COLEMAN REPORT

The SBA Lender's Industry Information Source Since 1993

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2014 SBA BDO Compensation Survey

Winners and Losers with SBA BDO Compensation

The only constant in SBA BDO compensation these days seems to be change. Last year we reported total SBA business development officer compensation increased upward by 24 percent. The 2014 survey, based on the lending and earning results of SBA 7(a) and 504 business development officers offered something for everyone. In other words, numbers were moving all over the board.

In This Issue . . . .

While it's nothing new to know that lenders are willing to pay for production, there were some definite changes afoot. As more lenders are climbing into higher loan limits, there has been some SBA attention focused on climbing salaries as well.

Last year average base salaries rose 8.7 percent for top producers, while the average total compensation for that category was actually down significantly (21 percent). This shift is probably indicative of higher loan volumes being produced due to higher loan limits.

That occurred while the average base salary for the below average BDOs rose from $76,000 to $80,134 (+5.4 percent), but their total compensation climbed more than 38 percent.

Consider some of the likely factors that probably have contributed to the unpredictable results:

1) The moderating premiums paid by the SBA 7(a) market, as investor demand softens;
2) The modest growth of total volume of the SBA 7(a) and 504 loan programs;
3) SBA's intervention to warn lenders off of paying full commissions on loans at higher limits.

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Coleman Report Annual Survey

The Coleman Report has published a compensation study of SBA BDOs since 1994. Data is collected in two ways: First, we invite BDOs to self-report their production and compensation numbers. This year over 120 SBA BDOs participated in the survey. (Participants may report their email address for a free copy of the survey results, meaning that while the published results are anonymous, their identification disclosure probably leads to more accurate information.)

Data is scrubbed to eliminate extreme highs and lows, as well as responses that are incomplete or don't make sense.

Then, Coleman Report validates these results with direct interviews with a number of lenders to obtain an accurate picture as possible of salary ranges and compensation packages.

Definitions

Our definition of an SBA BDO is one who brings in loans through the bank's front door – a SBA 7(a) loan or the first lien position of an SBA 504 loan.

SBA BDO loan producers fall into five natural loan volume buckets. These categories were modified slightly over the years as the bar to be a "top" performer rose with program loan limits and better performance.

- Over $20 Million – "Top"
- $15 to $20 Million – "Above Average"
- $10 to $15 Million – "Good"
- $8 to $10 Million – "Average"
- Less than $8 Million – "Below Average"

Loan production volumes are defined in the survey as either a combination of the gross amount volume of SBA 7(a) loans added to the senior lien position of the SBA 504 loan transactions, or the 504 debenture production plus senior lien position loans produced.

However, many lenders tweak loan production numbers. For example, one lender will discount the value of a loan if it is an internal referral that comes from their branch network. A $1 million SBA 7(a) internal loan may be discounted 50% for annual volume and commission calculations.

The BDO only receive credit for $500,000 for goals and commission calculated $500,000. Annual volume is important to BDO as most lenders use a tiered commission structure.

	Top	**Above Average**	**Good**	**Average**	**Below Average**
	Over $20 Million	**$15 to $20 Million**	**$10 to $15 Million**	**$8 to $10 Million**	**Less than $8 Million**
Total Comp	$243,761	214,384	174,264	125,199	102,552
Comp as a % of Loan volume	.82%	1.32%	1.37%	1.36%	2.46%

Average total compensation includes base salary, commissions and bonus. Benefits and employer taxes expenses are excluded.

Compensation as a Percentage of Loan Volume

This is the key ratio to help understand the benchmark for SBA BDO compensation. It’s calculated by dividing average total compensation by loan volume. The results represents the cost to the lender the loan acquisition cost as defined by a percentage of the loan amount. See chart below:

	Compensation as % of Loan Volume	Compensation per $1 Million Loans
Over $20 Million	.82%	$8,200
$15 to $20 Million	1.32%	$13,200
$10 to $15 Million	1.37%	$13,700
$8 to $10 Million	1.36%	$13,600
Less than $8 Million	2.46%	$24,600

This chart reveals that while a top producing BDO may be earning an eye-popping pay check, the overall cost is actually lower to lenders as the loan volume increases.

According to this year’s survey, a ‘rock star’ originator who produces more than $20 million of loan volume in a year will earn $8,300 in total compensation for each million dollars. That compares very favorably to a ‘good’ producer (who produces $10-$15 million of loan volume) during the same year who will cost 65 percent more in compensation - $13,700 per million dollars of production.

Historical Comparison of Compensation as a Percentage of Loan Volume

The chart below illustrates how SBA BDO compensation has changed during the past three years as the percentage cost the lender pays for each million dollars of loan production. Each category has experienced different movement trends, but all are affected by pressures applied from the market, labor supply and agency intervention.

	Top	Above Average	Good	Average	Below Average
	Over $20 Million	$15 to $20 Million	$10 to $15 Million	$8 to $10 Million	Less Than $8 Million
Δ ‘12	-21%	+8%	-1%	-3%	+38%
2013	.82%	1.32%	1.37%	1.36%	2.46%
2012	1.04%	1.22%	1.39%	1.40%	1.77%
2011	0.84%	1.12%	1.20%	1.26%	1.47%

Historical Comparison of SBA BDO Average Total Compensation

Perhaps an easier way to visualize the trend in SBA BDO compensation changes is to analyze the actual dollar amounts. This year marks the first time that the top producer fell as other categories rose or maintained the same compensation level.

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	Top	Above Average	Good	Average	Below Average
	Over $20 Million	**$15 to $20 Million**	**$10 to $15 Million**	**$8 to $10 Million**	**Less than $8 Million**
2013	$243,761	$214,384	$174,264	$125,199	$102,522
2012	$290,000	$204,000	$163,000	$125,000	$98,000
2011	$232,000	$171,000	$122,000	$106,000	$79,000

Six figure compensation packages were recorded in all categories and in each of these five groups, the disparity between the highest compensation - as a percentage of loan volume - and lowest exceeded two percent in every category except one.

Base Salary

Base salaries average may contain the most volatility as overall salaries were up in all but one category (average producers), but the levels of increase ranged from 5.4 percent (below average) to 36 percent (above average).

	Top	Above Average	Good	Average	Below Average
	Over $20 Million	**$15 to $20 Million**	**$10 to $13 Million**	**$8 to $10 Million**	**Less than $8 Million**
2013	$107,690	$120,467	$96,341	$79,632	$80,134
2012	$99,000	$88,000	$86,000	$87,000	$76,000
2011	$80,000	$72,500	$68,000	$67,000	$60,000

Coleman Takeaway

Whether we're living in the new normal or erratic compensation movements are going to be the way it is remains to be seen. With program volumes growing and apparently the economy improving at a more confident pace, it's likely that compensation for business loan producers will continue to climb.

Talent shortages will insure that the scramble to keep feet on the street will push lenders to bid up the value for bodies, in many cases, regardless of their likely production potential.

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Bob Coleman, Editor

2014 SBA BDO Compensation Survey – Part 2

Winners and Losers with SBA BDO Compensation

In last week's Coleman Report, we covered the raw dollar sums being invested to recruit, retain and incentivize business development talent to perform the artful task of originating quality business. Further, we broke those numbers down along base salaries and total compensation, with analytics to describe how much the different BDO tiers cost for $1 million of production.

In This Issue . . . .

As you must have recognized from all those charts, six-figure compensation packages are common in all categories, including '*below average'* producers. A key management ratio to benchmark for BDO performance is total compensation as a percentage of loan volume.

Top is Down / Below Average is Up

In 2013, the gap between the largest and smallest producers grew much wider. Although average compensation for top producers fell 21 percent, for 'below average' producers' average compensation rose 39 percent. In 2012, the gap between these two tiers was .73 percent, but in 2013 it opened to 1.64 percent!

Said another way, top producers cost lenders $8,200 per $1 million loan produced vs. $24,600 paid to 'below average' producers for $1 million production. That spread represents a 200 percent lower cost (vs. 70 percent in 2012). Even an '*average'* producer is paid 65 percent more than top producer per $1 million of production.

How can this disparity exist? It's common sense to recognize that top producers are going to be a more efficient cost to the organization, but it's the breadth of the gap that is really curious this year.

Our analysis is simply supply and demand.

The small business lending market is steadily making a comeback. Coleman Report announced its own analysis that between 2009 - 2010, roughly 25 percent of SBA BDOs lost their job as loan demand flagged and the secondary market for loans went flat.

Over the past three years many new lenders have started entering the SBA business and others are focusing more effort on SBA lending than in recent years. The demand for bodies who've been exposed to SBA has grown significantly. This year's survey reflected the highest average salaries for those producing less than $8 million since 2009.

An '*average*' producer is paid 65 percent more than top producer per $1 million of production.

Calculating Commissions

In the 2014 survey, 38 percent of respondents reported being paid a bonus in 2013. For 53 percent of that those reporting being paid bonuses, it was in lieu of (not in addition to) being paid commissions directly tied to production.

Only about 15 percent of survey respondents report being paid a salary, commissions and a bonus.

Since the 2008 premium meltdown, many lenders became more deliberate with commission tiers and calculations. Some lenders use the actual sale premium rates as the basis for calculations, with commissions ranging from 5 - 30 percent. This plan shares the risk of premium fluctuations rather than tying commissions to a specific payout on the loan amount.

Splits are all over map driven by loan volume. Most lenders use tiers that increase the rewards as the producer's volume gets higher. Some lenders are using flat commission rates against either the premium or loan amount.

Some other common adjustment discriminants used to calculate loan commissions included loan volume (most common), interest rate, relationship profitability, broker fees, premium rates, loan quality and portfolio performance.

Many lenders use a commission matrix incorporating transaction interest rates to incentivize performance. Starting at a 'base' interest rate, such as Prime + 1.50 percent, the BDO is free to set the transaction rate wherever they want, and their compensation is tied to where the rate lands. Quarter point incremental changes to the base rate increase or decrease their compensation, respectively.

Brokers' fees affect most compensation plans. Most lenders reduce commission payments based on any referral fees paid out. Many charge 50 percent of the broker fee directly against the BDO's commission.

At least one lender pays the broker right off the top of the premium income before figuring commissions. This is more favorable to BDOs and costs the lender more.

Some lenders refuse to pay for third party origination.

Many banks calculate loans generated through internal bank referrals differently, with lower commissions. Loans that are passed up through the branch network often yield lower commissions by as much as 50 percent. One lender reports an internal mandate that BDOs originate at least 75 percent new loans from outside bank.

Some larger lenders use "internal" BDO desks to work all branch referrals for a flat 25 basis point commission.

It hasn't been that long since the average minimum volume expectation for a 'good' lender was $5 million annually, but today $8 million is a conversation starter.

On the subject of recruiting, one lender told me "*If we can't see a track record in the $8 to $12 million range, we pass*." Days of 'nurturing' BDOs into the business or raising your own may become a quaint recollection of the past, except for new entries.

Common tiers that are representative of many commission plans and demonstrate the range of tiers:

	Typical commission	**Outlier**
To $4 or 5 MM	50 bps or 10 percent prem.	150 bps or 20 percent prem.
$4/5 - $6/8 MM	100 bps or 15 percent prem.	150 bps or 20 percent prem.
$8 - $12 MM	125 bps or 20 percent prem.	150 bps or 25 percent prem.
Over $12 MM	125 bps or 25 percent prem.	175 bps or 30 percent prem.

Here's a comparative look at two commission plans disclosed and applied to the $12,000,000 production that both reported.

LOAN TIER (cumulative)	**PLAN 1**	**PLAN 2**
Base Salary	$55,000	$60,000
First $3/$4MM	$30,000	$16,000
Next $2MM ($5/6MM)	$25,000	$12,000
Next $3/2MM ($8/8MM)	$45,000	$14,000
Next $4/4 ($12/12MM)	$70,000	$33,000
TOTAL COMPENSATION	$198,000	$135,000

Some other common adjustment discriminants to calculate loan commissions included loan volume (most common), interest rate, relationship profitability, broker fees, premium rates, loan quality and portfolio performance.

Other Commission Plans

Call it "*your father's commission plan*?" One BDO reported their commission plan calculates payouts based on 1/600 of the loan amount. My calculation says that totals roughly $1,666 per $1 million. My Dad would have loved it.

In what must be described as the "*most motivational commission plan*," another BDO described their plan as paying a flat 2.5 percent of gross loan production. There were no volume tier, minimum rates or mentions of premium assumptions.

So my calculation of that producer's upside is that if they originated $20,000,000 in 7(a) loans, without regard to interest rate or premiums paid to the lender, their commission would have equaled $500,000. And actually, that's exactly what this BDO reported commission earnings to be - I just backed into the volume required to produce it. They also reported a $50k salary and being paid a $20k bonus.

Of course, viewing this scenario as a bank president, I would calculate (assuming average 12 percent premiums) that the bank grossed $1,800,000 in premium income from these loans. Paying out $570,000 for originating that sum leaves them with $1,230,000 plus the earning assets and servicing income.

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I don't know about you, but paying out north of 31 percent seems expensive to me. Based on our earlier discussion of measuring compensation as a percentage of loan production, this producer earned 2.85 percent, which is 16 percent higher than the below average producers. The efficiencies of the top producer is lost on this plan.

What were the most frugal commission plans? Thirty-one percent of survey respondents reported having no commission plan. Yet the *annual loan production among this group ranged from $500,000 to $40MM.*

> The "*most motivational commission plan,*" another BDO described their plan as paying a flat 2.5 percent of gross loan production.

The most honest survey responses? "We currently do not have an active commission plan;" *"Spot based compensation, determined by manager;" "Unknown."*

Other Compensation Notes

Timing? Most BDOs are paid commissions in the month following loan funding, but most CDCs pay 50-60 percent of their commissions when the authorization is issued, with the balance after funding. None of the CDC respondents mentioned the presence of claw-back terms if the loan did not fund, but it's probably safe to presume that.

Last year Coleman reported that SBA was studying CDC Executive Director compensation. An SBA source said, "*Anybody paid like an NBA player in a non-profit environment must defend their compensation*." While there's been no further word yet, this week the new rules are in effect that require several upgrades to CDC governance, including the institution of Board compensation committees.

Parting thoughts for management on compensation:

1. Escalating compensation rates are driven by the desire to improve performance today, but if you decide to buy a high producer away from another lender, remember that someone else can buy them away from you.

2. Be wary of cultural integration, ethics and credit skills of those high-flying performers on the other side of the fence. Don't judge book only by its cover.

3. How much production is really in their track record? Check W-2s to find out.

Parting thoughts for BDOs on compensation:

1. Understand the lending priorities, the bank's financial health and their portfolio condition before jumping ship from a safe position just based on the promise of higher commissions.

2. Be wary of the potential cultural differences, credit policy and high expectations that those promised payouts carry.

Coleman's Takeaway

Bottom Line – if your company has an All Star producer, given how much cheaper they are to compensate higher payouts, the other BDOs might have extra incentives to improve their performance…that is *if you find and retain an All Star.*