

# Wholesale SBA 504 1<sup>st</sup> Mortgages



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CDC Capital Markets



# Background



- Ken Rosenthal: CDC Small Business Finance Sr. Loan Officer since 1991 – over 1,000 504 loans exceeding \$2 billion
- CDC Capital Markets: wholly owned subsidiary of CDC Small Business Finance...nation's largest SBA 504 CDC
- Morgan Stanley contract with CDC Capital Markets since 2010
- Education and Training nationwide to promote 504 lending and 504 1<sup>st</sup> mortgage secondary market lending
- Former NADCO Director and current NADCO Trainer of Sales and Marketing

# Common Questions



- ❑ Why would community banks use the wholesale SBA 1<sup>st</sup> mortgage market?
- ❑ Define credit box, rates / terms, collateral, any unique characteristics.
- ❑ SBA 504 Originations / Refinance Existing SBA 504 1<sup>st</sup> mortgages / SBA 504 Debt Refi – How do each work in relation to the 1<sup>st</sup> mortgage secondary market?
- ❑ What are current rate structures for Variable and Fixed rates?
- ❑ How do Prepayment Penalties work and do you allow partial prepays without penalty?
- ❑ What are the minimum and maximum limits on loan amounts on the first mortgage?
- ❑ What are maximum loan to value requirements?
- ❑ What are the limits/caps on premiums?
- ❑ What property types are acceptable?
- ❑ What are DSCR requirements?
- ❑ What are FICO requirements?
- ❑ What are advantages and disadvantages of Direct Table Funding vs. Loan Purchase?
- ❑ How do you handle the interim loan and construction?
- ❑ What are the mechanics and time frame of the process?
- ❑ What is the process for appraisal and environmental reports?
- ❑ What is the involvement with the borrower themselves and the CDC's?

# Offensive & Defensive Strategies



- Beat lending competition, while maintaining the full client relationship
- Up to 25 years fully amortizing
- Interest rate fixed for up to 25 years
- Earn Premium Income with Infinite return on investment
- SBA 504 Originations, Refi Existing SBA 504 1<sup>st</sup>, SBA 504 Debt Refi
- Refinance existing SBA 504 1st mortgages so another lender doesn't take the loan & client relationship
- Do out of market deals nationwide so another lender doesn't take the loan & client relationship
- Eliminate legal lending limit issues to a single borrower
- Satisfy customer needs while not affect selling lender's balance sheet

# Wholesale SBA 504 1<sup>st</sup> Mortgage players Multi Purpose Properties



## **CDC Capital Markets, representing Morgan Stanley**

Nationwide 504, Multi purpose properties only

"A" credit deals, "A" rates

Ken Rosenthal, Sr. Advisor 858-967-7817

krosenthal@cdcloans.com

## **Zions Bank**

Almost nationwide, 504 & conventional, mostly Multi purpose properties

"A" credit deals, "A" rates

Blake Zumbrunnen, National Sales Manager

801-979-0994 blake.zumbrunnen@zionsbank.com



# Wholesale SBA 504 1<sup>st</sup> Mortgages All Property Types



## **Avana Capital**

Nationwide 504, Multi & Single purpose, interim and construction loans, wider credit box but higher rates  
Matt Hunt, Chief Credit Officer 801-256-6553 Matt@avanacapital.com

## **CIT**

California only, Multi purpose and some single purpose  
Shilo Hall 760-212-9369 shilo.hall@cit.com

## **Fountainhead Capital**

Nationwide 504, Multi & Single purpose, interim and construction loans, wider credit box but higher rates  
Chris Hurn, CEO 407-466-7568 chris@fountainheadcc.com

## **Liberty SBF**

Nationwide 504, Multi and Single purpose, wider credit box but higher rates  
Alexander Cohen, President 877-664-8501 acohen@libertysf.com



# Wholesale SBA 504 1<sup>st</sup> Mortgages – Guidelines



- Direct Table Fund or Loan Purchase
- Maximum 60% - 65% LTV on 1<sup>st</sup> mortgage
- 25 year fully amortizing loans
- First mortgage up to \$7.5 million (larger by exception)
- Pricing: Variable or FIXED for 1 year, 3 years, 5 years, 7 years, 10 years, and 25 years
- Pricing options based on LIBOR Index Rates + spread
- Premium based on index rate + spread and prepay
- Max premium = first year PPP

# Wholesale SBA 504 1<sup>st</sup> Mortgages



- New SBA 504 transactions
- Refinance Existing SBA 504 1st mortgages
- 504 Debt Refi of conventional loans
- Various sources for diff property types
- Global DSCR 1.2 last fiscal year & interim for “A” credit lenders, 1.0 for others
- FICO min of 675 - 680 for “A” credit lenders, discretionary for others
- Allow 20% principal reduction per year
- Interim loan – non bank lender options



## 5 Year Fixed Rate - Example

\$10MM SBA 504:	\$5MM 1 <sup>st</sup> mortgage
5 Yr Libor Index:	2.35% today
Par Spread:	200 basis pts
Par Rate:	4.35%
<i>Increase rate:</i>	<i>50 basis points (2% premium)</i>
<i>Borrower Rate:</i>	<i>5 Year Libor Swap + 250 = 4.85%</i>
<i>Prepayment:</i>	<i>5/4/3/2/1 (Par)</i>
<b>Orig Fee:</b>	<b>1.5% = 1% to selling lender + .5% to SBA</b>
<b>Premium:</b>	<b>2%</b>
<b>Total Income:</b>	<b>3% = \$150,000</b>

## 7 Year Fixed Rate - Example

\$10MM SBA 504:	\$5MM 1 <sup>st</sup> mortgage
7 Yr Libor Index:	2.4% today
Par Spread:	200 basis pts
Par Rate:	4.4%
<i>Increase rate:</i>	<i>50 basis points (2% premium)</i>
<i>Borrower Rate:</i>	<i>7 Year Libor Swap + 250 = 4.9%</i>
<i>Prepayment:</i>	<i>5/4/3/2/1 (Par)</i>
<b>Orig Fee:</b>	<b>1.5% = 1% to selling lender + .5% to SBA</b>
<b>Premium:</b>	<b>2%</b>
<b>Total Income:</b>	<b>3% = \$150,000</b>

## 10 Year Fixed Rate - Example

\$10 million 504:	\$5 million 1 <sup>st</sup> mortgage
10 Yr Libor Index:	2.5% today
Par Spread:	225 basis pts
Par Rate:	4.75%
<i>Increase rate:</i>	<i>25 basis points (1% premium)</i>
<i>Borrower Rate:</i>	<i>10 Year Libor Swap + 250 = 5%</i>
<i>Prepayment:</i>	<i>10/9/8/7/6/5/4/3/2/1 (1% premium)</i>
<b>Orig Fee:</b>	<b>1.5% = 1% to selling lender + .5% to SBA</b>
<b>Premium:</b>	<b>2%</b>
<b>Total Income:</b>	<b>3% = \$150,000</b>

## 25 Year Fixed Rate - Example

\$10 million 504:	\$5 million 1 <sup>st</sup> mortgage
10 Yr Libor Index:	2.5% today
Par Spread:	275 basis pts
Par Rate:	5.25%
<i>Increase rate:</i>	<i>25 basis points (1% premium)</i>
<i>Borrower Rate:</i>	<i>10 Year Libor Swap + 300 = 5.5%</i>
<i>Prepayment:</i>	<i>10/9/8/7/6/5/4/3/2/1 (1% premium)</i>
<b>Orig Fee:</b>	<b>1.5% = 1% to selling lender + .5% to SBA</b>
<b>Premium:</b>	<b>2%</b>
<b>Total Income:</b>	<b>3% = \$150,000</b>

# Preferred Pricing for Quintessential Credit Deals!



## **Definition of Quintessential Credit:**

“Representing the most perfect or typical example of a quality or class”

- DSCR of 1.5:1 for OC alone for the last tax return year and interim period
- Minimum FICO of 725 for each guarantor
- Strong personal and business post closing liquidity
- Positive Strong Retained Earnings and Debt/Worth less than 3:1
- Loan to value on first mortgage under 55% inclusive of premium
- Collateral in urban area with population of at least 50,000

## **What is Preferred Pricing:**

- What is it going to take to win the deal?
- Price close to preferred reduced par to win the deal
- Rates as low as 200 over 10 year libor fixed for 25 years

That is 4.5% fixed for 25 years!

# Process Logistics



- Email Credit Memo or Deal synopsis
- 24 hour pre qualification turnaround time
- Electronic processing to acquire package
- Formal Underwriting: 1 – 2 weeks
- Appraisal and Environmental coordination
- Fund 2 weeks after receipt of closing checklist items