

Interview with Alan Thomes, President, SBA Loan Division State Bank and Trust Company

For many new start-ups and small businesses, an SBA loan may be an appropriate form of financing. In this interview with Alan Thomes, President of State Bank's SBA Loan Division, Alan provides an overview of the pros and cons of SBA lending. If you are interested in learning more about SBA lending, this interview provides insights into the SBA PLP process, when SBA loans are appropriate, and other questions you may have regarding whether an SBA loan could be the right financing option for your business.

Q: What types of businesses/industries can benefit from the SBA loan programs?

A: Most small owner-operated business can benefit from SBA loans

Q: Are there specific items that can be financed with an SBA loan?

A: Most ordinary assets – including real estate, buildings, furniture, fixtures, and working capital – can be financed through an SBA loan. Most capital and many expense items needed for businesses can be financed, with only a few exceptions.

Q: Can I use SBA financing to acquire an existing business?

A: Yes. SBA loans can be used to finance the purchase of an existing business or to finance a franchise.

Q: How long does the SBA loan application and financing process take?

A: Like most things, it depends on the type of transaction and how responsive the borrower is. The timing is comparable to conventional financing. If you're buying real estate, third-party services like an appraisal can delay or slow down the process a little bit. If a borrower is responsive in getting us the information we need, it could be as short as a few weeks. If it's a complicated transaction, it may take 4 to 6 weeks. Typically, SBA loans take anywhere from 3 to 6 weeks to be funded, depending on the transaction.

Q: How much can be borrowed through SBA programs?

A: We can finance up to \$5 million through the SBA loan program. Generally, smaller amounts, under a \$100,000 loan amount, may not make sense due to the time and associated costs of an SBA loan. In this case, an alternative financing vehicle, such as equipment financing, may be a more effective form of borrowing. SBA loans are designed to provide enough capital to acquire or operate a small to mid-size businesses for most purposes. Patriot Capital offers conventional equipment financing that's suitable for a small or mid-sized equipment purchase.

Q: What are the terms for an SBA loan? How long will I have to pay off the loan?

A: SBA defines the terms based on the use of the proceeds, so it depends on what you're financing. If you're buying a long-term asset – for instance, if you're buying a building for your business – you can get up to a 25-year fully amortizing loan. It's a 25-year commitment, and you do not have to worry about refinancing. You just make your payment every month for 25 years and it's paid in full. If it's a business acquisition or soft asset – maybe furniture or fixtures – those might be a 5- or 10-year borrowing term.

Q: When would an SBA loan be a more attractive form of borrowing than conventional financing or leasing?

A: One of the things that makes SBA loans attractive is, if you go get a conventional loan from your bank to buy a gas station or small business, generally, they might give you a 25-year amortization but it will be a 3- or 5-year loan term that you have to renew at the end of the term. You would have to renew your loan every 3 or 5 years. Whereas, with the SBA, it's one and done – once you get the loan, as long as you make the payments, you don't have to think about it again.

Q: How much experience does State Bank & Trust have with SBA loans?

A: State Bank and Trust Company has been doing SBA loans since our inception. We have members of our team who have been doing SBA loans for 20 years or more. Personally, I have over 10 years' experience with SBA. State Bank has dedicated SBA underwriters, SBA-dedicated approvers, packagers and closers, which gives us a competitive advantage. A lot of our peers offer SBA as an additional product within their commercial underwriting, but we specialize in it. We have SBA-dedicated people and that's all they do, which typically means we can do it quicker with less complications.

We are an approved PLP, which is the SBA Preferred Lenders Program. This preferred lending status allows us to be able to make decisions on behalf of the SBA which can result in a significantly shorter funding cycle.

Q: How did State Bank & Trust become a preferred SBA lender (PLP)?

A: The SBA has a formal review process, which includes ongoing audits by the SBA and other reviews. We have had to demonstrate to the SBA that we know what we are doing and understand all the SBA lending rules; we had to earn the ability to underwrite on their behalf. The advantage to being a PLP is that we don't have to submit everything to the SBA and wait for them to provide approvals. We aren't an intermediary, you're dealing with us directly and we represent the SBA.

Q: Will State Bank & Trust help me collect all the documents needed to apply?

A: Most of the documents are standard underwriting documents you would need for any commercial loan. It's really a misnomer that the process is so much more difficult than a conventional loan, although there are certain documents that are specific to the SBA

that are not required in a traditional loan. We work very closely with our clients to make it as easy as possible. Instead of giving you a large stack of documents and saying 'we'll work on it once you get all this back to us,' we treat it like a traditional commercial loan and deal with the documentation in incremental portions along the way. This way you're not overwhelmed with a giant stack of paper. There are some key documents we need early on, so we address those early. We have significant SBA underwriting experience; we know exactly when certain documents may be an issue so we can stay on top of that and make it a smooth process for the client.

Q: Can I still qualify for an SBA loan if I have existing conventional financing debt?

A: Yes. However, there is something called 'credit elsewhere.' If you have enough financial wherewithal that there's readily available financing conventionally, you may not be eligible for SBA financing. SBA loans are there to help small businesses that may have a challenge getting financing, not necessarily because of bad credit, but possibly because of a low down payment or high loan-to-value collateral scenario which makes it difficult to obtain conventional financing. SBA financing is there to fill a lending gap. It's there for the business that needs a little help

You could have a conventional loan and you're buying a second business and don't have as much money to put down as your local bank may request; that might be a good scenario for an SBA loan.

Q: Does my personal credit score affect my ability to qualify for an SBA loan?

A: We don't use a specific scoring model, so a specific credit score will not keep you out of SBA programs. Your personal credit does come into play as one of many factors in underwriting the loan. We do have customers who have low credit scores, but they are very well explained. For instance, a medical collection that's on a payment plan could bring your credit score down to a lower-than-typical mark, but it's very well documented. For example, you were in a car accident, you incurred this expense, you negotiated a payment plan and you're making those payments. We can document this and can possibly do that loan.

If you just have bad credit because sometimes you pay your bills on time and sometimes you don't, you're probably not eligible for a SBA loan. If you have previously defaulted on a government-guaranteed debt – if you defaulted on a student loan or you defaulted on a prior SBA loan – you're not going to be eligible for an SBA loan.

Q: Are SBA interest rates competitive compared with conventional financing?

A: Interest rates for any lending is based upon risk and return. SBA loans are typically a little riskier, that's why they have a government guarantee associated with them. Therefore, the rates are a little bit higher, but they're not high when compared with what a person may be quoted for a similar conventional loan given their scenario [such as

low down payment available, long term needed, high loan-to-value ratio and amortization factors].

Our pricing is fair for the market – it is market [rate] for that type of transaction. Generally our rates will vary anywhere from Prime plus 1.50% to Prime plus 2.75%. In the grand scheme of things, that's fairly competitive pricing.

People are often willing to pay a little bit more in terms of the interest rates of an SBA loan because they don't have to put quite as much money down. Once they have the loan, they're all set, they can forget about the financing and just make their payments and go on about running their business.

Q: Why should borrowers choose State Bank and Trust Company over another SBA PLP?

A: Firstly, we're a dedicated SBA shop. With a lot of the other lenders, your bankers aren't dedicated SBA bankers. Secondly, we are a large community bank, so we have very much the community bank mentality with our borrowers. We want to sit down and figure the scenario out, understand who our borrower is, hear their story, and understand why this transaction makes sense. We tend to try to be smarter lenders, not necessarily the spreadsheet-based, 'plug it in a formula' kind of lender. We don't have a box that all of our borrowers need to fit into. We try to understand and evaluate each transaction for what it is. That's true for our bank whether it's SBA or conventional lending. It's one of State Bank's main tenants, which tends to serve us well out in the lending market.

Q: How does the relationship between State Bank and Trust and Patriot Capital help borrowers?

A: State Bank's SBA PLP capabilities work in conjunction with Patriot Capital's equipment financing, making us pretty unique in the market. Having an SBA lender and an equipment finance lender working together is unique, and pretty neat offering. Sometimes the borrower has a mortgage on his property that he's happy with, but he needs an equipment material purchase, and Patriot's going to excel at that. In another scenario, a borrower needs to buy equipment but he also needs a long-term permanent debt on the property; that may be a great loan for State Bank SBA to handle. It's not so much that we would both finance the same project, although that could happen; it's that we have the ability to analyze your needs and recommend the best financing solution for your business. If you're putting in LED lights and you need a 3-year note to do that, Patriot Capital can provide an approval in a couple of days. If your need is more complicated – for example, if your company's been running a business such as a hotel, or restaurant, or convenience store as a tenant for the last 5 years and you want to buy it from the owner, including the land and fixtures – then you're probably going to talk to us on the SBA side, where we can do the whole transaction. We've got you covered; you call us, and we can cover any end of the financing spectrum.

Q: If I'm interested in learning more about an SBA loan, how do I get started?

A: You may contact our SBA loan officers at (800) 414-4177 or learn more by clicking here – [State Bank SBA information](#)