Coleman 2015 SBA BDO Compensation Survey

Post-Recession Compensation Spike Slows

Part I -- The Numbers

After reporting skyrocketing increases in SBA BDO compensation the last two years, the brakes have been applied with only a blip of an increase for producers.

Unless you are an elite, top producer bringing in over $20 million of SBA loan production. That bucket registered a 7% increase, to an average pay package of $261,000.

Other pay buckets were flat or showed moderated decreases.

	Over $20 Million	$15 to $20 Million	$10 to $13 Million	Less than $8 Million
% Increase	+7%	- 9.3%	0%	+2.4%
Average Compensation	$261,000	$194,000	$174,500	$105,000

The three takeaways for these results?

1) SBA 7(a) secondary market premiums, while high, have not changed significantly the last two years. And, I continue to see a number of plans tied to secondary market sales.
2) SBA 7(a) loan approval levels, while at historical all-time highs, have not increased significantly.
3) BDOs are staying put and not job hopping. Only one above average producer in our survey jumped ship last year.

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 150 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.

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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.

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

This year the "average" performer has moved up to the $10 to $13 million bucket. Last year, the "average" performer was in the $8 to $10 million range. Today, any annual production below $10 million is "below average" performance.

The survey results define the performance buckets.

The 2015 year's buckets are:

- Over $20 Million – "Top"
- $15 to $20 Million – "Above Average"
- $10 to $13 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.

	Top	**Above Average**	**Average**	**Below Average**
	Over $20 Million	**$15 to $20 Million**	**$10 to $13 Million**	**Less than $8 Million**
Total Comp	$261,000	$194,000	$174,500	$105,000
Comp as a % of Loan volume	1.03%	1.16%	1.60%	2.72%

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

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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 a % of Loan Volume	BDO Comp per $1 Million of Loans
Over $20 Million	1.03%	$10,300
$15 to $20 Million	1.16%	$11,600
$10 to $13 Million	1.60%	$16,000
Under $8 Million	2.72%	$27,200

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 $10,300 in total compensation for each million dollars. That compares very favorably to an 'average' producer (who produces $10-$15 million of loan volume) during the same year who will cost 51 percent more in compensation - $16,000 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	Average	Below Average
	Over $20 Million	**$15 to $20 Million**	**$10 to $13 Million**	**Less Than $8 Million**
2014	1.03%	1.16%	1.60%	2.72%
2013	.82%	1.32%	1.37%	2.46%
2012	1.04%	1.22%	1.39%	1.77%

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.

	Top	Above Average	Good	Below Average
	Over $20 Million	$15 to $20 Million	$10 to $13 Million	Less than $8 Million
2014	$261,000	$194,000	$174,500	$105,000
2013	$244,000	$214,000	$174,000	$102,500
2012	$290,000	$204,000	$163,000	$ 98,000

Six figure compensation packages were recorded in all categories and in each of these four groups.

Base Salary

Changes in base salary approximates changes in overall compensation.

We see double digit percentage increases in the top producer bucket, while the remaining segments have minimal changes.

	Top	Above Average	Good	Below Average
	Over $20 Million	$15 to $20 Million	$10 to $13 Million	Less than $8 Million
2014	$120,500	$95,000	$92,000	$79,000
2013	$108,000	$92,000	$96,000	$80,000
2012	$ 99,000	$88,000	$86,000	$76,000

Coleman Takeaway

So, what are the causes behind the braking of SBA business development officer compensation?

SBA 7(a) secondary market premiums, while high, have not changed significantly the last two years. And, I continue to see a number of plans tied to secondary market sales.

SBA 7(a) loan approval levels, while at historical all-time highs, have not increased significantly.

BDOs are staying put and not job hopping. Only one above average producer in our survey jumped ship last year.

Finally, I see lenders tending to “grow their own” BDOs, rather than engage in poaching of average or above average performers. More on this in Part II

Part II -- Behind The Numbers

Commission Matrix

There are two ways to structure a commission matrix for BDO compensation.

Half of the industry ties commissions to the secondary market. The other half of small business lender pay a commission as a percentage of the loan.

The theory is it is to the lender's advantage to tie compensation to the secondary market, thus locking in a specific return regardless of the current performance of the market. When rates are high, both the lender and BDO are rewarded. When rates fall, the lender is protected.

However, the problem for the lender is when rates drop, your BDO may discover a competitor's package not tied to the secondary market may be more attractive.

Most lenders have a commission matrix schedule that incorporates a variety of factors that drives BDOs to produce credits that fit as tightly as possible in a lender's credit box.

A lender will start with a base amount, e.g. 1 percent of the loan amount, or 100 basis points, then add or subtract.

Most lenders tie the percentage amount to the guaranteed portion of the loan. Those that base commissions on the gross loan amount simply pay a lower percentage.

Common adjustments:

- Interest Rate – Lenders will have a target yield. If the interest rate is cut, the commission is reduced.
- Loan Amount – Large lenders have been pressured by SBA to cap commissions, thus prohibiting BDOs from earning full commissions on $5 million 7(a) loans. One lender will allow full commission up to $2 million and then reduce the commission by 50% over $2 million.
- Industry – Riskier and more complicated industries such as C stores and assisted living facilities may have an industry penalty reduction.
- Broker Fees – Commissions are reduced if a broker fee payment is involved. Some lenders refuse to pay broker fees. For those that do, one point is a common benchmark. Many lenders will split the fee 50/50 with the BDO. One lender caps broker fees at $10,000 per loan.
- Internal Referrals – If a loan is referred by a branch, the commission reduction can be in the
- 30% to 50% range. Note, one lender has a policy that 67% of a BDO's business must be outside the branch system. Several of the larger lenders have "internal" SBA BDOs who process nothing but branch referrals for a flat 25 basis point commission.
- Borrower Caps – More lenders are adopting a cap on the maximum amount a BDO may earn on one borrower relationship. Lender's caps range from $25,000 to $40,000.

Commissions tied to the Secondary Market Premium

As I said, about 50% of the industry ties BDO compensation to the SBA 7(a) secondary market premium received by the lender.

The pro of this setup is the simplicity of the calculation. The secondary market determines the worth of the deal factoring in interest rate, term, industry etc.

The bank's simple calculation is to take the net sale proceeds, deduct any loan broker fees, and then assign the percentage to the balance.

Take the following example of a $1 million dollar loan --Gross Loan $1,000,000, SBA Guaranteed Portion $750,000. Assume a secondary market sale price of 115. Net to lender is 112.5 after the 50% tax paid to SBA for premiums over 110, or $84,375. Assume the BDO is paid 25% of sales proceeds; the BDO's commission is $21,094. Most lenders will deduct any loan broker fees from this amount.

How BDOs Are Paid

The common practice is for loans closed by the end of the month, the BDO will be paid at the end of the following month.

Tiers

A tier is a range of loan performance levels. Lenders use tiers to motivate BDOs to move from one level to the next. As they move into the next tier, they earn a higher commission level.

Tiers are in the $3 million to $4 million range. A typical tier structure can be:

- $0 to $3 million
- $3 to $5 million
- $5 to $9 million
- $9 to $12 million
- $12 million $15 million
- $15 to $25 million
- Over $25 million

Minimum performance expectations have risen dramatically over the past five years.

The $5 million "average" level performance of several years ago has been raised to $10 million.

A sales manager of a top SBA lender told me, "$6 million in the first year is okay, but they better step it up to the $10 to $13 million range in the second year."

A BDO may get credit for loan volume for tier advancement, but be paid on a smaller loan amount.

Take a $5 million SBA 7(a) or 504 loan. One lender will cap the commission based on a $2 million loan.

However for tier advancement they will get credit for 50% of the loan over $2 million -- $3.5 million in this example.

Lower volume producer BDOs cost lenders more. More importantly, the cost of nurturing these BDOs is high.

In today's market, volume SBA lenders aren't reaching and settling for BDOs at this end of the scale.

Specific Examples of Tiered Commission Programs Linked to the Secondary Market - BDOs earn commissions either from a percentage from the secondary market sale, or a fixed percentage of the loan.

Here are actual base salaries and tiers for BDOs who earn commission based on the SBA secondary market.

Specific Compensation Packages of Top Producers -- Over $20 Million

- Base Salary: $120,000
  Percentage of Secondary Market Premium:
  $0 to $4 million -- 15%
  $8 to $12 million -- 20%
  Over $12 million -- 25%

- Base Salary: $75,000
  Percentage of Secondary Market Premium: Flat 10%

- Base Salary: $230,000
  Percentage of Secondary Market Premium: Flat 6% .

Specific Compensation Packages of Above Average Producers -- $15 Million to $20 Million

- Base Salary: $80,000
  Percentage of Secondary Market Premium:
  10% to 20% based on volume, less discounts for past dues, charge-offs, repair rate, etc.

Specific Compensation Packages of Average Producers -- $10 Million to $13 Million

- Base Salary: $120,000
  Percentage of Secondary Market Premium:
  15% of net premium income from sale of guaranty portion

- Base Salary: $85,000
  Percentage of Secondary Market Premium:
  10% of net gain on sale of guaranty portion

- Base Salary: $85,000
  Commission based on fees/premium generated
  10% first $200,000 in fees
  25% second $400,000 in fees
  35% of fees over $600,000

- Base Salary: $90,000
  Percentage of Secondary Market Premium:
  $0 to $4 million -- 15%
  $4 to $8 million -- 20%
  Over $8 million -- 25%

- Base Salary: $90,000
  Percentage of Secondary Market Premium:
  $0 to $3 million -- 10%
  $3 to $8 million -- 13%
  Over $8 million -- 15%

Specific Compensation Packages of Below Average Producers -- Less than $10 Million

- Base Salary: $90,000
  Percentage of Secondary Market Premium:
  $0 to $6 million -- 20%
  $6 to $10 million -- 25%
  Over $10 million -- 30%

- Base Salary: $73,000
  Percentage of Secondary Market Premium:
  $0 to $4 million -- 20%
  Over $4 million -- 25%

- Base Salary: $90,000
  10% Percent of Secondary Market Premium

- Base Salary: $70,000
  20% Percent of Secondary Market Premium

- Base Salary: $75,000
  50% of packaging fee, 5% of SBA Secondary Market Premium, and 50% of origination fee

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Post-Recession Compensation Spike Slows

Here are actual base salaries and tiers for BDOs who earn commission based on a fixed percentage of the SBA loan.

Specific Examples of Commission Programs Not Linked to the Secondary Market

Specific Compensation Packages of Top Producers -- Over $20 Million

- Base Salary: $89,000
  Tier:
  $0 to $6.5 Million -- Zero
  Over $6.5 Million -- 75% to 1.25% as volume increases.

Specific Compensation Packages of Above Average Producers -- $15 Million to $20 Million

- Base Salary: $125,000
  1% of guaranteed portion

- Base Salary: $87,000
  Tier:
  $0 to $3 Million -- Zero
  $3 to $9 Million -- 40 basis points
  Over $9 Million -- Additional 10 basis points every $3 Million Level

Specific Compensation Packages of Average Producers -- $10 Million to $13 Million

- Base Salary: $125,000
  Tier:
  $0 to $3 Million -- 35 basis points
  $3 to $8 Million -- 50 basis points
  Over $8 Million -- 100 basis points

  1% of guaranteed portion of the loan, graduating to 2%, based on loan volume and pricing

- Base Salary: $110,000
  Tier:
  $0 to $3 Million -- 50 basis points
  $3 to $5 Million -- 75 basis points
  $5 to $8 Million -- 100 basis points
  $8 to $12 Million -- 150 basis points
  Over $12 Million -- 175 basis points

- Base Salary: $75,000
  Tier:
  $0 to $5 Million -- 50 basis points
  Over $5 Million -- 75 basis points

- Base Salary: $90,000
  Tier:
  $0 to $4 Million -- 80 basis points
  $4 to $8 Million -- 100 basis points
  $8 to $12 Million -- 150 basis points
  Over $12 Million -- 200 basis points

Specific Compensation Packages of Below Average Producers -- Less than $10 Million

- Base Salary: $0
  Tier:
  $0 to $3 Million -- 100 basis points
  $3 to $5 Million -- 125 basis points
  $5 to $8 Million -- 150 basis points
  Over $8 Million -- 175 basis points

- Base Salary: $87,000
  Tier:
  $0 to $2 Million -- 0 basis points
  $2 to $5 Million -- 75 basis points
  $5 to $7 Million -- 100 basis points

- Base Salary: $75,000
  50 basis points on the guaranteed amount

- Base Salary: $75,000
  100 basis points on the guaranteed amount

- Base Salary: $85,000
  Tier:
  $0 to $1 Million -- 0 basis points
  $1 to $2.5 Million -- 50 basis points
  $2.5 to $7.5 Million -- 100 basis points
  $7.5 to $10 Million -- 125 basis points

Clawback Models

Commission reserves and clawbacks are now the norm in the industry, and are demanded by the regulators.

Here are common clawbacks for SBA BDOs.

If bank gives back the premium, BDO gives back the commission.
- 100% clawback if loan defaults within 4 months.
- 100% clawback if loan defaults within 6 months.
- 100% clawback if loan defaults within 6 months.
- 100% clawback if loan defaults within 6 months.
- 50% clawback if loan defaults within 7 to 12 months.

Any of your loans that go into default within six (6) months of funding will require a forfeiture of 150% of your proportional amount of the bonus. Any of your loans that default within twelve (12) months of funding will require a forfeiture of 100% of your proportional amount of the bonus.
- 100% clawback if loan is classified within 12 months.
- 100% clawback if loan defaults within 12 months.
- 100% clawback if loan defaults within 12 months.
- 100% clawback if loan defaults within first 12 months.
- 100% clawback if loan defaults within first 12 months.
- 100% clawback if loan defaults within first 12 months.
- 100% clawback for prepayment of loan within 90 days; or if loan defaults within 12 months.

One year if default due to material misrepresentation, omission of critical information or other action with BDO's knowledge/control.
- 100% clawback if loan defaults within 18 months.
- 100% clawback if loan defaults within 18 months.
- 100% clawback if loan defaults within 18 months.
- 100% clawback if loan defaults within 18 months.

If loan defaults within three years of closing, commission will be reduced from future bonuses.
10% of commissions reserved until reserve account reaches $175,000. Ownership always retained by bank.

25% commission reserved by lender for the first $5mm in loan originations per plan year (January through December). Holdback will be paid in April the following year provided the BDO remains employed through March 31 and all loans have been current during the hold back period.

Holdback 25% of commission for 1 year. Paid if loan is a performing loan.

25% held back for one year. Paid if loan is a performing loan.

Retention Bonuses

Lenders want to keep their top performers, and are willing to pay bonuses. As we have shown, it is actually cheaper for the lender to employ top and above average performers.

Lenders know it, and are willing to share the wealth with this category of BDO.

One lender will pay the BDO $10,000 when they hit $10 million in a calendar year. They will also receive an additional $15,000 at $15 million and $20,000 at $20 million.

BDOs can also receive bonuses based on their portfolio. At one lender, if the delinquency rate is less than 3% they BDO will earn $10,000 for every $100 million on the books annually.

Career Milestone Bonuses

One lender will pay the BDO a bonus when they hit specific volume numbers over the course of their career.

The BDO will receive a $25,000 check at every $25 million mark, e.g. the BDO will receive $25,000 at $25 million, $50 million, $75 million, $100 million…..

PART III -- Length of Time in Position

For the first time in Coleman SBA BDO compensation study, length of time in the position is tracked.
Intuitively, the top SBA BDOs tend to stay at their institution longer than below average performers. Check out these stats:

	Over $20 Million	**$15 to $20 Million**	**$10 to $13 Million**	**Less than $8 Million**
Average Length of Time in Position	5.8 years	4.8 years	4.3 years	3.3 year
Range of Responses	1 to 14 years	2 to 9 years	New to 15 years	New to 8 years

BDO Outlook for 2015

The survey asks the participant to self-report two expectations in 2015 -- loan production and income.

Our rock star performers are bullish about their loan production prospects for 2015.

All but one expect to increase their loan production volume. However, their compensation expectations are tempered.

The below average producers are enthusiastic also, projecting a 26% increase in loan volume.

However, one survey participant pointed out that they are not judged by loan volume. They are judged by increasing bottom line profitability to their bank.

	Over $20 Million	**$15 to $20 Million**	**$10 to $13 Million**	**Less than $8 Million**
Anticipated 2015 Loan Production Increase	20%	8%	13%	26%
Anticipated 2015 Compensation Increase	7%	7.5%	8.4%	15%

BDO Challenges in 2015

The BDOs three biggest challenges?

Competition. Competition. Competition.

New to the challenge list this year is interest rates, specifically competing against conventional, fixed rate loan products.

Quick highlights

- Not one survey participant cited the economy as a challenge
- Restrictive credit boxes have crashed from a high of 72% in 2009 to 7% today
- 8% cited internal logistic issues as the number one challenge
- The lack of qualified borrowers continues to be a major challenge for 19% of participants.
- For the first time, a participant has identified online lending as a competitive threat

SBA BDO's Greatest Challenge in 2015	2015	2013	2009	2007
Competition	42%	31%	0%	47%
The Demand Argument – Lack of Qualified Borrowers	19%	23%	0%	0%
Low/ Fixed Interest Rates Competition	18%	-	-	-
Internal Process Logistically Issues	8%	-	-	-
The Supply Argument -- Restrictive Lender Policies (Shrinking Credit Boxes)	7%	27%	72%	17%
SBA's Policies are too Negative to Lenders	3%	5%	4%	0%
Economy/Technological Changes	0%	3%	4%	0%

Selected Comments about Challenges Facing BDOs in 2015

Competition offering lower or fixed rates.
Lack of quality deals, low fix rates offered by competitors.
Competition from conventional lenders.
Finding creditworthy deals
Internal underwriter turnover, banks offering fixed rates for 15 to 25 years.
Big banks giving out low fixed rates that an SBA borrower shouldn't qualify.
Pricing to stay competitive.
Competition with conventional lenders.
Spending too much time managing portfolio, regulation and not producing.
Finding more business.
Turn-around time and pricing.
Fixed rate big bank pricing.
New entrants into the market with overly aggressive credit boxes.
Fast underwriting, greater competition.
Finding quality loans that need SBA support.
Timely service with increased loan volume.
Early payoffs and selling variable rates.
We are a small community bank. Challenge is competing with large bank.
Rising rates and customers want fixed rates. More banks getting into SBA lending. Competition.
Fixed rate financing by regional banks.
Gaining market share in a no-growth market.
SBA program complexity. It keeps getting worse!
Payoffs. Sourcing qualifying deals.
Lack of available property for sale. Too many dollars chasing too few deals.
Artificially low prime rate and too many conventional bankers.
Shrinking 504 loan volume, artificially strong economy.
Demand for fixed rate loans, online lenders

And I always get some unique responses…..

7(a), 7(a) and 7(a) ... Gave you three!
My credit department.
Can't think of one.