

COLEMAN REPORT

The SBA Lender's Industry Information Source

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2008 SBA BDO Compensation Survey

Reduced Loan Volume, Anemic Secondary Market, Results in a 4.2% Decrease in Income

Reduced income from lenders' SBA departments has trickled down to the business development officers who bring in the business — a decrease of 4.2% in their 2007 compensation.

SBA BDO Compensation Year to Year Change	% Change
2008	-4.2%
2007	+3.5%
2006	+3.6%
2005	-3.0%

The subprime mortgage meltdown, shrinking credit boxes, strong competition, rising delinquencies, increased SBA lender oversight fees, and a significant reduction in the secondary market have all contributed to reduced SBA department income.

And SBA lenders have adjusted.

The key ratio? Compensation as a percentage of gross loan volume dropped from 1.60% in 2006 to 1.55% in 2007. In other words, lenders pay \$15,500 in total BDO total compensation—salary, commission and bonus—for every \$1 million booked, a \$500 savings from the \$16,000 paid in 2006.

Data

The data comes from three sources.

First, individual BDOs were surveyed and asked to self-report their SBA loan volume and compensation.

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Loan production is measured in two ways.

We asked for SBA 7(a) gross loan approvals and for the first lien position for SBA 504 loans. 504 loan volume does not include the SBA second position debenture. Compensation for 2007 was also requested.

Individual results were carefully scrutinized and reviewed before being added to our database.

Next, we surveyed managers of SBA loan departments. We asked them to disclose loan production and compensation figures for their top producer and loan production figures for their “average” producer.

The definition of an average producing BDO is if a lender has nine BDOs, the stats for the fifth ranking BDO were surveyed.

Our results are compiled from responses from over 100 SBA lenders and SBA BDOs.

Average Total Compensation

Total BDO compensation includes salary, commissions and bonus. Benefits, employer taxes and other associated expenses are excluded.

Average Total SBA BDO Compensation	2007	2006	Percent Change
Over \$20 million	\$268,000	\$291,000	-8%
\$12 to \$20 Million	\$162,500	\$195,000	-17%
\$10 to \$12 Million	\$152,000	\$150,000	+1%
\$6 to \$9 Million	\$127,500	\$129,000	-1%
Less than \$6 Million	\$92,000	\$82,500	+12%

We broke the survey results down into logical buckets of loan production. The rock stars—those producing over \$20 million a year—saw their compensation drop 8%.

Those with loan production over \$12 million took the biggest reduction in total compensation.

Lenders adapted to decreased secondary market premiums by tying BDO compensation to secondary market income. Thus, lenders and BDOs share the pain of a depressed secondary-market.

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Compensation Comparison for BDOs 7(a) and 504 First Position Loans

	Over \$20 Million	\$12 to \$20 Million	\$10 to \$12 Million	\$6 to \$9 Million	Less than \$6 Million
2007 Average Total Compensation (Includes Base Salary, Commissions and Bonus)	\$268,000	\$162,500	\$152,000	\$127,000	\$92,000
2007 Average Base Salary	\$83,000	\$75,000	\$67,000	\$75,500	\$72,000
2007 Highest Survey Base Salary	\$100,000	\$100,000	\$85,000	\$95,000	\$90,000
2007 Lowest Survey Base Salary	\$75,000	\$50,000	\$50,000	\$50,000	\$55,000
2007 Highest Total Compensation	\$415,000	\$300,000	\$270,000	\$209,000	\$129,000
2007 Lowest Total Compensation	\$162,000	\$75,000	\$115,000	\$93,000	\$63,000
2007 Compensation as a Percentage of Gross Loan Volume	1.05%	1.13%	1.46%	1.73%	2.38%
Commission Income as Percentage of Total Compensation	67%	50%	47%	37%	20%
Percentage Earning Bonus	35%	33%	50%	47%	18%
Bonus Income as Percentage of Total Salary	2%	4%	8%	4%	2%
Percent of Production in 7(a)	50%	64%	74%	70%	83%
Percent of Production in 504	50%	36%	26%	30%	17%

SBA 7(a) and 504 loan volume represents 2007 loan approvals.

Compensation is for 2007.

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Average Base Salary

Average base salary range from \$67,000 to \$75,000 for BDO's who produce less than \$20 million annually.

The rock star \$20 million plus performer average base salary is \$83,000.

Compensation as a Percentage of Gross Loan Volume

Compensation as a percentage of gross loan volume is the key statistic when analyzing SBA BDO pay.

Compensation as a Percentage of Loan Volume	2007	2006	2007 Compensation Cost per \$1 million in Loans	Annual Percentage Change
Over \$20 million	1.05%	1.21%	\$10,500	-13%
\$12 to \$20 Million	1.13%	1.36%	\$11,300	-17%
\$10 to \$12 Million	1.46%	1.41%	\$14,600	+4%
\$6 to \$9 Million	1.73%	1.60%	\$17,300	+8%
Less than \$6 Million	2.38%	2.40%	\$23,800	-1%

Counter intuitively, the more a BDO producers, the less the lender pays. For example, lenders pay the \$20 million rock star \$10,500 for every \$1 million in loans. Lenders pay a BDO who produces \$8 million, \$17,300 for the same \$1 million in productivity.

Overall, compensation as a percentage of gross loan volume dropped from 1.60% in 2006 to 1.55% in 2007.

Lenders pay \$15,500 in total BDO compensation, salary, commission and bonus, for every \$1 million booked, a \$500 savings from the \$16,000 paid in 2006.

Commission Income as a Percentage of Total Compensation

Commissions comprise of over one-half of a BDOs compensation for BDOs producing over \$12 million a year.

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Bonus Income

Less than one-half of BDOs earn a bonus, and for those that do the amount is less than ten percent of total compensation

Product Mix

7(a) vs 504 Loan Production Mix	7(a)	504
Over \$20 million	50%	50%
\$12 to \$20 Million	64%	36%
\$10 to \$12 Million	74%	26%
\$6 to \$9 Million	70%	30%
Less than \$6 Million	83%	17%

This revealing chart proves that BDOs profit tremendously when they can successfully sell both 7(a) and 504.

The rock star's loan volume is evenly divided between the two programs.

Thirty percent of the \$8 million producer's loan volume is from 504.

504 only accounts for 17% of volume from those in the bottom tier producing \$6 million or less.

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What SBA BDOs Told Us in the Survey

SBA BDO's Biggest Challenge for 2008	Percentage
Shrinking Credit Box	46%
Depressed Secondary Market	22%
Concern About Deteriorating Economic Conditions	15%
Depressed Real Estate Values	12%
Deteriorating Loan Portfolio	5%

Selected Comments:

“Pricing... competition has forgot that this is a higher risk line of business and is pricing the deals with grossly insufficient margins.”

“Finding quality business loans, especially non-real estate 7(a) types.”

“Managing the workload—expect higher volume this year due to problems at other lenders. Change in company plan means I have to do more loans to make the same income as last year.”

“Tightening credit environment, while some SBA lenders are expanding their offerings.”

“A strong market for 7(a) conflicting with tighter credit boxes of lenders due to fears of sub prime and market liquidity.”

“Pre-payment penalties in the secondary market loans on a 504 1st, as most community banks in my market do not charge a pre-payment penalty on the first of a 504 loan.”

What best describes your attitude toward this year's compensation?	Percentage
I will make more money in 2008.	38%
My compensation will be about the same this year as last year.	33%
I will make significantly more money in 2008.	12%
I will make a little less money in 2008.	12%
I will make significantly less money in 2008.	5%

