

**SBA Lending:
News, Benefits, and
Leveraging the secondary market**

What is an SBA loan?

A loan to a small business given by a private lender (such as a bank or credit union) and partially backed by the U.S. Small Business administration.

Why use an SBA loan?

Allows lending in industries and for purposes not otherwise allowed under the typical commercial lending criteria.

Help finance businesses that don't otherwise qualify for a loan on commercially reasonable terms.

What's New?

Updated SOP 50 10 7.1

SBLC Licenses

WC Pilot Program

The Benefits of SBA Lending

Diversify a Loan Portfolio

Mitigate Credit Risk

Maximize MBL Cap

Reduce Interest Rate Risk

Preserve Liquidity

Earn Non-interest Income

Portfolio Diversification



Lend in industries and for purposes not otherwise allowed under the typical commercial lending criteria

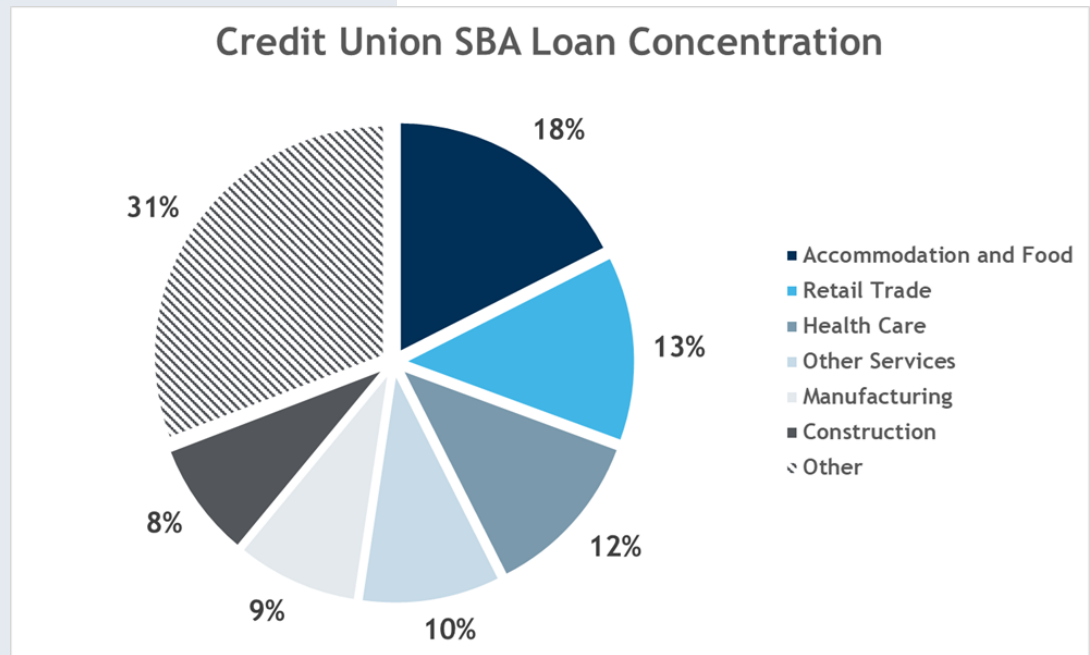


Conventional commercial lending is typically heavily concentrated in commercial real estate and equipment financing

Portfolio Diversification

SBA loan guarantee helps mitigate the risk of a higher loan to value and industries outside of conventional loan policies.

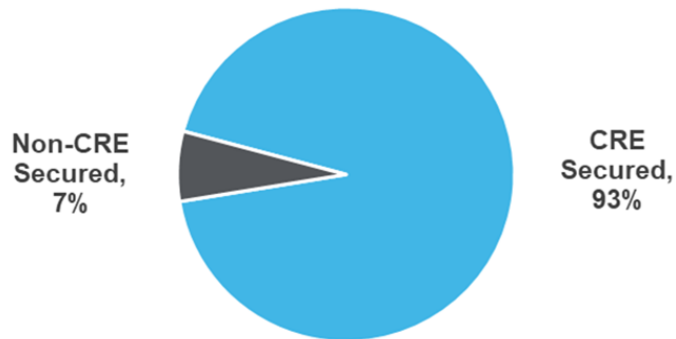
SBA loans originated by Credit Unions have a diverse industry spread.



Diversify Your Loan Portfolio

Credit Union Commercial Lending Concentration – Overall

Credit Union Concentration by Dollars Outstanding



Credit Union Commercial Lending Concentration – SBA Originations Only

Credit Union SBA Originations by Dollars



Risk Mitigation

SBA loans come with a government guaranty, typically a 75% guaranty.

If an SBA loan goes bad, SBA will share in the loss on that loan with you.



Risk Mitigation

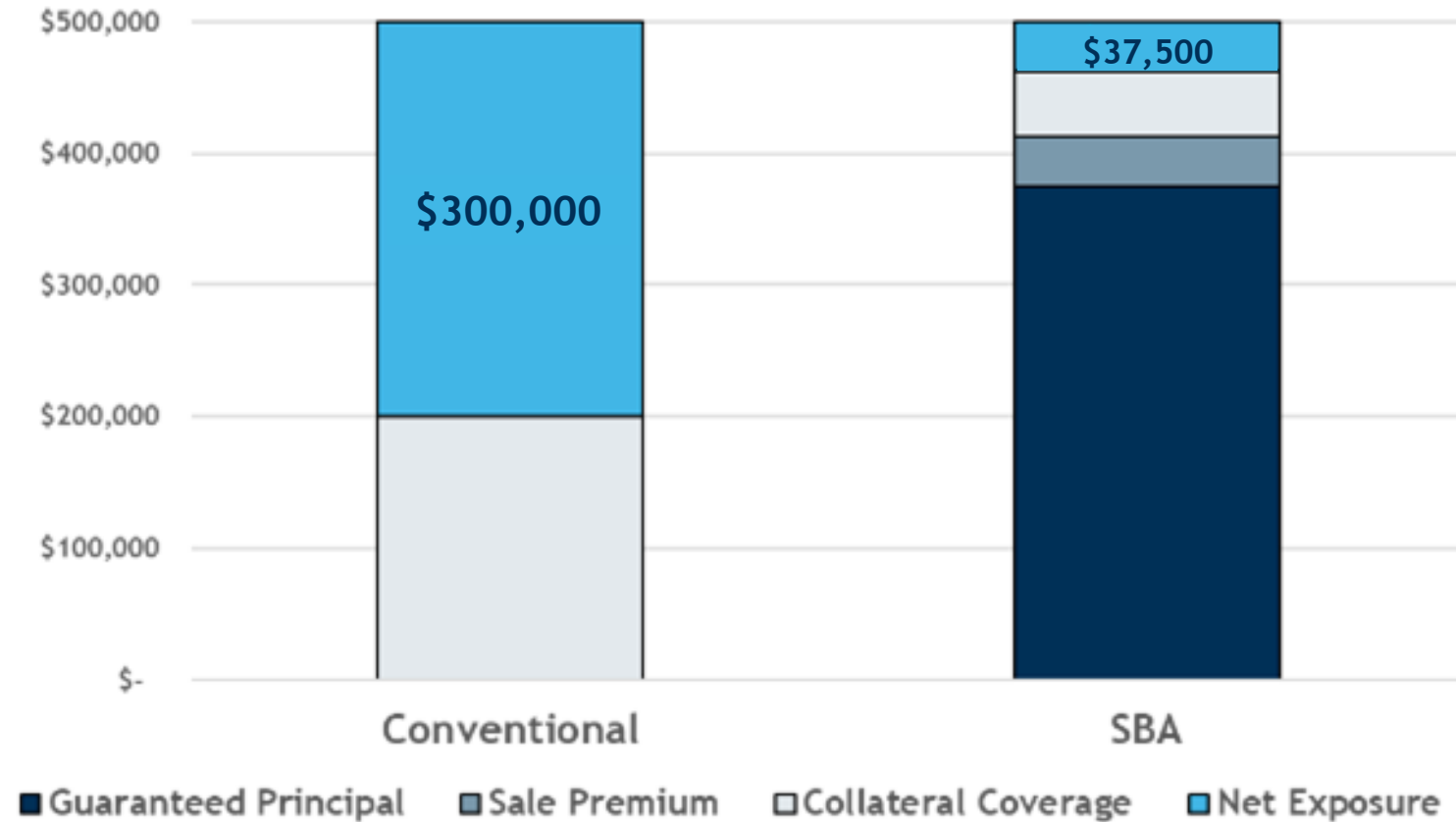


Typical guaranty on a standard 7(a) loan is 75%



If you originate a \$500,000 SBA 7(a) loan your credit exposure is \$125,000

Risk Exposure of a \$500,000 Loan at 250% LTV



Maximize Your MBL Cap

The guaranteed portion of an SBA loan does not count against your MBL Cap

Statutory limits for standard MBL cap - 1.75 times the actual net worth

If you originate a \$1,000,000 SBA 7(a) loan only \$250,000 of that loan will count against your MBL lending cap.

A 3D rendered image featuring a large, dark grey percentage sign (%) in the foreground, slightly to the left. Below and around it are several light blue dollar signs (\$) of varying sizes, some in sharp focus and others blurred in the background. The overall scene is set against a light blue, slightly textured background.

Reduce Interest Rate Risk

- SBA 7(a) loans are long, fully amortizing terms
- Most commonly priced as a quarterly adjusting rate
- Protects the financial institution from volatility

Loan Sale Benefits to Financial Institutions



Increased liquidity

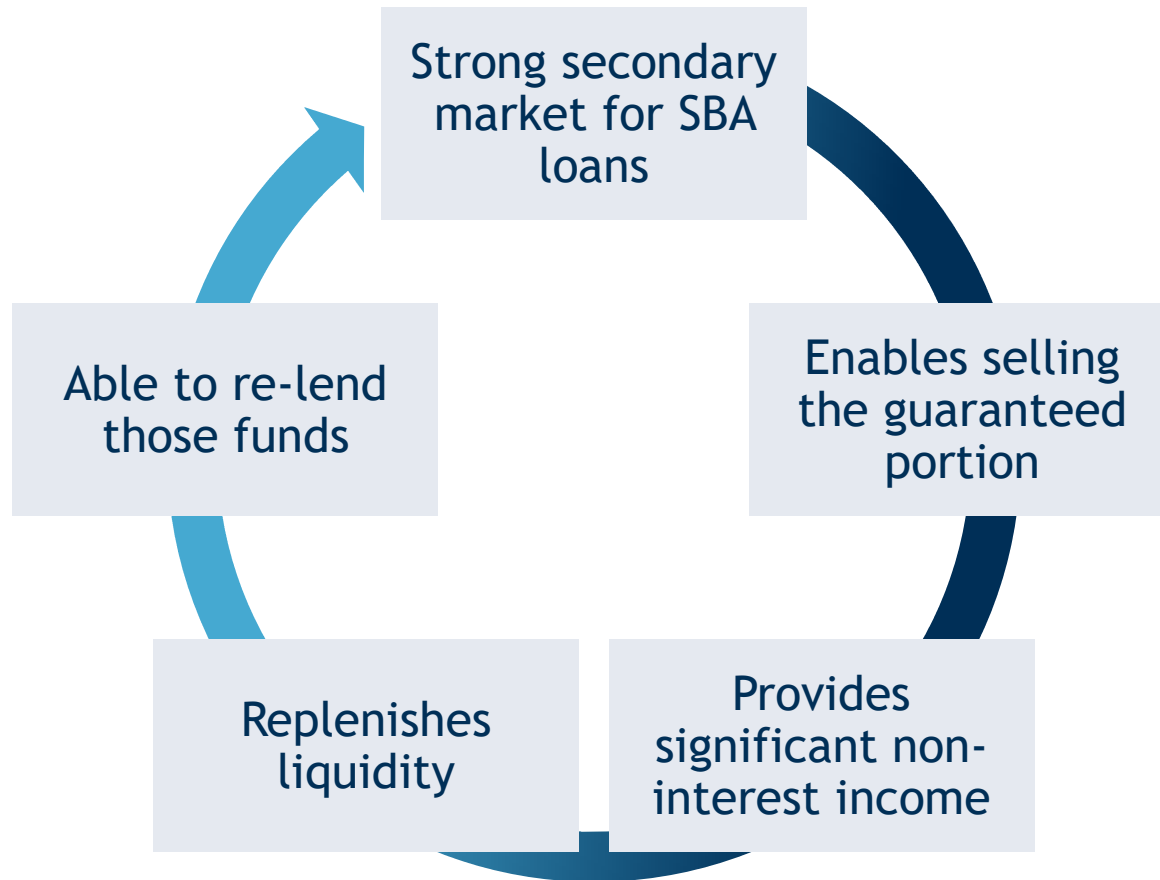


Decreased on-going guaranty fee expense



Increased non-interest income

Liquidity Retention/Recapture



Liquidity Retention/Recapture

When selling a 7(a) loan on the secondary market the originating financial institution always retains the servicing responsibilities on the loan.

The secondary market investor will pay the originating credit union an ongoing 1% servicing fee on the amount sold to the investor, and pay the ongoing guaranty fee due to SBA.



The background of the slide features a dark blue and black color scheme with various financial data visualizations. On the right side, there are several overlapping line charts in green, yellow, blue, and red, showing fluctuating trends. On the left side, there are blurred vertical columns of numbers and colors, resembling a stock market ticker or data table. The overall aesthetic is professional and data-driven.

Earn Additional Non-Interest Income

- Strong secondary market for selling guaranteed portion of SBA loans.
- Premiums are primarily based on term and pricing.
- Can earn 8-10% premiums in the current market.

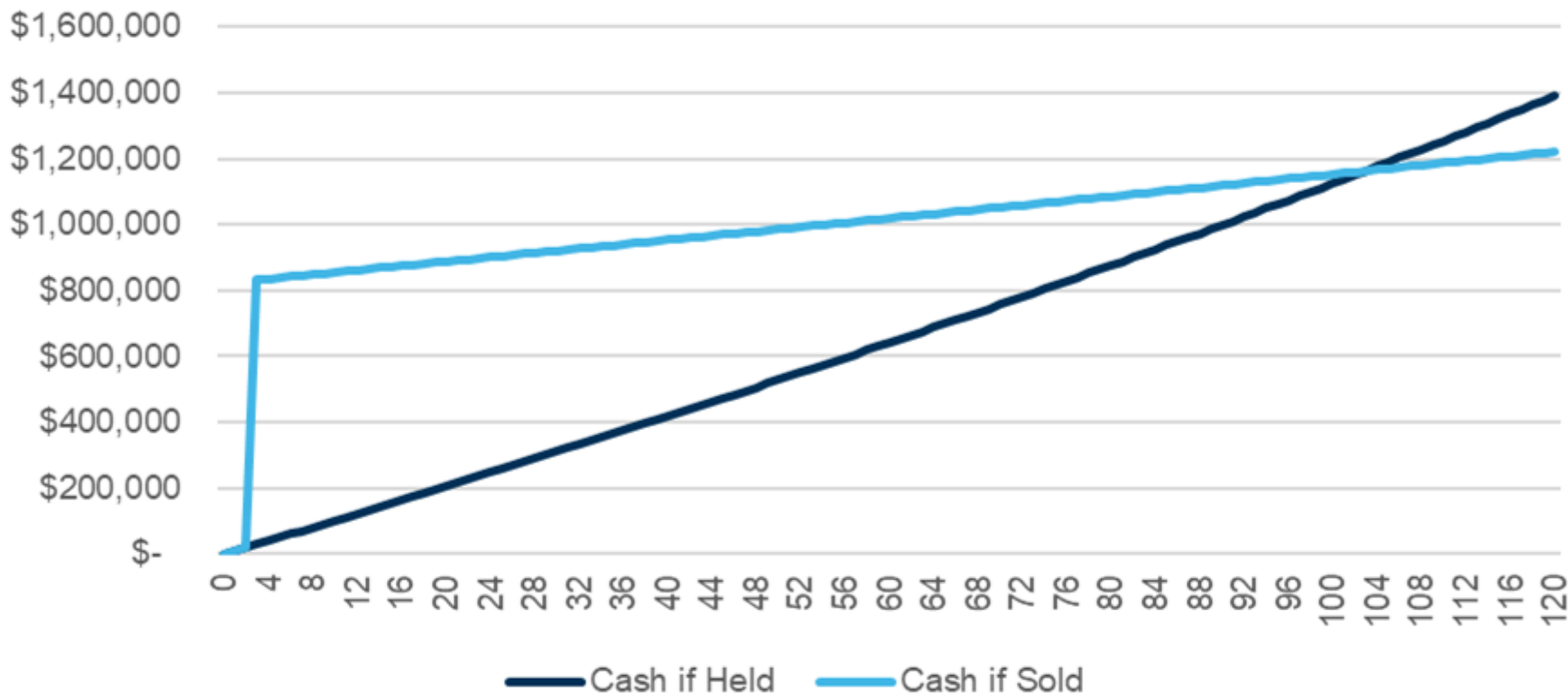
Financial Impact of Loan Sales

Product Assumptions	
Production	\$5MM
Average Interest Rate	10.50%
Average Term	120
Average Net Premium	9.00%
Servicing Fee	1.00%

Financial Impact	
Premium Income	\$337,500
Interest Income	\$160,536
Servicing Income	\$33,368
Total Income Year 1	\$531,404
Net Book Balance	\$881,491
Liquidity Recapture	\$3,750,000

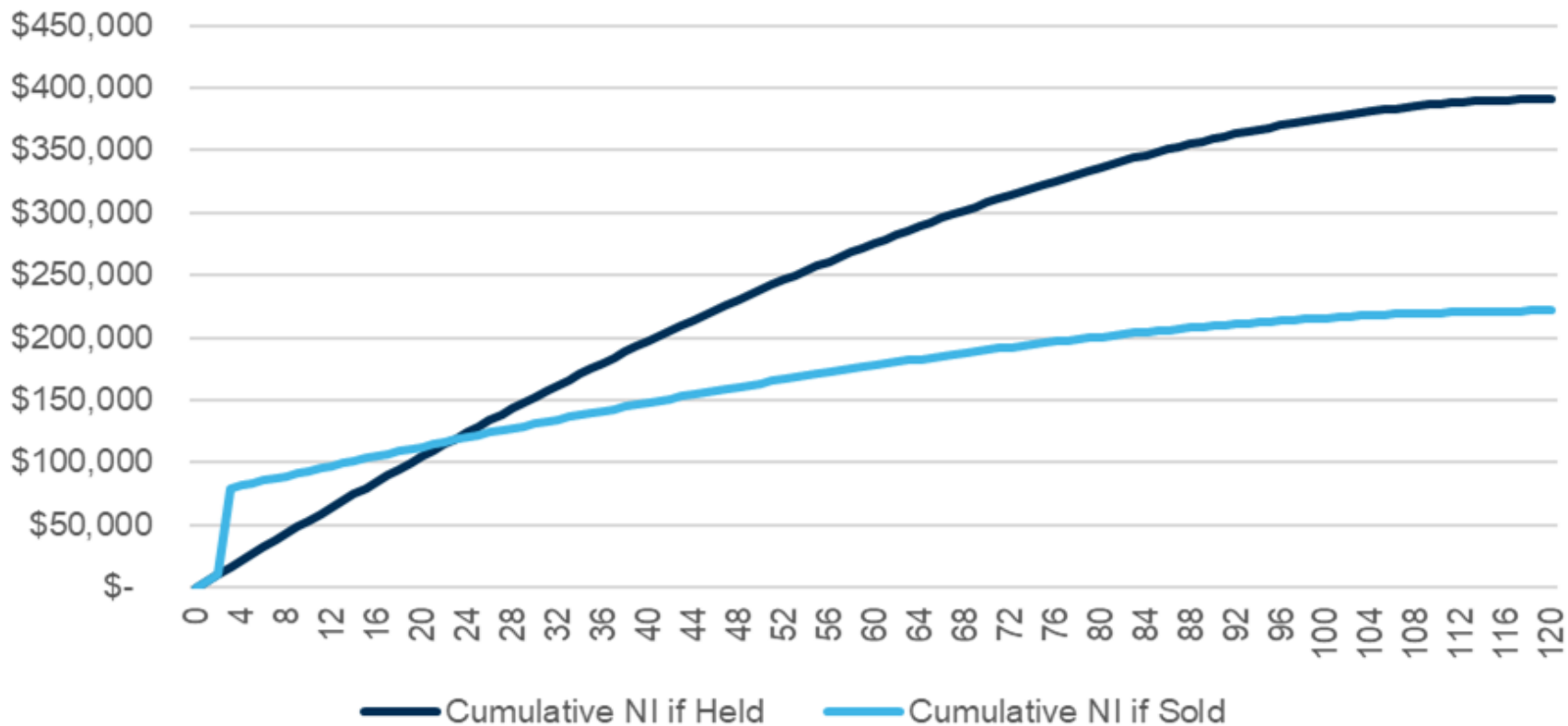
**\$1,000,000 loan, 11.00% interest rate,
10-year term, 4% cost of funds**

Cash on Hand: Hold vs Sell by Month



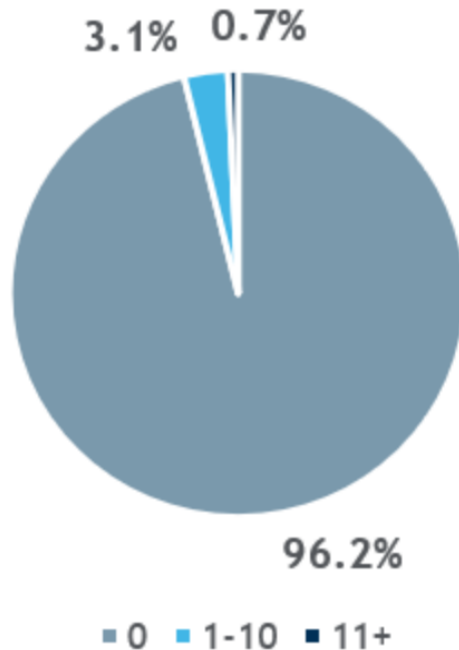
**\$1,000,000 loan, 11.00% interest rate,
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Net Income: Hold vs Sell by Month




Credit Union Opportunity

Credit Union SBA Approvals FY22



Credit Unions With >10 SBA Approvals

# of Credit Unions:	34
% of Credit Unions:	0.7%
Total Approved \$:	\$534,918,600
Total Approved #:	1020
Average Approved \$:	\$15,732,900
Average Approved #:	30



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