



# **Servicing Loans Sold in the SBA 7(a) Secondary Market**

Mid-America Lenders Conference

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BNY Mellon, Colson Services

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# SBA 7(a) Loans That Can Not be Sold

- Revolving loans
- ARC loans
- Loans with outstanding upfront SBA guaranty fees
- Loans that are not Fully Disbursed at the time of sale
- Loans that are not Current at the time of sale

# Loan Sale Participants

## Lender

### Decision maker

- Initiates the process
  - Increased earnings
  - Liquidity
  - Increased Capital
- Selects loans to sell
- Evaluates and awards bids
- Negotiates the sale

### Loan servicer

- Retains Form 750 servicing responsibilities
- Forwards payments on sold portions to FTA on Form 1502
- Requests approval for payment modifications
- Provides FTA with prepayment notices

## Broker Dealer / Investor / Registered Holder

- Determines pricing based on loan characteristics
  - Standardized Bid Sheet available on <https://colsonservices.bnymellon.com>
    - Required Info
    - Preferred Info (leads to more informed pricing decisions)
    - Bid Info
- Gives lender premium or par bid
- Assists with sale documentation

# Secondary Market Loans Profile

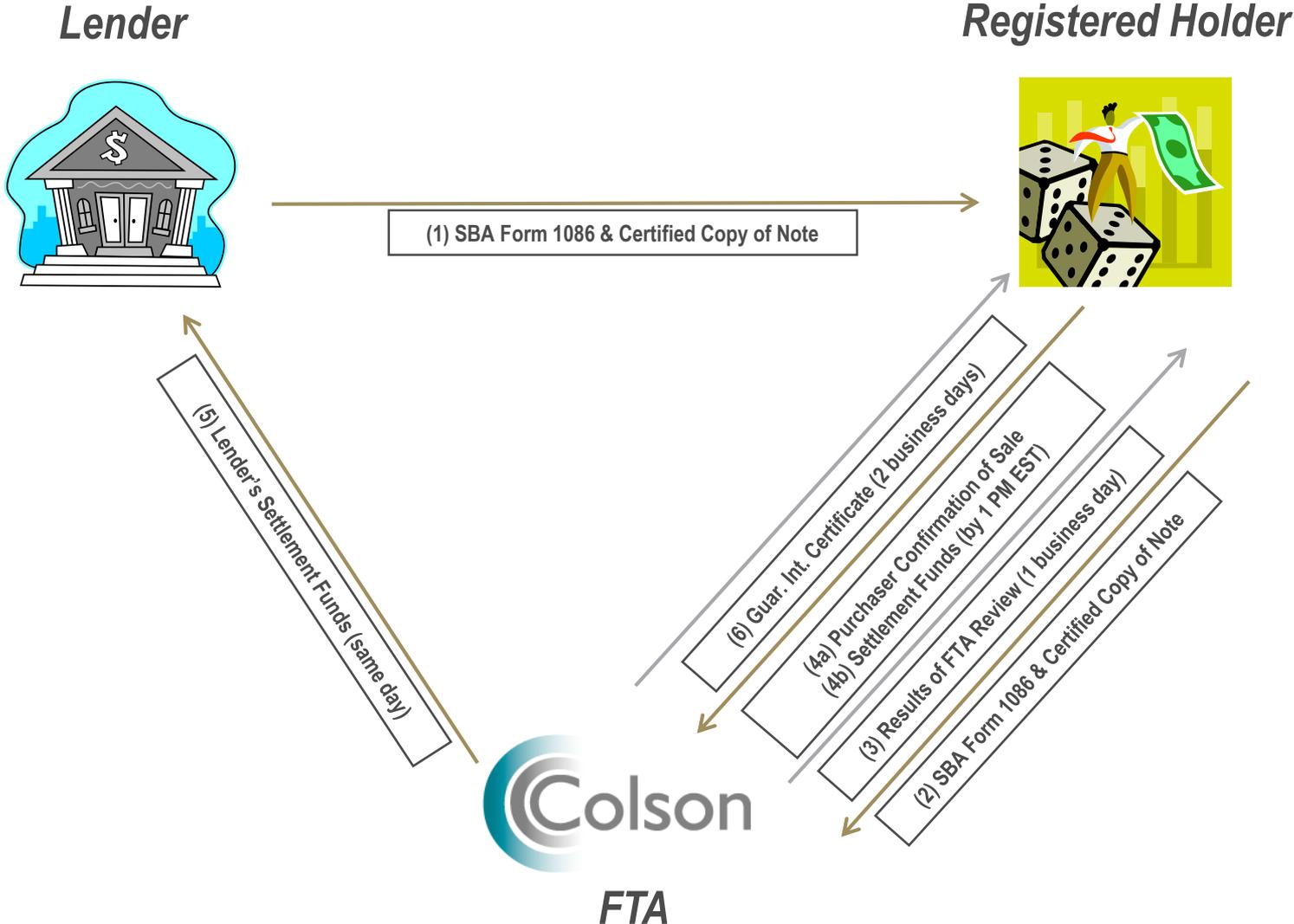
Common Characteristics	Measure
Newly disbursed Loans	Loan seasoning affects bid prices based on increased prepayment risk
Variable rate loans <ul style="list-style-type: none"> <li>• Calendar Quarter Adjust – Prime Rate</li> <li>• No caps or floors</li> </ul>	98% of loans sold <ul style="list-style-type: none"> <li>• 96% of variable rate loans</li> <li>• 0 SBA LIBOR pools formed since 8/2015</li> <li>• Caps or floors affect bid prices based on SBA pooling parameters</li> </ul>
Longer term (> 10 Years)	14 years - average loan term
Monthly Borrower Payments	99% of loans sold

# Loan Sale Participants

## Fiscal Transfer Agent – Colson Services Corp.

- Facilitates settlement
- Processes settlement funds and records Registered Holders
- Collects secondary market payments from lenders on SBA Form 1502
- Tracks loan payments to ensure agreement
- Remits payments to investors
- Forwards servicing requests between lenders & investors
- Notifies SBA monthly of delinquent loans
- Handles SBA and lender repurchases
  
- Facilitates pool formations on behalf of SBA approved Pool Assemblers
- Facilitates certificate transfers between Registered Holders

# SBA 7(a) Loan Settlement Process



# SBA Note Legends / Certifications

- Guaranteed portion of this note has been transferred to a registered holder for value
- True and Certified copy of the original
  - Must be accompanied by original signature or equivalent electronic signature

# Interest Rate Requirements for an SBA Note – Variable Rate Loans

- SOP 50 10 5(I), Subpart B, Chapter 3, Paragraph IV, F
  - Identification of the rate being used as the base rate
  - The publication in which the designated base rate appears regularly
  - The permanent percentage spread to be added to the base rate
  - The initial interest rate of the loan (from disbursement to first adjustment)
  - The date of the first rate adjustment
  - The frequency of rate adjustment
- Missing elements will require the written agreement of the borrower (i.e. modification)

# Secondary Market Settlement Documentation

Servicing Actions	SBA Approval
Increase loan amount or SBA's Guaranty Percentage	√
Decrease loan amount or SBA's Guaranty Percentage	√
Transfer, sell or pledge more than 90% of loan	√

- SBA Approval may consist of either written correspondence or verified E-Tran update.

# Secondary Market Volumes

As of 3/22/2019

## Fixed Rate Loans

Avg Price: 106.39514%

Avg Guar. Principal: \$480,803.56

## Variable Rate Loans

Avg Price: 108.86333%

Avg Guar. Principal: \$557,781.01

Loans Settled By Purchase Price- Fiscal Year (2019)



Purchase Price Range	Number Of Loans	Settled Guaranteed Principal	Premium Earned By SBA	Premium Earned By Lender	Sale Price Paid By Purchaser
< 100	2	\$1,263,002.65	\$0.00	(\$30,671.18)	\$1,232,331.47
100 - 101	22	\$14,840,374.29	\$0.00	\$44,347.85	\$14,884,722.14
101.1 - 102	16	\$10,333,174.75	\$0.00	\$121,373.64	\$10,454,548.39
102.1 - 103	20	\$10,133,095.04	\$0.00	\$257,502.25	\$10,390,597.29
103.1 - 104	68	\$53,294,559.13	\$0.00	\$1,875,355.25	\$55,169,914.38
104.1 - 105	121	\$125,200,517.98	\$0.00	\$5,763,997.12	\$130,964,515.10
105.1 - 106	296	\$277,666,901.01	\$0.00	\$15,467,205.25	\$293,134,106.26
106.1 - 107	614	\$516,401,837.20	\$0.00	\$33,592,099.81	\$549,993,937.01
107.1 - 108	795	\$585,074,446.97	\$0.00	\$43,834,002.77	\$628,908,449.74
108.1 - 109	1109	\$581,543,357.70	\$0.00	\$49,271,774.34	\$630,815,132.04
109.1 - 110	1481	\$542,139,708.94	\$0.00	\$51,653,258.76	\$593,792,967.70
110.1 - 111	906	\$313,508,622.37	\$541,973.63	\$31,892,839.55	\$345,943,435.55
111.1 - 112	265	\$132,034,746.18	\$954,344.37	\$14,157,820.05	\$147,146,910.60
112.1 - 113	176	\$105,898,139.91	\$1,281,849.65	\$11,871,664.19	\$119,051,653.75
113.1 - 114	142	\$91,014,737.94	\$1,615,242.08	\$10,716,716.25	\$103,346,696.27
114.1 - 115	101	\$52,500,876.74	\$1,112,514.57	\$6,362,602.42	\$59,975,993.73
115.1 - 116	4	\$1,179,304.70	\$29,782.28	\$147,712.76	\$1,356,799.74
116.1 - 117	1	\$106,160.42	\$3,216.66	\$13,832.70	\$123,209.78
<b>TOTALS:</b>	<b>6,139</b>	<b>\$3,414,133,563.92</b>	<b>\$5,538,923.24</b>	<b>\$277,013,433.78</b>	<b>\$3,696,685,920.94</b>

# Secondary Market Program Fees

Description	Amount	Collection Method
FTA Loan Settlement Fee	\$75	Broker Dealer / Investor / Registered Holder pays FTA.
SBA Premium Fee	½ of Purchase Price > 110	Fee calculated by FTA and withheld from settlement proceeds wire to lender.
SBA Annual Service Fee	Varied (See next slide)	Fee calculated by FTA and withheld from the secondary market pass-through interest. Lenders do not remit separately.
FTA Servicing Fee	12.5 basis points fee or 14.5 basis points fee	Fee calculated by FTA and withheld from the secondary market pass-through interest. Lenders do not remit separately.

# SBA Annual Service Fee

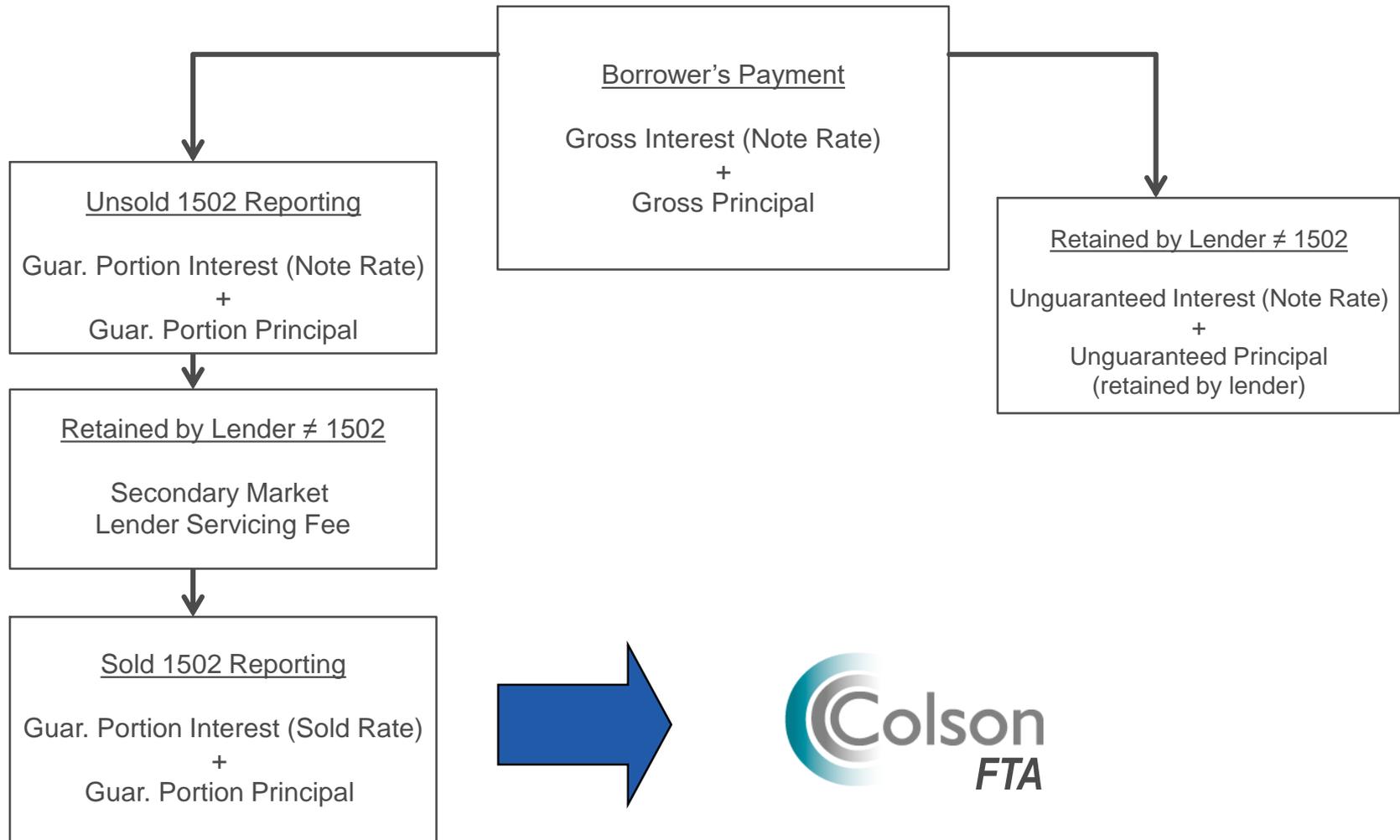
SBA Annual Service Fee		7(a) Loans Approved	
Rate	Description	Effective	End
.55%	55 basis points (.0055)	10/01/2017	-
.546%	54.6 basis points (.00546)	10/01/2016	09/30/2017
.473%	47.3 basis points (.00473)	10/01/2015	09/30/2016
.519%	51.9 basis points (.00519)	10/01/2014	09/30/2015
.52%	52 basis points (.0052)	10/01/2013	09/30/2014
.55%	55 basis points (.0055)	10/01/2008	09/30/2013
.494%	49.4 basis points (.00494)	10/01/2007	09/30/2008
.55%	55 basis points (.0055)	10/01/2006	09/30/2007
.545%	54.5 basis points (.00545)	10/01/2005	09/30/2006
.50%	50 basis points (.0050)	10/01/2004	09/30/2005
.36%	36 basis points (.0036)	04/05/2004	09/30/2004
.25%	25 basis points (.0025)	10/01/2002	04/04/2004
.25%	25 basis points (.0025)	Fee set at the time of STAR Program approval	
.50%	50 basis points (.0050)	10/12/1995	09/30/2002

# Authorized Fee Relief

SBA Annual Service Fee		7(a) Loans Approved		Condition
Rate	Description	Effective	End	
0%	Zero basis points	10/01/2018	-	Operating concern is in rural area or HUBZone as determined by SBA <u>AND</u> Gross Approval Amount ≤ \$150,000
0%	Zero basis points	10/01/2013	09/30/2016	Gross Approval Amount ≤ \$150,000 (single loan or within 90 days of companion 7(a) loan(s) <u>AND</u> gross aggregate ≤ \$150,000)

# Secondary Market Payment

## Total to FTA - Guar. Portion Pymt



# What IF SBA Loan 1234567890 Was A...???

U.S. SMALL BUSINESS ADMINISTRATION

Guaranty Loan Status & Lender Remittance Form

Check box if lender information reflects changes

F  
O  
L  
D

Check box if secondary market payment reported is a late payment or prepayment

Lender's Name: Main Street Bank Lender's Street Address: 123 Main Street

Lender's City, State, Zip: Anytown, DC 20000 Lender's Contact Person: Joe Banker

Contact Person's Phone No: 202-555-5555 x 123 Contact Person's Fax No: 202-555-5550

Month End: 4/30/2018

SBA GP Number	Lender Loan Number	Next Installment Due Date	Status (4 - 9)	Amt Disbursed this Period on Total Loan	Amount Undisbursed on Total Loan	Interest Rate	Guar. Portion Interest	Guar. Portion Principal	Total to FTA Guar. Portion Pymt or Fee	Interest Period From To	# of Days	Calendar Basis	Guar. Portion Closing Balance	Remittance Penalty (if any)
1234567890	ABC123	05/10/18				6.75%	1,074.91	1,244.43	87.59	03/10/18 04/10/18	31	365	186,255.57	
Non-Secondary Loan (Unsold); Subject to 55 Basis Point Fee														
1234567890	ABC123	05/10/18				5.75%	915.67	1,244.43	2,160.10	03/10/18 04/10/18	31	365	186,255.57	
Sold Secondary Loan; Lender retaining 1% Servicing Fee														
1234567890	ABC123	05/10/18				6.75%	520.12	0.00	42.38	03/10/18 03/25/18	15	365	187,500.00	
1234567890	ABC123	05/10/18				5.75%	472.60	1,244.43	1,717.03	03/25/18 04/10/18	16	365	186,255.57	
Sold Secondary Loan; Settlement Effective 03/25/18														
1234567890	ABC123	05/10/18				5.75%	649.83	0.00	649.83	03/10/18 04/01/18	22	365	187,500.00	
1234567890	ABC123	05/10/18				6.00%	277.40	1,244.43	1,521.83	04/01/18 04/10/18	9	365	186,255.57	
Sold Secondary Loan; Interest Rate Change on 04/01/18														

# Secondary Market Data Accuracy Reports

Report	Frequency	Method	Target Population
Discrepancy Letter	Monthly	Auto fax	Secondary Market loans with guaranteed closing balance and/or interest paid to date discrepancies between lender and FTA records.
Late Remittance Penalty Letters	Monthly	Mail	Secondary market payments remitted late by lender*.

\* Late remittance penalties are lender fees for non-compliance of SBA Form 1086 payment remittance guidelines

# Borrower Late Payments

- SBA Form 1086, Paragraph 6, b. :

“With the exception of prepayments pursuant to Paragraph 15 of this Agreement, payments received **other than as regularly scheduled in the previous month** must be remitted by Lender to FTA within two (2) business days of receipt of collected funds.”

- Separate SBA Form 1502 required
  - SBA SOP 50 57, Chapter 4, Paragraph A, 1.a: “Funds from payments received on loans in regular servicing status must first be applied to interest accrued to the date the payment was received;”

# Secondary Market Remittance Adjustments

- Lender remittance adjustments (i.e. reallocations, refund requests) should be sent to Colson's Client Service Team at [info@colsonservices.com](mailto:info@colsonservices.com)
  - Lenders should never reverse payments by reporting negative numbers on SBA Form 1502
- Secondary market questions may also be made at:

877-245-6159

Lender Inquiries - Call Option 2

Investor Inquiries – Call Option 3

# Secondary Market Payment Modifications

- Lender may approve one payment deferment for up to three consecutive months without obtaining prior approval from registered holder
  - Lender must notify FTA of any such deferral
- No change in repayment terms other than the initial deferment may be made by the lender or SBA without the prior written consent of the registered holder through the FTA
  - Registered holders have up to 30 days to respond to all requests. Lack of response will be considered a denial.

# Servicing Actions

## 7(a) Secondary Market Lender Matrix \*

Servicing Requests Sent to FTA	Requires Prior Investor Approval	Requires Prior SBA Approval
Increase loan amount or SBA's Guaranty Percentage	√	√
Decrease loan amount or SBA's Guaranty Percentage	√	
Change the monthly payment amount (excludes annual amortization)	√	
Change the adjustment period	√	
Change the payment due date (excludes change within the same month)	√	
Change Interest Accrual Method <u>within SBA Form 1086 guidelines</u>	√	
Emergency Purchase from Secondary Market		√
Determination of involuntary prepayment / subsidy recoupment fee		√
Transfer, sell or pledge more than 90% of loan		√
Terminate SBA guaranty <u>prior to</u> submission of Guaranty Purchase Demand Kit	√	
Extend Maturity prior to stated maturity date for loans in Regular Servicing	√	
Change interest rate <u>within loan program guidelines</u> (includes change to Secondary Market Lender Servicing Fee)	√	

\* Lender is responsible for E-Tran Updates or SBA Notifications required by SBA Loan Program Requirements.

# Servicing Actions

## 7(a) Secondary Market Lender Matrix \*

Servicing Requests Sent to FTA	Requires Prior Investor Approval	Requires Prior SBA Approval
Change Obligor's address or legal trade name of business		
Transfer loan into liquidation status	√	
Change a loan to PIF status	√	
Defer Payments (beyond written notice of SBA Form 1086 unilateral authority)	√	
Accept prepayments (subsidy recoupment fee may apply)	10 Business Day Notice	

### No FTA Notification Required

Release Borrower or Guarantor
Assumption of loan with release of original Borrower / Guarantor
Assumption of loan without release of original Borrower / Guarantor
Add a Guarantor to the loan
Subordinate / release lien
Release / substitute collateral

\* Lender is responsible for E-Tran Updates or SBA Notifications required by SBA Loan Program Requirements.

# Servicemembers Civil Relief Act

To qualify for forgiveness of interest in excess of 6%, Lender must provide FTA:

- Written Notice
  - Copy of military orders
  - Proof servicemember small business borrower qualifies as either:
    - Individual obligor
    - Sole proprietorship
    - Married partnership
    - “Materially affected” by the servicemember’s military service
  - SBA Servicing Office Acknowledgement or approval
- 
1. FTA will request final approval from SBA OFA.
  2. Lender must confirm end of military service.

# Secondary Market Payoff Processing

- Lender is required to provide ten (10) business days notification to the FTA for secondary market prepayments
  - Notifications can be forwarded to [10daynotice@colsonservices.com](mailto:10daynotice@colsonservices.com). The auto response should be retained by lender.
  - The 10 business day notification is valid for 30 calendar days from the prepayment date.
  - The 10 business day notice must include: SBA loan number and borrower name; prepayment date; principal amount being prepaid; the accrued interest due the FTA as of the prepayment date.
- Lender is required to provide a prepayment certification that the prepayment funds are either the borrower's own funds or funds borrowed by borrower pursuant to a separate transaction
  - The prepayment certification form does not satisfy the 10 business day notification requirement and should only be used when the lender transmits to the FTA the Registered Holder's pro rata share of the payoff.
  - Separate 1502 is required. Interest is due to the latter of the 10<sup>th</sup> business day or the date of the wire received by FTA.

# Coming Soon! LoanLIST 3.0

## Features to Include:

- Portfolio audits
- Expanded history detail
- Lender and FTA balances
- Shared 1502 Dashboard access

SBA Loan Number	6027095004				
CSC Purch No.	70879	CSC Bank No.	885C	CSC Loan No.	00003
Note Date	05/13/2013	Settlement Date	07/16/2015	Certificate Face Amount	\$70,515.85
Base Rate	Prime	Gross Rate	7.75000%	Calendar Basis	ACT/365
Rate Spread	2.75000%	Lender Service Fee	1.00000%	Maturity Date	05/13/2023
Frequency of Rate Adjustment	Quarterly	SBA Ongoing Service Fee	0.55000%	Payment Frequency	Monthly
Date of First Rate Adjustment	07/01/2013	FTA Fee	0.12500%	Prepay Notice	No
Cap	0.00000%	Originator Fee	0.00000%	Loan Status	Current
Floor	0.00000%	Registered Holder Rate	6.07500%	Paid in Full Status Date	

Payment Number	CSC Purch No.	CSC Bank No.	CSC Loan No.	Received Date	Guar. Portion Interest	Guar. Portion Principal	Total to FTA	Lender Interest Period From	Lender Interest Period To	Lender Number of Days	Lender Calendar Basis	FTA Interest Period From	FTA Interest Period To	FTA Number of Days	FTA Calendar Basis	Lender Guar. Portion Closing Balance	FTA Guar. Portion Closing Balance
30	70879	885C	00003	06/29/2018	\$383.26	\$530.94	\$914.20	05/17/2018	06/28/2018	42	365	05/17/2018	06/28/2018	42	365	\$50,711.56	\$50,711.56



Payment Number	CSC Purch No.	CSC Bank No.	CSC Loan No.	Received Date	Guar. Portion Interest	Guar. Portion Principal	Total to FTA	Lender Interest Period From	Lender Interest Period To	Lender Number of Days	Lender Calendar Basis	FTA Interest Period From	FTA Interest Period To	FTA Number of Days	FTA Calendar Basis	Lender Guar. Portion Closing Balance	FTA Guar. Portion Closing Balance
1	05163	885C	00003	08/04/2015	\$57.96	\$586.63	\$644.59	07/16/2015	07/22/2015	6	365	07/16/2015	07/22/2015	6	365	\$69,929.22	\$69,929.22
2	05163	885C	00003	09/02/2015	\$249.06	\$635.50	\$884.56	07/22/2015	08/17/2015	26	365	07/22/2015	08/17/2015	26	365	\$69,293.72	\$69,293.72
3	05163	885C	00003	10/13/2015	\$379.69	\$478.75	\$858.44	08/17/2015	09/26/2015	40	365	08/17/2015	09/26/2015	40	365	\$68,814.97	\$68,814.97
4	05163	885C	00003	11/04/2015	\$216.82	\$674.19	\$891.01	09/26/2015	10/19/2015	23	365	09/26/2015	10/19/2015	23	365	\$68,140.78	\$68,140.78
5	05163	885C	00003	12/02/2015	\$233.36	\$654.36	\$887.72	10/19/2015	11/13/2015	25	365	10/19/2015	11/13/2015	25	365	\$67,486.42	\$67,486.42
6	05163	885C	00003	01/05/2016	\$443.74	\$401.88	\$845.62	11/13/2015	12/31/2015	48	365	11/13/2015	12/31/2015	48	365	\$67,084.54	\$67,084.54
7	05163	885C	00003	02/11/2016	\$279.37	\$601.72	\$881.09	12/31/2015	01/29/2016	29	365	12/31/2015	01/29/2016	29	365	\$66,482.82	\$66,482.82
8	70879	885C	00003	03/01/2016	\$200.81	\$695.94	\$896.75	01/29/2016	02/19/2016	21	365	01/29/2016	02/19/2016	21	365	\$65,786.88	\$65,786.88
9	70879	885C	00003	03/23/2016	\$293.34	\$606.57	\$899.91	02/19/2016	03/21/2016	31	360	02/19/2016	03/21/2016	31	365	\$65,180.31	\$65,180.31
10	70879	885C	00003	05/03/2016	\$337.51	\$618.20	\$955.71	03/21/2016	04/26/2016	36	365	03/21/2016	04/26/2016	36	365	\$64,562.11	\$64,562.11
11	70879	885C	00003	06/02/2016	\$250.73	\$646.24	\$896.97	04/26/2016	05/23/2016	27	365	04/26/2016	05/23/2016	27	365	\$63,915.87	\$63,915.87
12	70879	885C	00003	07/15/2016	\$468.86	\$1,434.61	\$1,903.47	05/23/2016	07/13/2016	51	365	05/23/2016	07/13/2016	51	365	\$62,481.26	\$62,481.26
13	70879	885C	00003	09/14/2016	\$557.20	\$1,244.46	\$1,801.66	07/13/2016	09/13/2016	62	365	07/13/2016	09/13/2016	62	365	\$61,236.80	\$61,236.80
14	70879	885C	00003	11/16/2016	\$546.10	\$1,257.67	\$1,803.77	09/13/2016	11/14/2016	62	365	09/13/2016	11/14/2016	62	365	\$59,979.12	\$59,979.12



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Questions?

INSTITUTIONAL INVESTORS 1 HOUR AGO  
BNY MELLON  
PARTNERSHIP, BNY MELLON PROVIDES A  
THROUGH COMMUN