

SBA's Secondary Market Program for Community Advantage Lenders

 Chris Webb | 06/2017

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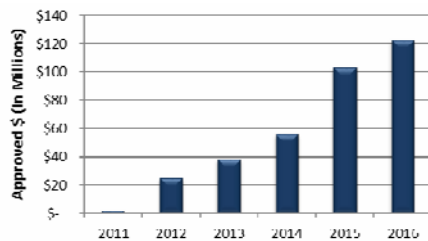
What is it that every nonprofit
director spends his/her life seeking?

Look no further than...

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Community Advantage (CA)

Fiscal Year	Approved Loans	Approved Dollars
2016	987	\$ 123,025,000
2015	828	\$ 103,516,100
2014	453	\$ 56,473,500
2013	273	\$ 38,199,800
2012	188	\$ 25,240,900
2011	15	\$ 2,142,800



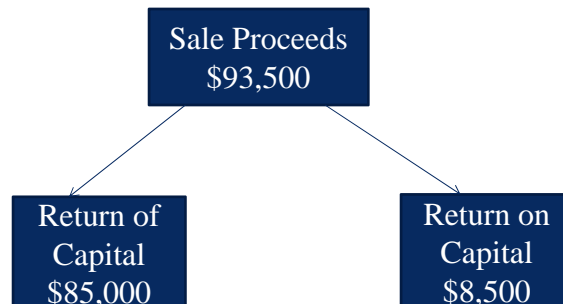
- ❖ Enables non-profit lenders to make government guaranteed loans to small businesses in underserved markets
- ❖ Guaranteed portions can be pooled and sold on the Secondary Market
- ❖ **Unrestricted, earned income from sales (the Holy Grail of non-profit funding)**
- ❖ Since inception, over \$400 million in loans were approved for more than 3,000 emerging/underserved borrowers

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Distribution of Sale Proceeds

Distribution of Proceeds
 \$100,000 Loan – 85% Guaranty
 Sold at a 10% Premium



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Sources of Revenue

Three sources of revenue from an SBA loan sold into the Secondary Market at a premium:

- Gain on Sale Above Par Value
- Interest Income on the retained or unguaranteed portion of the loan
- Servicing Fee Income on the sold or portion of the loan

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Who is eligible for Community Advantage?

As CA Lenders

- ▶ U.S. Treasury Certified Development Financial Institutions (CDFIs)
- ▶ SBA Certified Development Companies (CDCs)
- ▶ SBA Micro Loan Intermediaries
- ▶ SBA Intermediary Lending Pilot (ILP) Program Intermediaries

As Partners in the CA Network

- ▶ Lender Service Providers (LSPs)
 - ▶ Agents who carry out lender functions such as originating, disbursing, servicing or liquidating SBA loans for compensation
- ▶ Community Advantage Network Partners
 - ▶ Mission-oriented organizations that may act in partnership with a CA Lender to source and originate SBA loans

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Community Advantage Loan Parameters

Maximum loan size	<ul style="list-style-type: none">• \$250,000
Maximum interest rate	<ul style="list-style-type: none">• Prime + 6%
LLRF requirement	<ul style="list-style-type: none">• 5% cash reserve on unguaranteed portion of loan
Markets served	<ul style="list-style-type: none">• 60% of the number of CA loans must be in underserved markets
Management and technical assistance	<ul style="list-style-type: none">• Encouraged when appropriate but not required

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Key Community Advantage Program Features

Percent of Guaranty	<ul style="list-style-type: none">• 85% guaranty for loans of \$150K or less• 75% guaranty for loans above \$150K
Maturity	<ul style="list-style-type: none">• Max of 10 yrs for working capital• Max of 10 yrs or useful life for equipment• Maximum of 25 years for real estate
Guaranty Fees	<ul style="list-style-type: none">• For maturities > 12 months:<ul style="list-style-type: none">• 2.0% for CA loan ≤ \$150,000 (guaranteed portion, lender can retain ¼ fee)• 3.0% for CA loan > \$150,000 (guaranteed portion, full fee paid to SBA)• 0.55% on-going guaranty fee paid by lender

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Connecting the dots...



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Pieces to the Puzzle

SBA Forms (147, 1086, 1502)

SBA Fiscal and Transfer Agent

SBA Pool Assemblers

<https://www.sba.gov/content/active-list-sba-pool-assemblers>



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SBA Form 1086

SBA Form 1086 (02/2017)

SECONDARY PARTICIPATION GUARANTY AGREEMENT

IMPORTANT INFORMATION

THIS FORM IS FOR CREDITORS FOR THE ORIGINAL TRANSFER ONLY. ALL MARRIOTT BANK AND MARRIOTT BANK ASSOCIATED ASSOCIATES ARE REQUIRED TO COMPLETE THIS FORM. LOANS NOT BEING MADE FOR THE FIRST TIME CERTIFICATION PROGRAM TO RETAILED AND SBA FORM 1086 (02/2017)

A. LENDER CERTIFICATIONS. The Lender certifies, by signing this document, that it is a Lender as defined in 13 C.F.R. 120.10.

- (1) Lender certifies to the best of its knowledge that it is, underwritten, closed and serviced for the loan to a primary borrower and is in compliance with all SBA Loan program requirements as set forth in 13 C.F.R. 120.10.
- (2) Lender, including its officers, directors and employees, has no knowledge of a default by the borrower and has no knowledge or information that would indicate the likelihood of a default.
- (3) The Lender will not share any information received from this sale with a Service Provider, employee or other loan-related person.
- (4) The loan is not a revolving loan or line of credit facility.
- (5) Lender has paid the SBA guaranty fee.
- (6) The loan is fully disbursed, and
- (7) Lender acknowledges that it has no authority to unilaterally repurchase the Guaranteed Interest from Required Parties without the written consent of the SBA.

B. BORROWER PAYMENTS. Lender shall send to the First and Second Agent (Y) the FTA (the FTA) form of all borrower payments received after settlement of the loan sale. LENDER WILL NOT SEND ANY COLLATERAL DIRECTLY TO THE MARRIOTT BANK OR TO THE MARRIOTT BANK ASSOCIATES. Lender will retain a copy of this form. Lender will not receive a return copy of this form after settlement. The form provided from the settlement through FTA will be the only information that can be used to complete.

C. LENDER PAYMENT AND LATE FEE PAYMENT SCHEDULE. Lender's Guaranty Fee and Lender's Late Fee Payment Schedule (SBA Form 1082) shall be due at 15% on the first calendar day of every month, or the next business day if the first is not a business day. On any payment

SBA Form 1086 (02/2017) Parties' attention is directed to the following:

The legal form of agreement used by SBA to evidence a sale of an SBA loan guaranty by a Lender participant



The Sales Process

Active U.S. SBA 7(a) Loan Pool Assemblers

Last updated: February 2017

Company	Contact	Address	City	State	ZIP/Postal Code	Telephone Number
Centor Fitzgerald & Co.	Brenda Berlin	6410 Poplar Avenue, Suite 200	Memphis	TN	38119	901-347-1728
Central Securities, Inc.	John Ciocchia	920 Memorial City Way, 11th Floor	Houston	TX	77024	713-433-4360
FTN Financial Capital Markets	Matt Peterman	845 Crossover Lane, Suite 150	Memphis	TN	38117	901-433-8404
J. V. B. Financial Group, LLC	Lance Roth	1633 Broadway, 20th Floor	New York	NY	10019	410-560-3309
EGS-Alpha Capital Markets, LP	John Haley	601 Lexington Avenue, 44th Floor	New York	NY	10022	646-585-2190
Raymond James Bank, P/B	Scott Thomas	1100 Ridgeway Loop, Suite 550	Memphis	TN	38120	901-374-7871
Signature Bank	Mary Mims	565 Fifth Avenue	New York	NY	10017	713-300-6106
Sigal, Nicholas & Company, Inc.	David Barnes	6073 Poplar Avenue, Suite 628	Memphis	TN	38119	901-333-8123
Stonewall Investments, Inc. dba Hanover Securities	Matthew Monaco	6410 Poplar Avenue, Suite 320	Memphis	TN	38119	901-261-9952
SunTrust Bank	Laura Richardson	303 Peachtree Street NE, 25th Floor	Atlanta	GA	30308	404-588-7114
Vining Sparks BGC, L.P.	Wilson Pace	775 Ridge Lake Blvd., Suite 200	Memphis	TN	38120	901-766-9108
ZB, N.A. dba Zions First National Bank	Kenn Hunter	One South Main St.	Salt Lake City	UT	84111	801-844-7119



R:\Secondary Market\SBA POOL ASSEMBLERS\Active U.S. SBA Loan Pool Assemblers Report - February 2017.pdf



The Sales Process

- Lender places bids with Broker/Dealers, and parties provide documents for sales settlement to FTA.
- Colson examines the documents for accuracy, completeness and errors, and works with the Broker/Dealer and Lender to fix any deficiencies.
- Colson issues confirmation of sale and remits funds to Lender.



The Sales Process

- Colson issues a **Guaranteed Interest Certificate** to the investor, evidencing investor ownership of the guaranteed portion of the SBA. The certificate is backed by the full faith and credit of the U. S Government



The SBA Guaranty

- ▶ An SBA loan sold in the Secondary Market carries an **unconditional** guaranty to the investor



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Loan Servicing

- Any modifications to the Note, such as deferments, interest rate and maturity changes, or changes to how the loan floats if it is variable rate, must be submitted to Colson for approval from the investor
 - (Form 1086 Section D Payment Modifications)
- The Lender is allowed one three-month deferment on the Note without investor approval, but Colson must be notified of the deferment so it can record it

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Portfolio Reporting



SBA Form 1502

Payment Remittance and Loan Reporting

- Captures ALL loan data and payment remittances.
- Acts as pass through report.
- Drives SBA Loan Performance Measures.
- Timely submission is required under Section 6 of the Form 1086

Servicing The Loan

Repurchases and Payoffs

- Pursuant to Paragraphs 10 and 15 of the 1086, the Lender must provide Colson with a 10-business day notification of a Borrower payoff or a Lender repurchase
- Payoffs must be submitted via wire with a 1502 and interest must be paid to the date of the payoff
- Lender must also send Colson a Prepayment Certification stating that the payoff represents the Borrower's own funds, funds Borrowed pursuant to a separate transaction or the borrower has defaulted

Secondary Market Resources

Forms and Information

➤ SBA Form 1086, SBA Form 1502, the Prepayment Certificate and all other Secondary Market forms will be available on either SBA's website www.sba.gov/for-lenders and on Colson's website, www.colsonservices.com



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Contact Us to Get Started

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