

SBA Lending - Tips, Tricks & Traps

How to get the most out of your SBA Loan department.

Los Angeles, California USA - With the increasing popularity of SBA lending among banks of all sizes, increased competition between lenders and increased fees paid to the government; smarter lenders are always interested in ways to improve their SBA department profits. We thought we might pass along some helpful tips, tricks and traps that may help protect or improve your bottom line.

TRICK: Several banks we know have adopted a slight change in policy regarding the due dates of payments on all new loans to SBA borrowers. As you know, borrower loan payments on SBA loans are remitted to the Fiscal Transfer Agent (Colson Services) on the first day of each month via the SBA 1502 report. Some banks are requiring that payment due dates on all new SBA loans fall on the first day of the month as well. This has the effect of creating a 30 day float equivalent to the amount of your monthly payment to Colson. This is not an insignificant number in dollars or float days which essentially passes right to profits. (Leave it to bankers to dream up new ways to get float.)

TIP: The new 50 basis point guaranty fee, loan guaranty fee schedule and new guaranty percentages are in effect for all loans approved by SBA on and after October 13. This means you may have to amend your loan authorization but, more importantly, when you submit your next quarterly (1175) report to SBA on November 30, the appropriate fee is supposed to be attached or risk "the cancellation of SBA's guaranty on this loan." (emphasis added). It should be noted that SBA is not sure yet how the collection system will work but is discussing the matter with Colson Services and they hope to issue instructions in November.

TIP: What happens if an SBA loan customer's payment isn't sufficient to cover a full day's interest on your Colson (1502) report? SBA regulations require that customer payments first be applied to interest to the date the payment is received. Any excess amount over interest due to the date of payment is then applied to principal. If there is not a sufficient amount paid to bring interest current to the date of receipt and you have not received enough to make 1 full day's interest payment; what does Colson do with the fractional day's interest? This amount is held in a sort of limbo by Colson called "carry over." (Example: XYZ Company's standard payment amount is \$2,000. payable on the first of each month. XYZ Company makes their standard payment on the tenth of the following month. Accrued interest to the date of receipt is \$2,300. and their per diem interest is \$75. From the \$2,000. payment you can get 26 days' interest or \$1,950. The remaining \$50. Colson will put into "carry over.") Unless the bank maintains accurate accrual records, this carry over, will remain with Colson until the loan is repaid in full

and analyzed over your entire SBA portfolio could amount to a substantial sum of money.

TRAP: We've discussed, above, some of the tips and tricks for scheduling payments and submitting required reports. Here is a trap you should avoid. Payments from borrowers are remitted to Colson by the third calendar day of every month along with your 1502 report. Did you know that "payments received other than as regularly scheduled in the previous month must be remitted by Lender to FTA within two (2) business days of receipt of collected funds." This can be construed to mean payments which are delinquent for a due date earlier than the period covered by your next 1502 report.

While many of you may be aware of some or all of these hints about SBA lending, with the abundance of new participating lenders and personnel, we hope this will be helpful. (Editor's Note: Steven Fried is a principal with Capital Finance which provides SBA consulting and computer services to lenders. He may be reached at (818) 344-8989.)