MEMBER BUSINESS

UPDATE

INTELLIGENCE FOR FORWARD THINKING BUSINESS LENDERS

NOVEMBER 2013

MBL Member Business Lending, LLC

QUALITY SERVICE

SBA ANNOUNCES CHANGES IN SOP 50-10 FOR FY 2014

MBL received notice from the SBA of SOP changes and fee changes that will take effect in 2014. Upfront guaranty fees for 7(a) and 504 programs have been eliminated on loans less than $150,000 and ongoing SBA guaranty fees have been reduced from 55 (.55%) basis points to 52 (.52%) on loans higher than $150,000. According to the SBA, the upfront guaranty fee still remains dependent on the loan amount and loan maturity. Loans with maturity exceeding 12 months and a loan amount of $150,001 to $700,000 the SBA guaranty fee would be 3% of the guaranteed portion of the loan. Fees on loans of $700,001 to $5 million are 3.5% of the guaranteed portion up to $1 million plus 3.75% of guaranteed portion over $1 million. For loans with a maturity of 12 months or less, that are over $150,000, the fee remains 0.25% of the guaranteed portion. For 7(a) loans of $150,000 or less that are approved in FY 2014, the ongoing and the upfront guaranty fees are now zero. LENDERS MAY NOT CHARGE A GUARANTY FEE TO THE BORROWER, SINCE SBA DOES NOT CHARGE FEES TO LENDERS FOR THESE LOANS. With two or more SBA-guaranteed loans approved by the SBA within 90 days of each other, the guaranty fee is based upon the aggregate amount of the loans. So, if the total value of the loans is greater than $150,000, the normal fees will apply.

OTHER SOP CHANGES INCLUDE

For 504 Loans approved during FY 2014, there is no change in the fees. The annual fee remains 0.9375% of the outstanding balance of the loan, and the one-time guaranty of the loan continues to be 0.50%.

Page 71 of the Standard Operating Procedures (SOP) includes a description of 7(a) delivery methods now using consistent bifurcation based on loan size i.e.: (a) Small loans up to and including $350,000 (Small Loan Advantage), (b) Loans over $350,000 to $5 million.

The SBA has made an update on “Businesses with an Associate of Poor Character” on pages 93-98. It reflects changes made to SBA form 912 and form 1919.

EIGHT REASONS TO ATTEND MBL ANNUAL MEETING

The difference between credit unions and other business lenders is that we are not afraid to share our success stories with others in the movement. The best way to share these best practices is first hand with your credit union associates.

So here are eight reasons to attend the MBL Annual Meeting on November 12 from 8 AM to 5 PM at the Grand America Hotel in Salt Lake City:

1. Put a face with the name. Meet the faces of MBL and introduce your credit union employees’ faces to the MBL employees.
2. Hear comments from MBL Chairman Mark Sekula.
3. You’ll hear the 2013 MBL Financial Report from Jim Hofeling.
4. Hear the results of the SSAE 16 Audit Report.
5. Hear the report on MBL activity during 2013 from CEO Kent Moon and the Member Business Lending Executive Staff. The report will focus on and include a 2013 Operational Report, as well as a report on the state of the Small Business Market.
6. Hear the projected state of the industry and the proposed 2014 Annual Business Plan for Member Business Lending, LLC, with new and important advances in MBL services.
7. Participate in the Open Forum as the Annual Meeting winds down.
8. Network and tell your “bragging rights” stories at the networking reception.

SOP CHANGES CONTINUED

To address delinquent federal debt, language has been added to clarify the exclusion of "unpaid/delinquent taxes, any loss incurred by the Federal Deposit Insurance Corporation (FDIC) when it sells a loan at a discount, or any loan purchased, held or securitized by Fannie Mae or Freddie Mac."

A requirement for business valuation when refinancing a debt used for a change of ownership (except for seller notes) has been deleted.

Chapter 4 on Credit Standards, Collateral and Environmental Policies includes a comment from SBA suggesting a careful review of this chapter, "as there have been significant modifications to streamline program underwriting requirements and application documents." The Small Rural Lender Advantage has been eliminated. The comment also tells lenders to review the pre-screening for the SLA Score required for all 7(a) loans up to and including $350,000.

The DSC ratio is now described on page 162.

The SOP changes address the requirements for Standard 7(a) loans greater than $350,000 up to and including $5 million. They also include a definition of operation cash flow (as EBITDA) and a mandatory SC of 1.15 to 1 or greater on an historical and/or projected basis. Watch for more detail on these changes in subsequent MBL newsletters.

The equity requirements for loans in excess of $350,000 are defined on page 166.

Page 168 covers collateral policy for loans of $250,000 or less. On collateral loans $25,001 - $350,000 the Lender follows their own policies for commercial loans of similar size, but at minimum, must obtain a lien on fixed assets. For loans greater than $350,000 the lender will secure to the maximum extent possible. If fixed assets are not adequate, a lien on personal R/E owned by the principals must be taken.

Page 169 includes an adjusted definition of "fully secured."

Pages 188 and 189 explain the SBA position on life insurance. Lenders will use their internal commercial polices for loans of like type and size, except if the borrower is an LLC. Then, life insurance is required.

PLEASE HELP US FIND THE RIGHT PEOPLE

Changes are coming to the Member Business Update and you won't want to miss a thing. So we ask you to tell us who in your organization should get the electronic newsletter. Let us know by sending a list with the electronic addresses of those from your credit union who should get the newsletter. Send the names and email addresses to Kathy Mciff at kmciff@mblllc.com along with your credit union name and we'll be sure they get the newsletter each month.

CULTURE EATS STRATEGY FOR BREAKFAST

If you are going to be successful in building your business portfolio, you should build and allow a sales culture to grow in your credit union. We suggest that your first priority be to develop a sales culture in your credit union.

Traditionally, credit unions have become "order takers" and business comes to them. Encouraging a deeper sales culture requires the culture growing from the top of the organization down. Incentives for success need to be developed and paid near the time of the success. Sales cultures do not thrive in a micro-management environment. It is human nature for employees to challenge the development of a sales culture, and they will test the organization's resolve. Cultures do not change in an instant, so don't expect everything to change all at once.

The CEO and the Senior Management Team have to support the change openly, with each of their decisions and management styles. But in the end, employees and management will find that they will enjoy being part of a sales culture model that works.

HOLIDAY CLOSURES

Thanksgiving Day	November 28
Christmas Day	December 25
MBL Christmas Party	December 20
Noon to 2 PM	