



## SBA 7(a) SECONDARY MARKET PROGRAM OVERVIEW FOR LENDERS

### 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.

### BENEFITS OF SELLING INTO THE SECONDARY MARKET

- Improves liquidity position: The SBA guarantee can be converted to cash, which can be used to fund additional small business loans.
- Increases profits with income from:
  - a. The premium at the time of sale.
  - b. The servicing fee on the sold portion for the life of the loan.
  - c. The float on the borrowers' loan payments until remittance to SBA's Fiscal and Transfer Agent (FTA) occurs.
- Eliminates the need for lenders to keep track of the owners of the loans.
- Permits lenders to write a single payment remittance check each month to investors on all sold loans.
- Offsets at-risk capital from unguaranteed portion holdings.
- Minimal expenses incurred for securitizing loans through SBA's established secondary market program.

### WHERE TO BEGIN?

Broker/dealers are familiar with required secondary market paperwork and the selling process. While there is no requirement that a broker/dealer be used, a good first step may be to call a few and obtain price quotes. After the deal is made, SBA Form 1086 is signed by all parties and sent to SBA's Fiscal and Transfer Agent (FTA), along with a certified copy of the borrower's note, for settlement.

### 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

- SBA Form 1086: Secondary Participation Guaranty Agreement (executed by lender and investor).
- A certified copy of the Note: SBA Form 147 (executed by lender).