

A Coleman Conversation: Barry Sloane of Newtek

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Bob Coleman: I'm pleased to have as our guest in the Coleman Conversation Barry Sloan, president and CEO of Newtek, the nation's number one SBA 7(a) lender. Congratulations on reaching two billion dollars, Barry.

Barry Sloane: Thanks, Bob. Appreciate it. It's an overnight success - it just took over twenty-two years to get here. That's all.

Bob: You and I go way back, and I've followed your career. I guess my first question is: now that you have a bank, how much easier is it compared to when you were a nonbank lender?

Barry: Yeah, I want to be careful with 'easier' because maybe it's easier. I know it's a loaded question. Listen, I would tell you that the opportunity to originate out of a bank is easier than as a non-bank lender. The complications of the nonbank lender with the multiparty agreement, securitization exits - it just made things a lot more difficult. The banking rules and regs are black and white. Follow banking rules and regs that are black and white, you're golden. So it's been a good situation for us. But given sort of the banking regs, we still have the nonbank lender in a rundown mode. So we're still dealing with a lot of the older issues, but we're very pleased that Newtek One is now a technology-enabled business that provides solutions, both business and financial, and is a depository. Notice I did not position ourselves as a bank or a bank holding company.

Bob: I love it. Very nice. Let's start with the easy stuff. I'm sorry for the zinger right out of the box.

Barry: No, it's fine. Listen, it's all good. It all keeps me on my toes.

Bob: Let's take it from the top. SBA 7(a) lending - how important is it for Main Street, for the economy, and for Newtek?

Barry: The SBA program is a brilliant program. I have to say that. It's incredible how poorly understood SBA lending is to the banking industry and even the capital markets. The loan amortization, the no balloons, the covenant-light aspect of it is an incredibly important valuable source of capital, all offset by, I'm gonna use the word, a slightly higher rate and government insurance, which historically was zero budget. So if you actually look at it, it's not that complicated. It's execution. There's no secret to execution.

Bob: Correct. Well, you've done that very well. And, again, congratulations on those numbers. What's your outlook for 2025? We have a new administration, which was a surprise to everybody. The new administration is changing or attempting to change the structure of the US economy from consumption-based to investment-based. That is a very noble goal. I think it's a good goal. I think even people from the other side of the aisle think it's a good goal.

Barry: I agree with you. But, unfortunately, we're in a world where nobody wants to have any pain, and we're gonna feel the pain because it's disruptive. If all of a sudden the universe of businesses gets disrupted, you only need the 5 or 10% in the extremes to get disrupted or have a problem. So I think it's gonna be a tough year for us, other lenders and people in the banking industry, but hopefully, they'll continue to push forward on the plan, and there'll be other things from a timing perspective that would be beneficial. And some of these businesses that are disrupted and hurt by the changes will be able to figure out how to reposition themselves and recover.

Bob: Barry, I think that's a great answer because the chaos that we're seeing - last week it was horror, and one week later, things are looking so rosy. The market has rebounded. So it's changing dramatically. I like how you put that - there's disruption and pain points, but hopefully at the end of this, it's great for Main Street, for jobs, and for lenders who help create those jobs.

Let me ask you this. The \$10 million increase I predict will happen is bipartisan. How important is that going to be to Newtek?

Barry: Right. So what I've heard, Bob, and you're probably closer to this than I am, the 10 million would just be for manufacturers, not others. Correct?

Bob: Correct.

Barry: Okay. Got it. So I think it's important because that will offset other aspects of the program that are negative to lenders. So I think it is important, and there'll be a heightened focus on providing that funding to manufacturers. So, no, I think it's gonna be important.

Bob: I agree with you. We don't know exactly how it will work out. I do know it's going to be a different type of lending. The lender - I don't care if you're a bank, a community bank, or a large bank - you're going to underwrite a \$10 million loan significantly differently than you would a 2.5 million dollar loan. The risk is that much greater. You better know what you're doing. But while we're on that subject, and this is in the weeds, so I apologize...

Bob: SBA is changing the rules for preferred lenders, limiting their ability to process loans without SBA approval. But let me ask you this: For alternative credit sources, when someone doesn't quite meet the criteria for a 7(a) loan, what other types of programs can you offer to help that entrepreneur?

Barry: So I appreciate the question, Bob, and it's an important aspect of what we do. As a nonbank in 2017, we established a program which we call the alternative loan program.

So loans from \$500,000 to \$15,000,000, we provide funding to the same type of borrowers that would go to the SBA market. Here's the similarities. It's ten to twenty five year am. There's no balloon payments, and there's no covenants. It's fixed for five, and then it adjusts.

We've been doing this now and funded \$490,000,000. We just did a securitization. It's our third securitization in the space. So for businesses that are maxed on the \$5,000,000 SBA cap, that don't qualify for credit elsewhere, that wanna fix for five year and then unadjust versus a prime float, we have the alternative loan program.

And if, for example, you've got a borrower that only occupies 49% of the real estate that can come to our program, maybe 98% of the business is owned by US citizens and 2% is owned by a noncitizen, so it can't qualify, we could put it in this other program. So we have solutions for when the loan does not fit the SBA box.

Bob: Very nice. I like that. What other types of programs are you involved with in terms of government guarantees? Do you work with individual states at the state level?

Barry: It's a good question. We're about to do a joint venture with a top five world money manager and they have an impact fund that we'll talk about. And, we're gonna really start working much more closer with local, municipal and state governments and their departments of economic development. We have our referral system.

So we're the organization that has no branches, bankers, brokers, or BDOs, and we have alliance partners that give us referrals every day. And that's across all the different disciplines, payroll, insurance, merchant services, etcetera. But we're gonna look to expand the universe. We get six to 900 business referrals a day.

Bob: Wow.

Barry: Oh, yeah. I'd like that to be 15,000. Yeah. So we will do \$2 billion loans this year. That's our forecast.

We did a billion and a half last year.

Bob: Very impressive. That's not just 7(a), but across the whole spectrum, correct?

A lot of our viewers are in the SBA industry. Can you talk a little more about your alliance partners, and how you'd like to work with SBA loan brokers as well as other SBA lenders?

Barry: We make it very easy for a loan broker, community bank, a credit union, a trade association, an accountant, a lawyer, anybody that has the relationship with the business that's trying to help the business. We developed our own interface called new tracker. You put a referral in the system, and it gives you complete tracking capability, what we're doing with your customer.

The Secure FileVile technology that we've got makes it very easy for the borrower to interface with us, to connect their lawyer, their accountant, their internal controller. So the business owner

makes it easy. So we just go to our website, newteckone.com. We welcome people that want to provide financing to their customers. It is more than just seven a.

We have seven a is our, you know, lead product. We've been doing it for twenty two years, but we've got all forms of products. We do lines of credit. We do conforming bank loans, and we have this ALP loan. So if the borrower needs \$7.08, 9,000,000, we could put it in the ALP as well.

Bob: Well, Barry, you have a great track record. You've been doing this for a number of years through the Great Recession, through the pandemic, through all the disruption, and the current chaos that we're working with. You definitely have the track record, and congratulations on that. My final question: What's your unique selling proposition as an SBA lender that you pride yourself on and that you excel at executing?

Barry: Bob, would that be in relation to a small business, an intermediary, or just the market for public good?

Bob: You know what? You get to answer the question any way you want.

Barry: Alright. So I appreciate the question.

Barry: Look. The first thing is I wake up every day, and I'm proud of what we've done. I mean, if you haven't done something in the world for others, you haven't done anything. And I think we've established, a platform where business owners can come to, and we can solve their problem through financing, through a bank account that does not charge them any fees and pays them higher rates, better solutions for payroll, and across the board. So, from an operational perspective, we've taken a business and an industry that's manual with massive amounts of friction and removed it using technology, people, and process so that we're now providing funding to this world of entrepreneurs as well as many other solutions to make them better and more successful.

And I'm really proud of what we've built. The market, from an equity perspective, doesn't understand who we are or what we do. Banks banks basically make all their money on deposits well below the risk free rate. In other words, they're not paying the customer for a government guaranteed account. They do it for one and a half percent when a money market fund is four and a quarter.

And they invest in assets that are basically risk avoidance. They have no charge offs. We, on the other hand, pay market rate of interest. Our cost of funds is higher, and we provide a loan that is very useful that we have bigger losses. In the banking industry, when you have bigger losses, people say you're dumb.

I look at what we're doing on a risk adjusted basis. We do well in the program. We've survived for over two decades. We provide funding to small businesses, long term patient capital, and we make a profit. I go check, check, check.

So I'm very proud of the management team and what we've accomplished. That's kinda how I feel about things.

Bob: I think that's a great summation of what you do and your impact on the American economy. Hey, Barry. Thank you very much for joining us. Barry Sloan, president and CEO of Newtek One.

Barry: Thank you very much.