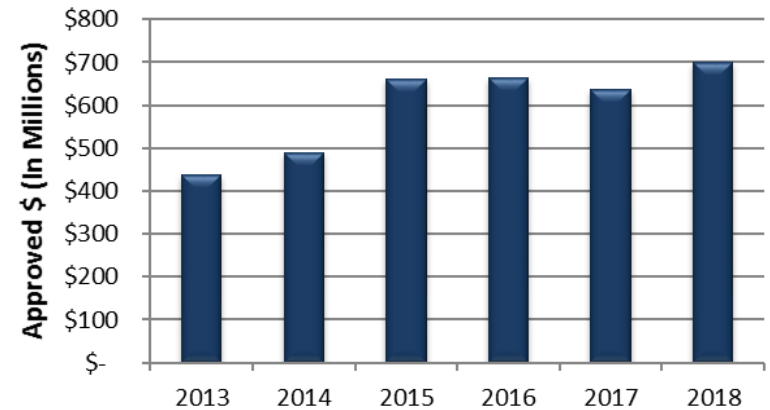
Fiscal Year	Approved Loans	Approved Dollars
2018	1,805	\$ 1,465,116,000
2017	1,987	\$ 1,616,337,000
2016	1,793	\$ 1,463,108,000
2015	1,839	\$ 1,320,701,000
2014	1,876	\$ 1,343,822,000
2013	2,627	\$ 1,762,003,000



# YTD Activity – 7(a) Small Dollar Loans

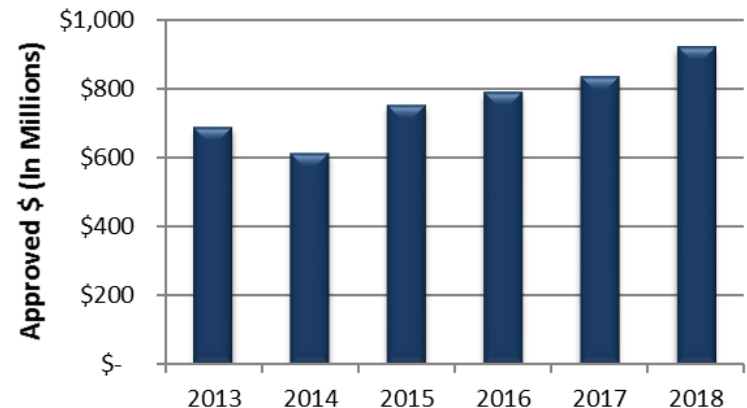
## Up to \$150k Lending Activity

Fiscal Year	Approved Loans	Approved Dollars
2018	11,131	\$ 702,469,500
2017	10,026	\$ 637,209,400
2016	11,473	\$ 666,081,800
2015	10,895	\$ 663,204,100
2014	8,192	\$ 489,686,300
2013	7,686	\$ 440,400,100



## \$150k to \$350k Lending Activity

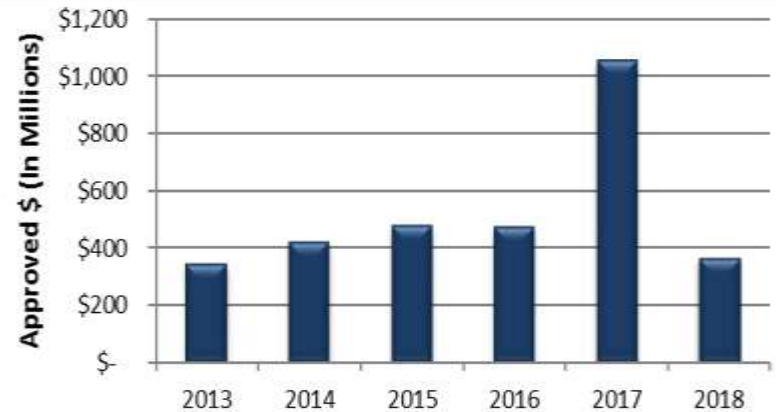
Fiscal Year	Approved Loans	Approved Dollars
2018	3,499	\$ 919,639,800
2017	3,157	\$ 832,257,700
2016	2,984	\$ 786,793,500
2015	2,905	\$ 751,504,500
2014	2,376	\$ 612,108,200
2013	2,717	\$ 685,099,800



# YTD Activity – Export and SBA Express

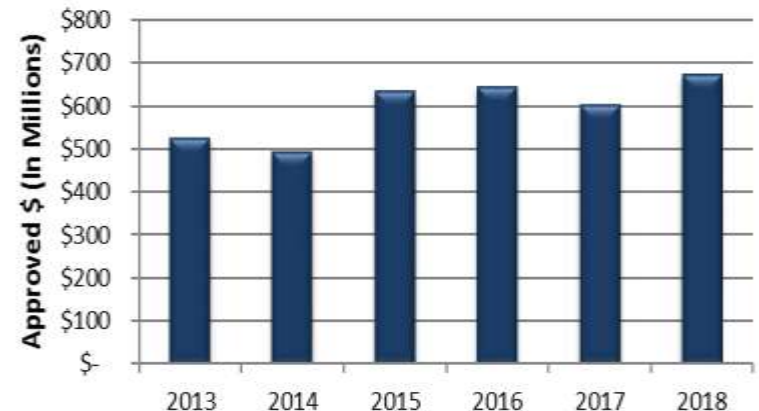
## Export

Fiscal Year	Approved Loans	Approved Dollars
2018	296	\$ 361,435,200
2017	1,251	\$ 1,053,042,500
2016	594	\$ 474,248,700
2015	567	\$ 479,226,000
2014	527	\$ 422,253,900
2013	413	\$ 345,268,400



## SBA Express

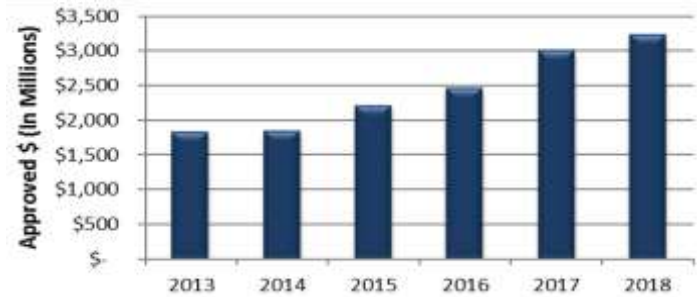
Fiscal Year	Approved Loans	Approved Dollars
2018	9,347	\$ 673,319,900
2017	8,366	\$ 602,572,400
2016	9,826	\$ 641,932,200
2015	9,296	\$ 634,164,500
2014	6,893	\$ 491,446,300
2013	6,773	\$ 525,020,300



# YTD Activity - Underserved Markets

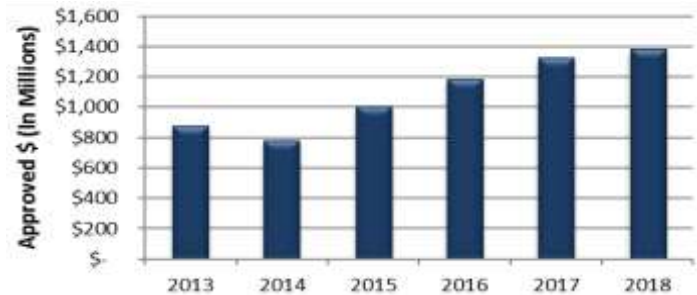
## Minority

Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	5,751	26.1%	\$ 3,222,918,100	31.0%
2017	5,234	25.9%	\$ 2,997,268,900	32.0%
2016	5,392	25.9%	\$ 2,459,509,800	29.4%
2015	4,743	23.8%	\$ 2,210,621,400	28.1%
2014	3,819	23.9%	\$ 1,837,205,100	28.2%
2013	3,785	22.5%	\$ 1,830,160,800	25.8%



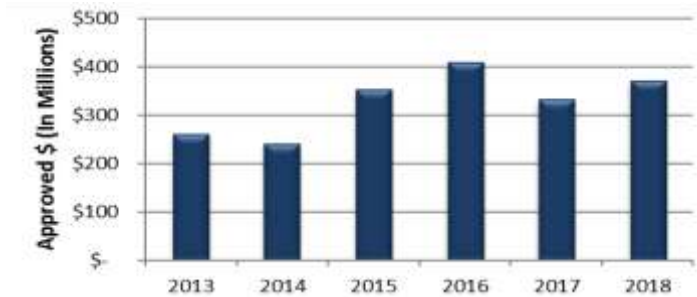
## Women

Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	3,815	17.3%	\$ 1,377,063,400	13.2%
2017	3,612	17.9%	\$ 1,319,595,600	14.1%
2016	3,823	18.4%	\$ 1,184,172,600	14.2%
2015	3,463	17.4%	\$ 1,000,793,400	12.7%
2014	2,593	16.2%	\$ 775,733,400	11.9%
2013	2,709	16.1%	\$ 875,464,800	12.3%



## Veteran

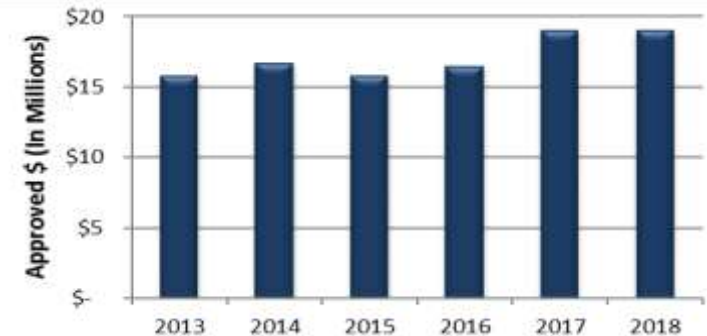
Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	1,033	4.7%	\$ 369,959,800	3.6%
2017	1,013	5.0%	\$ 331,327,200	3.5%
2016	1,048	5.0%	\$ 406,181,400	4.9%
2015	904	4.5%	\$ 351,515,700	4.5%
2014	778	4.9%	\$ 238,950,700	3.7%
2013	833	4.9%	\$ 258,229,200	3.6%



# YTD Activity – Mission Programs

## Microloans

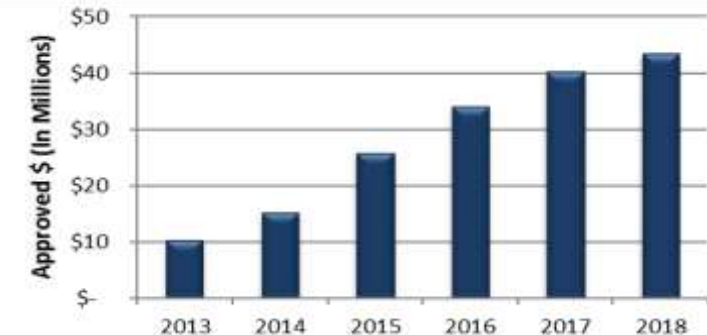
Fiscal Year	Approved Loans	Approved Dollars
2018	1,432	\$ 19,045,769
2017	1,397	\$ 19,046,931
2016	1,215	\$ 16,473,759
2015	1,121	\$ 15,819,102
2014	1,228	\$ 16,756,740
2013	1,922	\$ 15,827,897



- FY18 Microloan approvals underreported due to lag in micro lender reporting.

## Community Advantage

Fiscal Year	Approved Loans	Approved Dollars
2018	316	\$ 43,441,200
2017	315	\$ 40,354,000
2016	280	\$ 34,048,100
2015	194	\$ 25,823,700
2014	115	\$ 15,316,600
2013	77	\$ 10,332,400

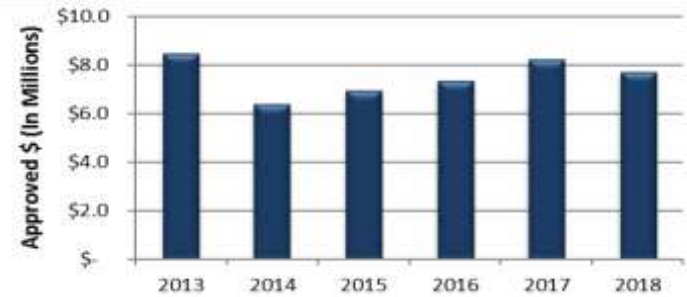




# YTD Activity – Microloans – Underserved Markets

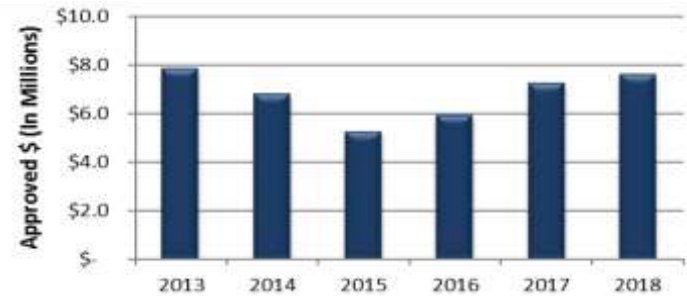
Minority

Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	797	55.7%	\$ 7,660,050	40.2%
2017	735	52.6%	\$ 8,175,015	42.9%
2016	695	57.2%	\$ 7,302,262	44.3%
2015	612	54.6%	\$ 6,909,718	43.7%
2014	645	52.5%	\$ 6,339,105	37.8%
2013	1,396	72.6%	\$ 8,437,171	53.3%



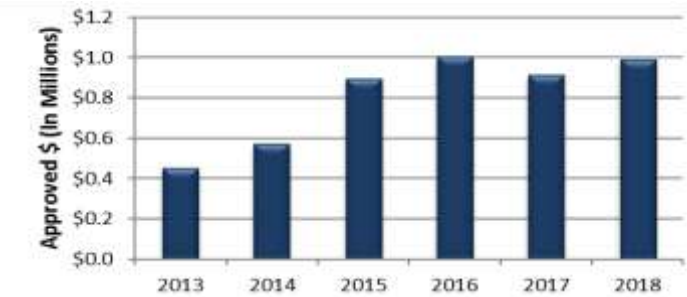
Women

Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	709	49.5%	\$ 7,594,323	39.9%
2017	648	46.4%	\$ 7,219,326	37.9%
2016	543	44.7%	\$ 5,909,064	35.9%
2015	473	42.2%	\$ 5,212,486	33.0%
2014	625	50.9%	\$ 6,786,745	40.5%
2013	1,333	69.4%	\$ 7,816,567	49.4%



Veteran

Fiscal Year	Approved Loans	% of #	Approved Dollars	% of \$
2018	59	4.1%	\$ 985,652	5.2%
2017	60	4.3%	\$ 912,025	4.8%
2016	56	4.6%	\$ 1,003,391	6.1%
2015	44	3.9%	\$ 890,271	5.6%
2014	34	2.8%	\$ 568,605	3.4%
2013	42	2.2%	\$ 451,090	2.8%

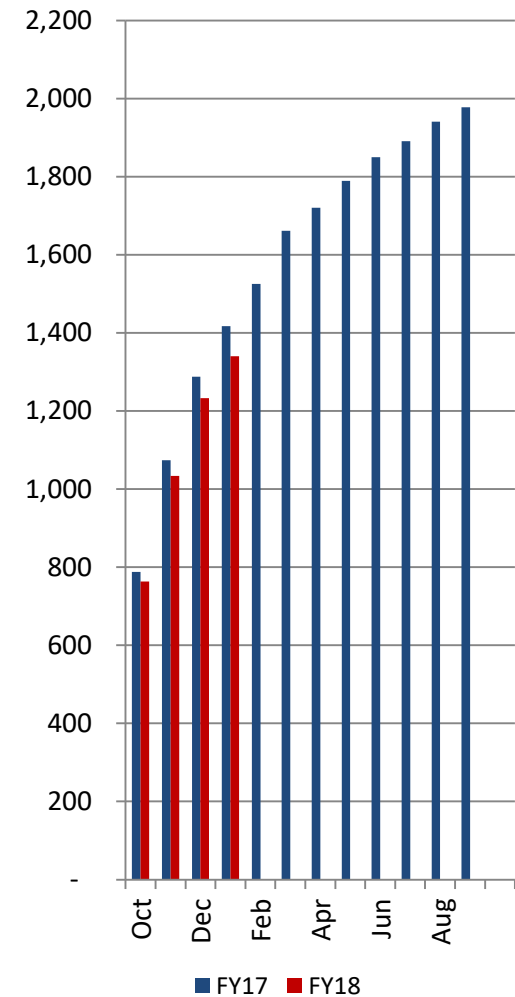


% of # (\$) shows the nr (\$) of loans as the percentage of all microloans

# YTD Activity – Active 7(a) Lenders

	Active Banks	Potential New Banks	Active Credit Unions	Potential Credit Unions	Active Comm. Adv. Lenders	Active Non Bank Lenders	Total Active 7(A) Lenders
I - New England	98	140	19	363	3	0	120
II - Atlantic	65	180	7	531	6	4	82
III - Mid-Atlantic	74	313	5	758	2	1	82
IV - Southeast	153	794	6	786	6	2	167
V - Great Lakes	281	1111	34	1175	13	4	332
VI - South Central	157	777	13	809	3	4	177
VII - Great Plains	118	883	3	354	1	0	122
VIII - Rocky Mountains	66	299	10	292	5	0	81
IX - Pacific	99	125	16	426	11	5	131
X - Pacific Northwest	34	55	8	188	3	1	46
<b>Total Lenders</b>	<b>1145</b>	<b>4677</b>	<b>121</b>	<b>5682</b>	<b>53</b>	<b>21</b>	<b>1340</b>

## Total 7(a) Lenders



- Active Banks / Credit Unions are banks/CUs that have approved a 7(a) loan in FY18
- Potential New Banks/Credit Unions includes all FDIC insured lending institutions / NCUA regulated CUs that have not made a 7(a) loan in FY18
- Other Non-Bank Lenders include SBLC's and all other lending institutions that have approved a 7(a) loan in FY18

# Office of Performance Management Systems

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Stephen Kucharski, Director  
Sherri McConville, IT Specialist



# Office of Financial Assistance

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Dianna Seaborn, Director



# OFA Updates

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- SOP 50 10 5(J) Release January 2018
  - Credit elsewhere
  - Special purpose properties and equity requirements
  - Insurance guidance
- 25 Year Debenture – April 2018
- 504 Debt Refi – Final Rule in clearance
  
- HVCRE comments submitted to Federal Reserve, FDIC and OCC requesting exemption for 7(a) and 504
  
- New forms
  - ▶ 1244 and 2450

# 504 Program Updates

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Linda Reilly, 504 Program Chief

Babak Hosseini, 504 Finance and Loan Specialist

Hien Nguyen, SLPC Director

David Miller, Supv. Loan Specialist, SLPC



# Credit Elsewhere

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- ▶ SBA has a notice in clearance to update the liquidity review requirements for credit elsewhere review
- ▶ CDCs and Lenders should document in their credit memorandum and in their files that the liquidity of principals has been reviewed and considered
- ▶ More training forthcoming

# Equity Injection for Special Purpose Properties

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SOP 50 10 5 (J) pp. 260-261

- ▶ c) Businesses with a Limited or Special Purpose Property must contribute at least 15%. For any business (including affiliates) that has an outstanding debenture for a Project involving a Limited or Special Purpose Property, for each subsequent Project involving a Limited or Special Purpose Property, the borrower must contribute at least 20%.
- ▶ If a Project will finance both a New Business and a Limited or Special Purpose Property, the Applicant is required to contribute at least 20% of the Project cost. Regardless of whether a business (including its affiliates) has an outstanding debenture(s) for a Project involving a Limited or Special Purpose Property, the minimum required equity injection will not exceed 20%.



# Insurance Requirements Guidance for 504

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## Life Insurance:

Lenders refer to page 173 of SOP 50 10 5 (J) and follow their lender's policies on requiring life insurance coverage.

CDCs have requested further guidance on page 329, section 4, Subpart B of the SOP 50 10 5 (J) which states:

“Life insurance required must be consistent with the size and term of the loan. The amount and type of collateral available to repay the loan in the event of the death of the Applicant may be factored into the determination of the appropriate amount of life insurance.”

# Insurance Calculation Example

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Total Project Cost: \$5,000,000  
Structure 50/30/20  
TPL: \$2,500,000  
SBA: \$1,500,000  
Borrower: \$1,000,000

Breakdown of Project Costs:  
Building/Land: \$3,650,000  
Furniture and Fixtures: \$ 900,000  
Other Expenses: \$450,000

The standard liquidation rates for the industry are as follows:

Commercial Real Property (includes buildings): 75%  
Residential Real Property (includes buildings): 80%  
Land only: 50%  
Equipment: 50%  
Leasehold Improvements: 5%  
Furniture and Fixtures: 5%

Liquidation Value:

Building/Land: 75%	\$ 2,737,500
Furniture and Fixtures: 5%	\$ 45,000
Other Expenses: 0%	\$ 0
Total Liquidation Value	\$ 2,782,500

The TPL's first lien amount is \$2,500,000 and there is a remaining equity of \$282,500 (\$2,782,500 - \$2,500,000). Applying the remaining equity in the property towards the SBA second lien position in the amount of \$1,500,000, the collateral shortfall is \$1,217,500. (\$1,500,000 - \$282,500.)

In this example, the required life insurance amount is \$1,217,500.

## SLPC Tips Summary for 2<sup>nd</sup> Quarter

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- ▶ When discussing the availability of liquid assets, tax-deferred retirement accounts such as IRA's, 401K, Simplified Employee Pension (SEP), etc. should not be included.
- ▶ For life insurance requirement, when addressing the dependability of one owner's active participation, CDCs must assess whether the viability of the business is tied to an individual or individuals. Also, CDCs must obtain written documentation from or a licensed insurer if CDC determines that the principal is uninsurable.
- ▶ For businesses that have existing debts, please include a fully complete Debt Schedule.
- ▶ The Credit Memorandum and supporting/financial documentation should be checked to ensure the loan package contains updated information especially if submitted in response to screen out or decline.

# Exceptions to Policy

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## Common and Current Exceptions to Policy

- Extension for Disbursements
  - 48 months – 504 loans, except Refi without expansion
  - 6 month – Refi without expansion
  
- Waiver of 50% Rule for Refinance
  - No other CDC can provide financing
  - CDC has an existing current loan with Borrower
  
- Bridge (Short-term) Financing
  - Term of less than 3 years

# Questions

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