



SBA 7(a) SECONDARY MARKET PROGRAM OVERVIEW FOR INVESTORS

THE PROGRAM

Lenders who hold 7(a) business loans guaranteed by the U.S. Small Business Administration (SBA) may be able to profit by selling the guaranteed portions of those loans in an active secondary market. About \$2.5 billion in new loan sales occur each year, and an additional \$1 billion of previously sold loans are traded amongst investors annually. Additionally, most individual loans are pooled to make larger investments that carry a timely payment guaranty.

BENEFITS OF INVESTING IN SBA LOANS AND POOLS

- **Guarantee:** Secondary market SBA loans and pools carry the unconditional full faith and credit guarantee of the U.S. Government.
- **Capital:** SBA loans are 20% risk-based capital and SBA pools are 0% risk-based capital.
- **Servicing Costs:** P&I payments for an SBA portfolio will be satisfied by a single monthly check accompanied by a statement breaking down the payments for each loan or pool. Secondary market services are provided by SBA's Fiscal and Transfer Agent (FTA).
- **Liquidity:** SBA adjustable rate loans and pools are self-managing assets with characteristics that enhance marketability and liquidity.
- **Pledgeability:** SBA loan and pool certificates are generally pledgeable as collateral for Public Funds, Federal Reserve and Federal Home Loan Bank advances, and Treasury, Tax and Loan accounts.
- **CRA Investment:** SBA loans and pools are socially responsible investments providing capital for the U.S.'s small business community. Investing in this program has been considered to be CRA-positive.
- **Cash Flow:** Regularly-scheduled payments of principal and interest (timely monthly payment on pools; pass-through payment, usually monthly or quarterly, on loans). This cash flow creates the opportunity for regular reinvestment and compounding.
- **Enhanced Yields:** SBA loans and pools historically have provided yields which outperform most short-term and many long-term investments of a similar nature.

COLSON'S ROLE

As the FTA for the SBA 7(a) Secondary Market Program, Colson acts as a conduit between the lenders, broker/dealers, and investors for all secondary market processes, including loan sales, payment pass-through, deferments and modifications, prepayments and defaults, and pooling.

REQUIRED DOCUMENTATION

- **For Initial Loan Sales:**
 1. SBA Form 1086: Secondary Participation Guaranty Agreement (executed by lender and investor)
 2. A certified copy of the Note: SBA Form 147 (executed by lender)
 3. Purchaser's Confirmation of Sale (executed by first investor)
 4. Completed W9 if new lender or investor
- **For Transfers, Certificated Loans and Pools:**
 1. SBA Form 1088
 2. Disclosure Form
 3. SBA Guaranteed Interest Certificate or SBA Guaranteed Loan Pool Certificate
 4. Completed W9 if W9 is not already on file at Colson

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