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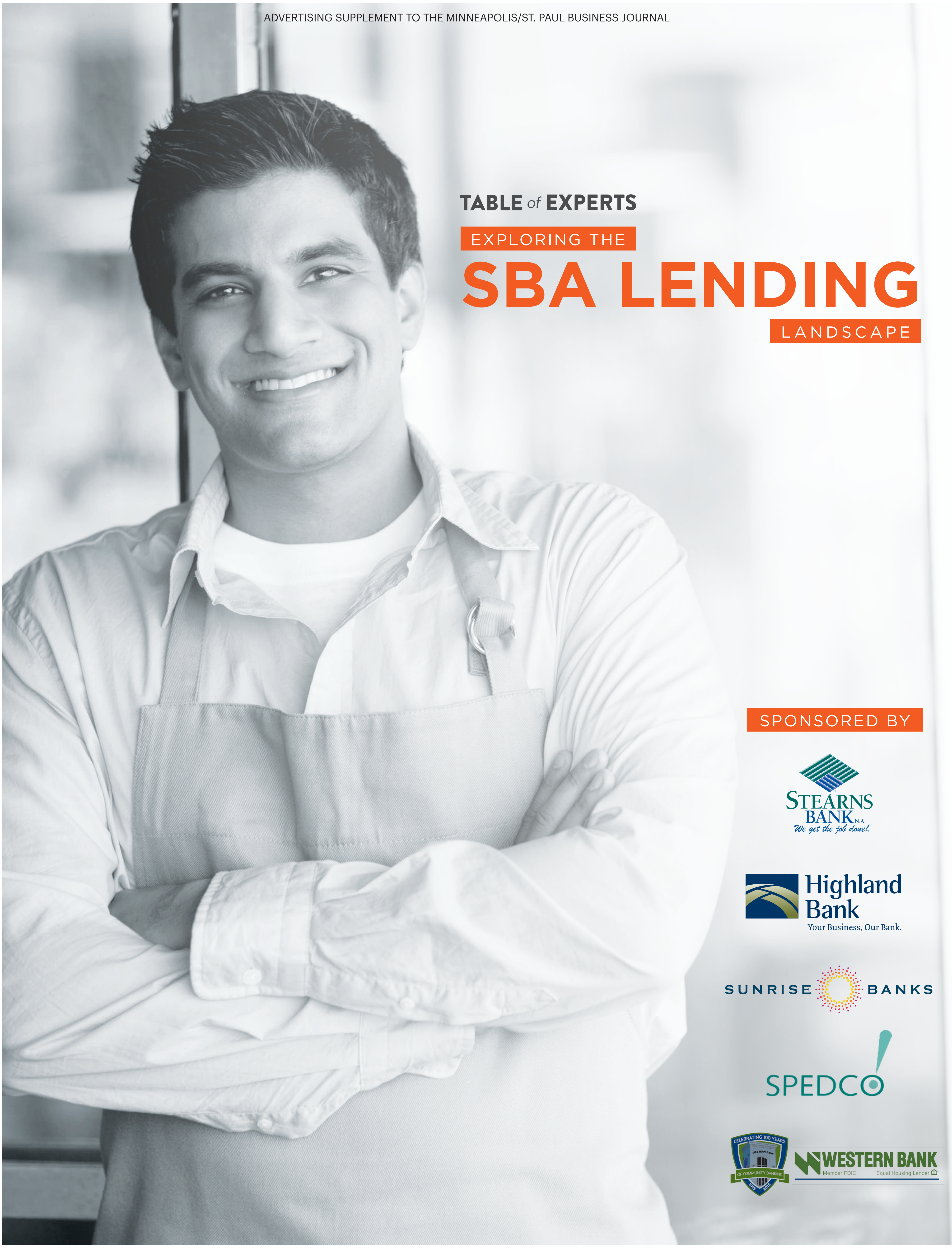

TABLE *of* EXPERTS

EXPLORING THE SBA LENDING LANDSCAPE

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MODERATOR

Nick Jellum

Shareholder and attorney, Anastasi Jellum

Nick Jellum is the president of Anastasi Jellum where he focuses his practice on advising the firm's financial institution clients throughout the country on all aspects of commercial loan transactions, from loan documentation to loan workouts, collections and liquidation, specifically focusing on U. S. Small Business Administration guaranteed loans.

PANELISTS

Eric Cook

Vice president and commercial lender, Stearns Bank

Eric Cook has over 20 years banking experience, specializing in Small Business Administration and commercial finance. He is currently a vice president and commercial lender at Stearns Bank, which is a $1.9 billion, 100-year-old bank based in St. Cloud.

Terri Dooher Fleming

Senior vice president of commercial banking, Western Bank

Terri Dooher Fleming joined the Western Bank team in 2013. She is senior vice president of commercial banking. She has over 30 years of banking experience. Prior to joining Western Bank she worked for 16 years at Park Midway/Sunrise Bank. Her community banking roots were established while working for Highland Bank, TCF Bank and Midway Bank. Dooher Fleming is a board member of SPEDCO, Neighborhood Development Center and Town & Country Club. She is a former board member of the Midway Chamber of Commerce and is on the Ford Site Planning Task Force.

Andy Clausen

Senior loan officer, SPEDCO

Andy Clausen is senior loan officer for SPEDCO, a nonprofit company whose purpose is to promote and assist in the growth of small businesses located in Minnesota and nine counties in western Wisconsin. Prior to joining SPEDCO in 1998, Clausen was a commercial lender at a bank in southwest Minnesota, as well as an agricultural lender with Farm Credit Services. He holds a Bachelor of Science degree from the University of Minnesota with an emphasis in agricultural business management.

Kim Storey

SBA manager, Highland Bank

Kim Storey has more than 20 years of experience in the banking industry and is an expert in SBA lending. She joined Highland Bank in 2002 as senior vice president of SBA lending. She started her banking career as a credit analyst with Norwest Bank and moved into small-business lending and economic development. She then joined Riverside Bank and created and managed its SBA lending department. Storey graduated from the University of Minnesota-Duluth with a Bachelor of Business Administration degree. She serves on the board of directors for St. Paul Metro East Development Corp. and is a member of the National Association of Government Guaranteed Lenders.

Melissa Kraemer

Senior vice president and director of SBA, Sunrise Banks

Melissa Kraemer is senior vice president and director of SBA at Sunrise Banks. Her SBA lending advice has been published in various business publications throughout the Twin Cities. She has over 20 years of SBA lending experience. She has held several commercial lending roles, including credit administrator, credit analyst and commercial lender. She held SBA lending roles at Riverside Bank and Anchor Bank prior to joining Sunrise. In 2014, she joined Sunrise Banks, a Minnesota top 10 lender in SBA 7(a) loan volume, and is actively growing the SBA division.

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BY ELIZABETH MILLARD
Contributing writer

The *Minneapolis/St. Paul Business Journal* held a panel discussion recently, featuring five experts exploring topics about the SBA-lending landscape. Panelists included Melissa Kraemer, senior vice president and director of SBA at Sunrise Banks; Andy Clausen, senior loan officer at SPEDCO; Terri Dooher Fleming, senior vice president of commercial banking at Western Bank; Kim Storey, senior vice president and SBA lending manager at Highland Bank; and Eric Cook, vice president and commercial lender at Stearns Bank. Nick Jellum, shareholder and attorney at Anastasi Jellum, served as the moderator.

Jellum: I think a good place to start would be with some definition. What is SBA lending? I get calls from lenders and borrowers who don't really get it. I think there are some misconceptions about whether the government is actually loaning money. So, Terri, let's start with you.

DOOHER FLEMING: The SBA programs are in place to provide lenders with a safety net to encourage lending to a business which would otherwise have difficulty qualifying to borrow under conventional terms. Under the SBA programs, SBA provides a guaranty to the lender, ranging from 50 percent to 85 percent. In the event the borrower cannot repay the loan, the SBA will reimburse the lender the guaranty percentage share of a loss. The SBA programs are intended to encourage businesses to make capital investment and create jobs.

Jellum: You mentioned lenders. Andy, you're from a CDC. Can you explain a little bit about what that means?

CLAUSEN: Sure, a certified development company is the vehicle for obtaining one of the SBA loan programs called the SBA 504 program, that's a little different from 7(a). With the 504, the borrower ends up with two loans. Generally, the bank does 50 percent of the project and the SBA, through a CDC like SPEDCO, comes in and finances 40 percent of the project in a second lien position. So with the 504 program, there essentially is a direct loan from the SBA for a portion of the project, with the benefits being a lower down payment and a fixed rate on the SBA's portion. The 7(a) incents the bank; with the 504, there are direct benefits to customers with the rate and lower down payment.

Jellum: Are there any other specific loan types or programs that are used a lot these days?

DOOHER FLEMING: There is also the SBA Community Advantage program, which is offered through community development companies, such as Neighborhood Development Corp. and WomenVenture in the Twin Cities. As mission-based economic development organizations, CDCs provide training and borrower support, as well as SBA loans of up to $250,000. Because they are not regulated the way banks are, they are able to lend to more challenging borrowers and provide them with resources and technical assistance to help make the business successful.

Jellum: In talking about various loan programs, it sounds to me that there are a lot of advantages to lenders to use SBA programs. Kim, you work with borrowers all the time. Can you address why a borrower would find an SBA loan attractive?

STOREY: Typically, the SBA loan programs allow for a more flexible loan structure than conventional bank financing in terms of interest rates and longer loan terms. For example, the 7(a) program allows up to 25 years on commercial real estate transactions, up to 10 years on equipment purchases, and up to seven years for working capital and inventory financing needs. As Andy mentioned, the 504 program provides a 20-year fixed interest rate on the SBA portion of the project. Another advantage of SBA financing is the ability to finance a building or to acquire a business with less money down, sometimes as little as 10 percent.

Jellum: That's an interesting comment, because I've always heard misconceptions about SBA lending being viewed as a loan of last resort. Melissa, can you dispel that myth?

KRAEMER: The majority of SBA loan customers are successful companies that are rapidly growing and need more flexible financing options. For example, I have helped many healthy companies purchase equipment with a 10-year term with as little as 10 percent down. This enabled them to grow more rapidly or take advantage of new opportunities earlier than if they needed to wait to qualify for a conventional loan with a 5-year term and a larger down payment. SBA is not a lender of last resort, by any means.

COOK: To dovetail off that, in many cases when compared to a conventional loan, I would argue the SBA has a number of advantages. You can tell right away when you're talking to customers, you bring up SBA and you might get a long pause, that means there may be a misperception there. But when you start explaining the benefits you can't get in a conventional program, the advantages of an SBA loan become very clear.

DOOHER FLEMING: Cash flow drives our lending decisions as bankers, and being able to put something on a longer repayment allows the borrower to preserve their own cash to internally fuel growth. It's often a really good vehicle to help someone who wants to grow their business, because they're able to pay for that piece of equipment over a longer period of time.

Jellum: What I'm hearing you all say is that borrowers could be looking at a combination of SBA and non-SBA financing. Eric, do you see that quite often?

COOK: Yes, we do. Like everyone at the table here, we try to make the best fit for our customers. Some of the advantages of the SBA program are not available in conventional lending; it's not as collateral-dependent, and like Terri said, it helps on cash flow.

STOREY: Part of our job as a lender is to inform our borrower of all the potential financing options that are available for their business. A borrower may have multiple financing vehicles in place for their business but may opt for SBA 504 financing for the purchase of a building in order to keep more equity on the company's balance sheet, which will allow for greater flexibility in the future.

KRAEMER: If we are using the SBA 7(a) program, we don't need to focus on collateral when structuring a new project. We can then focus primarily on what structure, term and dollar amount is needed to make the business successful, rather than being bound by the amount of collateral we will have to secure the loan, and that is a different approach to lending than conventional financing.

Jellum: Let's clarify that. Are you suggesting that SBA loans can be uncollateralized?

KRAEMER: They can, or at least undercollateralized. For example, let's say you want to do an expansion of a business, such as a second location. We work with the borrower to determine how much is needed to ensure the company has the right financing package to be successful. If the dollar amount needed cannot be fully collateralized by all available assets, we can approve an SBA loan without it being fully secured. In conventional financing, we would have to limit our financing to the amount of collateral available.

CLAUSEN: Just to follow up on that, usually with the 504, we're financing fixed assets like real estate or equipment, and the vast majority of the time, the only collateral we take are the project assets that we're financing. With the 7(a), usually we're taking all available collateral, but we'd still make the loan even if there's an insufficient amount of collateral.

Jellum: We've been talking about the differences between SBA lending and conventional lending. But let's get into the differences between 504 and 7(a) as far as eligible uses, and so on.

CLAUSEN: The 504 has a more limited scope, where we focus on capital assets like real estate or equipment. Most of our projects are real estate related. Whereas 7(a) has a wider array of eligible uses.

STOREY: The 7(a) program serves as the SBA's primary business loan program and is the SBA's most flexible program since financing can be used for a variety of general business purposes. The SBA allows a company to refinance existing business debt under the 7(a) program, which can help a company improve their balance sheet. Another unique feature is the SBA Express loan, which allows for a revolving line of credit facility, and the borrow-

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"Cash flow drives our lending decisions as bankers."

– Terri Dooher Fleming, senior vice president of commercial banking at Western Bank

NANCY KUEHN

er is able to have this loan in place for up to seven years.

Jellum: Comparatively speaking, when talking about terms, it sounds like one of the key advantages for SBA programs are much longer terms?

COOK: And no balloon payment. You are not going to see that in most conventional deals, and that is something that's really under-appreciated. When the borrower realizes on a conventional loan that they have to go back to the bank every five years and ask if they'll renew it, that causes some anxiety. To have the security of one closing, one appraisal and no additional transactional costs, is a huge benefit.

KRAEMER: I think the lack of a balloon in SBA loans is more valued by borrowers than it used to be. During the recession many businesses were affected by balloons as their loans came due at a time the business was under stress and the balloon jeopardized the health or in some cases the survival of the company.

CLAUSEN: In the depths of the recession or a couple years after, a lot of people who typically would have renewed in five years had to leave the bank or bring in a huge capital infusion, whereas if they had a 20-year loan, there wouldn't have been the risk.

Jellum: We've had a couple comments about transactional costs. I've heard that SBA loans are more expensive to borrowers. Kim, do you think that's true?

STOREY: The SBA charges an up-front guarantee fee, which is based on the guaranteed portion of the loan amount. The caveat is that the majority of banks wrap that fee into the loan, so it is amortized over the term of the loan and the borrower doesn't have to come up with the cash at closing. It is important to note that the SBA is currently waiving the SBA fee on loans up to $150,000 through the end of September 2015 for borrowers.

Jellum: This might be a good time to segue into talking about interest rates. Terri, how would you compare the interest rate generally on SBA loans compared to conventional loans?

DOOHER FLEMING: The maximum rate under a typical SBA 7(a) loan is prime plus 2.75 percent on a variable rate basis. Today, that equates to 6 percent. Lenders generally price loans based on risk. While higher priced than some conventional loans, SBA pricing is far less expensive than factoring or financing with credit cards.

KRAEMER: Another thing to mention is that many SBA loans are unsecured, and it's less expensive to a borrower to have an SBA loan than to have unsecured credit card debt, where they might pay up to 18 percent. SBA allows us to do unsecured loans up to $25,000. The SBA has also made it easier to refinance credit card debt, when the card account is in the business name, which I think is phenomenal for borrowers.

DOOHER FLEMING: The other program we haven't talked about is the SBA CAPLine. This program provides revolving working capital lines of credit of up to $5 million. Funds can be used to finance accounts receivable, inventory or a specific contract.

Jellum: What kind of businesses do you see benefitting from CAPLines?

DOOHER FLEMING: Manufacturers, contractors and businesses that are growing rapidly are great candidates for a CAPLine. There are very specific rules for collateral tracking and repayment under this program, but the extra financial reporting is worth the borrower's effort. This program fills a niche between conventional credit lines and asset-based lending.

Jellum: I'd like to shift the discussion in how these programs work practically, and talk about limitations.

DOOHER FLEMING: The 7(a) loan maximum is $5 million. Under that program, the bank would receive a $3.5 million guarantee from the SBA. Some of the qualifications would include being able to debt service the amount they're borrowing, cover that with their earnings on an annual basis of 1.15 minimum. There's a lot of underwriting. We talked earlier about cash flow, and that's what repays loans, it's not the collateral. And we're driven to do the analysis around that. All of us around the table are SBA-preferred lenders. Part of what we provide the borrower as lenders is the ease of getting the paperwork completed without the borrower having to work overly hard at that.

Jellum: You mentioned a cap of $5 million. Is that per loan?

CLAUSEN: Typically, a borrower would have a lending cap of $5 million that's inclusive of all their SBA loans. The 504 loan is a little different from the 7(a) in that we'd typically have a $5 million cap also, but that would be for the SBA's 40 percent portion only. So, we could do a $12 million project, and the SBA's 40 percent portion of $4.8 million would remain below the SBA loan limit of $5 million. The other thing with 504 is we could go up to $5.5 million for certain manufacturing or green energy projects, and that's a per-project limitation. They could conceivably have two or three of those at the same time. That's for the 504 loan only.

KRAEMER: In that example, if you wanted to use both the 504 loan program for real estate and the 7(a) program for working capital, the timing of when you make your application is important. The 7(a) program has a lower program limit, so if your 504 loan is approved first and goes over the $3,750,000 limit in the 7(a) program you would not be able to approve the 7(a) loan because you are over the maximum. If you make an application for the 7(a) first, then obtain approval for the 504, you will be able to fund both. This is a nuance of the programs that can be frustrating if it's not understood up front. If you're working with a preferred lender it can make all the difference in avoiding these kinds of issues. If you're working with a lender that's less experienced, the program's nuances such as these are frustrating to learn about when you are trying to get your transaction closed.

COOK: I do think that's important, to rely on a preferred lender, because to achieve that preferred-lender status, you need to have a history and a track record.

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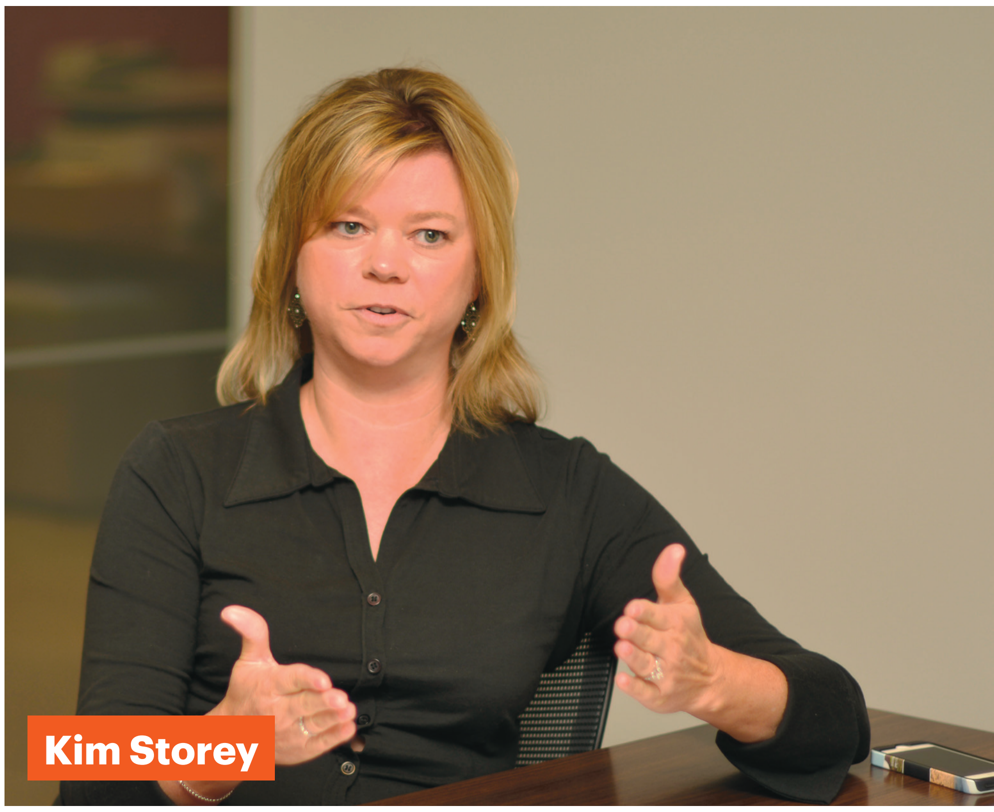

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That's going to be very advantageous to the customer, knowing the details that you can navigate and make it more efficient. They don't just hand out the preferred-lender status. You must have a dedicated group that has experience navigating these loans.

KRAEMER: And it's not just about processing. There's an experience level that you're going to benefit from when using a preferred lender. When a borrower runs into problems or issues, a preferred lender has the experience to offer solutions to get the loan closed.

COOK: It says a lot about the bank, too. When you're dealing with a bank that's a preferred lender, you know that the bank is dedicated to SBA lending. You'll typically have teams or divisions dedicated to SBA lending.

STOREY: I think it is important to talk about what it means for a bank to be a SBA preferred lender. The SBA awards the PLP designation to lenders that have established a successful track record and display a thorough understanding of SBA lending policies and procedures. Having this designation allows a bank to approve loans on behalf of the SBA, as well as close and service those loans.

Jellum: Does that mean all SBA loans can be different, regardless of the bank? I think that's a misconception, too, where borrowers think it doesn't really matter what lender they go to.

DOOHER FLEMING: We all have to play by the same SBA rules, but our individual underwriting criteria or our manner of structuring may vary, because there's some gray area within the SBA rules. Some of us may be more conservative in terms of how we apply those rules.

Jellum: On a 504 approval, because there's the lender and the CDC, is there dual approval?

CLAUSEN: Yes. And a lot of people think that adds time, but that's not necessarily the case. As long as the CDC is brought in early enough on the project, we can navigate the approval process and get that moving at the same time the bank is finalizing its approval process.

STOREY: From the perspective of obtaining approval on a 7(a) loan there can be a significant difference between banks, depending on how they process the loan. As I mentioned earlier, a PLP lender is well aware of the parameters of the SBA loan programs and is able to approve loans on behalf of the SBA. When a loan package is complete, we can obtain SBA approval instantaneously, while a loan sent into the SBA for approval can take upwards of several weeks for approval and final loan structure.

COOK: That's another of the misconceptions that are out there. People think it's going to be a long, drawn-out process, but when you're dealing with a preferred lender, they're focused on execution and delivery in a streamlined manner.

Jellum: Let's talk about the timeline of SBA loans compared to conventional loans.

DOOHER FLEMING: As long as the borrower provides requested information on a timely basis, the timeline for an SBA preferred lender is comparable to conventional approval timelines. The challenge for a lender can be getting the information needed to make an appropriate credit decision. A prepared borrower could have a loan turned around in a couple of weeks. Preferred lenders typically have a checklist to help guide the borrower through the process.

Jellum: Does anybody care, on the 504 side or 7(a) side, to provide an average number of days to get a deal done?

KRAEMER: It depends on the product. An Express loan to be used for working capital can be completed in less than 10 days for a prepared borrower. A typical 7(a) term loan that is not secured by real estate and is not related to a change in ownership transaction will generally take between three and five weeks from the time the lender has a full package from the borrower.

DOOHER FLEMING: A challenge on larger real estate loans is that appraisers are very busy right now. It is difficult to get an appraisal in less than three or four weeks. That is stretching the timeline on real estate secured transactions.

Jellum: Another misconception I wanted to address is that SBA is just for mom-and-pop businesses or very small companies. It's my understanding that those businesses are really good candidates, but that SBA is not limited to just those companies.

CLAUSEN: That's very true. I almost exclusively rely on the SBA 504 size standard, which permits loans to companies that have a tangible net worth of $15 million or less. That encompasses some very large companies that might have revenues of $50 million or more, depending on the type of business.

DOOHER FLEMING: Lenders and the Small Business Administration want to make sure small, mainstream businesses are being well served by the SBA programs. The SBA has eliminated guaranty fees for loans less than $150,000. We all want to make sure these programs continue to be available, and if a truly "small" business is not being served, legislative support for the SBA programs may be challenged.

KRAEMER: SBA is a great program for all small businesses seeking creative financing to grow their business, and SBA has worked hard to make the process and customer experience easier and better than ever in the last two years. If you had a different experience in the past, it's truly worth it to contact an SBA lender and take another look at the program.

"SBA is a great program for all small businesses seeking creative financing to grow their business."

– Melissa Kraemer, senior vice president and director of SBA at Sunrise Banks