

SFA Research Corner

Helping Lenders Fund America's
Small Businesses

May 24, 2021



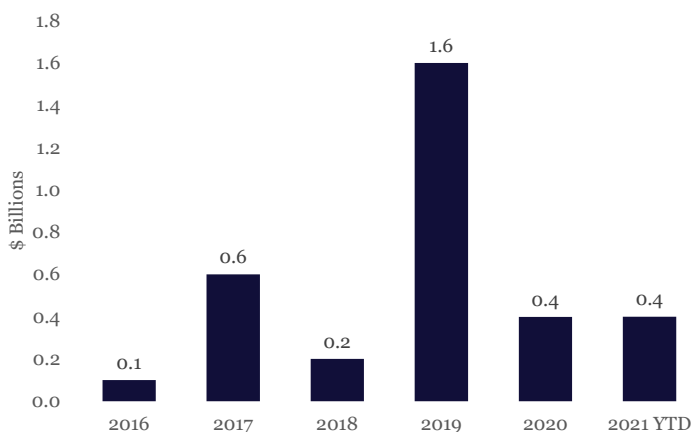
WHAT WE'RE WATCHING

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Small business loan (SBL) securitizations serve a common purpose – to increase the lending capacity of lenders and provide small businesses with reliable access to capital. Below, we look at the three SBL securitizations offered by private lenders in 2021. The bulk of SBL securitization are backed by loans secured by the U.S. Small Business Administration (SBA), which we also discuss below.

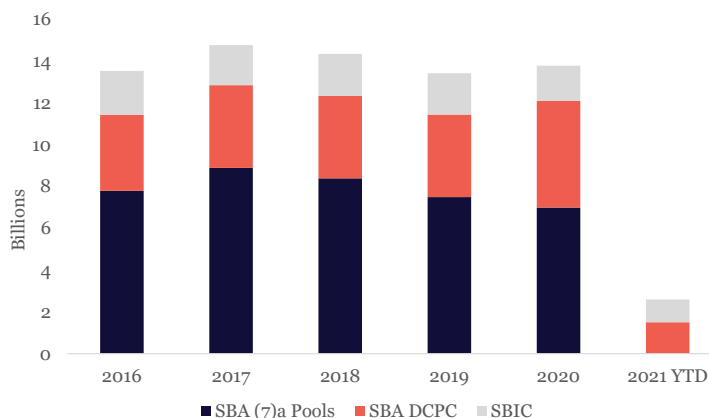
In the first four months of 2021 there have been three SBL securitizations offered through private lenders – the \$300 million OnDeck Asset Securitization Trust Series 2021-1A, the \$66 million Credibly Asset Securitization Trust Series 2021-1A, and the \$68 million Harvest SBA Loan Trust Series 2021-1.

**SBL Securitizations Through Private Lenders
(\$ Billions)**



Source: Market Compilation

**SBA's Secondary Market Programs (\$ Billions) -
7(a) Loan Pools, SBA DCPC and SBIC**



Source: Bloomberg

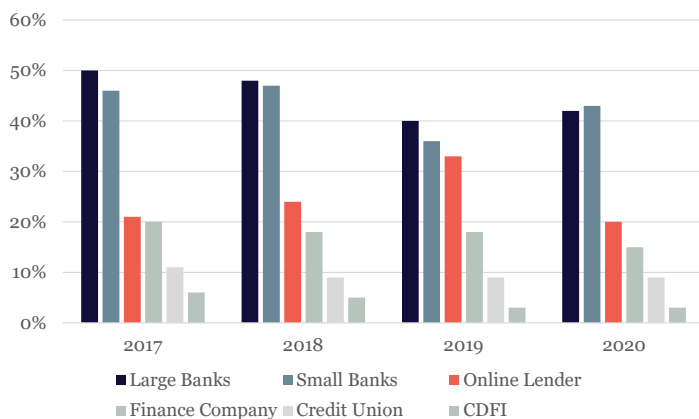
On April 27, OnDeck Capital Inc. issued Series 2021-1, a \$300 million offering through OnDeck Asset Securitization Trust III LLC. The fixed-rate notes represent the issuer's fifth term securitization and are backed by a pool of over 9,000 non-SBA secured small business loans across various industries, according to [DBRS Morningstar](#). OnDeck, which is now wholly owned by Enova International, was founded in 2006 to provide financing to small businesses that have "[historically been underserved financially](#)." Since inception, OnDeck has deployed over \$13 billion in capital to small businesses across various industries.

On April 1, Credibly issued \$66 million of notes through Credibly Asset Securitization Trust Series 2021-1A. The transaction represents the second SBL securitization from Credibly, a fintech online lender founded in 2010. Since inception, [Credibly](#) has provided \$1.3 billion in financing to over 19,000 small businesses across the U.S. Series 2021-1A, which is backed by a pool of non-SBA secured small business loans, has the capacity to grow to \$200 million during a 36-month revolving period, according to [KBRA](#). The average loan amount is \$65,114 and has an average expected term of 11.6 months. The pool is highly diverse, with the highest industry exposure at 6.34% to "Eating Places."

OnDeck and Credibly represent the growing presence of online lenders in a sector that has traditionally been dominated by banks. Using highly automated, proprietary data-driven scoring models often fueled by a combination of traditional and alternative data sources as well as, business specific metrics, online lenders have been able to assess credit risk for small businesses quickly and provide funding in a few days. The swift turnaround is an important factor as small businesses typically operate with thin financial reserves and are thus more vulnerable to exogenous stress. Indeed, coming into the pandemic crisis, nearly 30% of small businesses were “at risk” or “distressed,” according to [the Federal Reserve’s Small Business Credit Survey](#). Moreover, “one in five healthy firms (and even fewer less healthy firms) had sufficient cash reserves to continue normal operations if they experienced a two-month revenue loss.”

To underwrite its loans, OnDeck, the largest U.S.-based online small business lender, uses “cash flow data; credit history data; business characteristics, such as the industry of the business; and, in certain cases, reputation and social data,” according to [DBRS Morningstar](#). Alternative data and algorithm-assisted underwriting have improved the speed, cost, and accuracy of small business underwriting. This has facilitated the access to credit that is critical to the growth of small businesses.

Sources of Small Business Financing



Source: [FED Small Business](#)

Types of Credit Data

Traditional Credit Data	Commonly Used Alternative Data	Nontraditional Alternative Data
Lines of Credit	Rent History	Social Media
Utilizations Rate	Utility and Cellphone Bills	Browsing History
Length of Credit History	Employment History	Behavioral Data
Loan Payment History	Property Ownership	Shopping Patterns
Credit Mix	Phone Number and Address Stability	Data About Consumers' Friends and Associates

Sources: [U.S. Treasury](#), “A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation”

[Harvest SBA Loan Trust 2021-1](#) was issued on May 7 and is backed by the unguaranteed interests in SBA 7(a) small business loans; this is the third securitization of this kind for the issuer. The 2021-1 transaction is backed by 240 contracts with an average unguaranteed balance of \$300,000. The pool is highly diversified across industries, with the highest industry exposure at 6% to “Assisted Living Facilities.” The loans are originated by Harvest Small Business Finance LLC, an SBA-regulated small business lender that originates, owns, sells, and services small business loans in accordance with the SBA’s (7)a loan guaranty program. Since 2016, Harvest has originated \$957 million in SBA 7(a) loans. As of December 2020, Harvest was the [seventh](#) most active SBA (7)a lender in the U.S.

The SBA does not directly originate loans or fund small businesses (defined as less than 500 employees). Instead, the federal agency administers several loan guaranty programs that rely on the securitization markets for funding. In [2020](#), the SBA approved \$22.6 billion of 7(a) loans, \$5.8 billion of 504 loans, and provided Small Business Investment Companies (SBICs) with \$1.8 billion in guaranteed funds.

The [\(7\)a loan program](#) is the SBA's flagship guaranty program and was created to help "creditworthy small businesses acquire financing when they cannot otherwise obtain credit at reasonable terms and conditions." The SBA guarantee, which requires SBA to purchase its portion of the outstanding balance upon borrower default, typically covers between 75-85% of a loan, with the remaining portion held by the originating lender. (During periods of economic crisis, such as the period following the 2008 financial crisis and during the pandemic crisis, the SBA guaranty is raised to 90%.)

Lenders that originate 7(a) loans may sell the guaranteed portion of the loans into the secondary market, providing lenders with increased liquidity to originate more loans. Investors that purchase loans in the secondary market can choose to pool and package the loans into a securitization or submit them to an SBA-licensed pool assembler who will exchange the loans for a pool certificate. Approximately \$2.5 billion in new (7)a loan sales into the secondary market occur each year, and an additional \$1 billion of previously sold loans are traded amongst investors annually, according to Colson Services, the SBA-appointed Fiscal and Transfer Agent. Lenders who have sold the guaranteed portion of the loans also have the opportunity to securitize the unguaranteed portion of the loans, such as the case of [Harvest SBA Loan Trust 2021-1](#) mentioned above. In these cases, and upon the SBA's prior written consent, the lender transfers its unguaranteed interests and other assets into a trust or special purpose vehicle in exchange for cash and the accretion of excess interest over the life of the securitization.

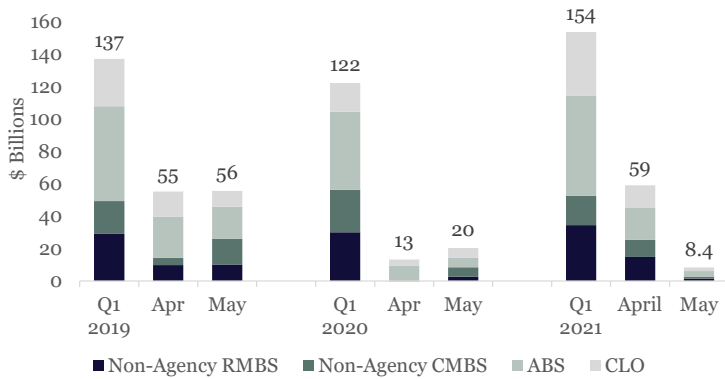
The SBA also administers the 504 Certified Development Company (CDC) loan guaranty program, which focuses on community development, and the Small Business Investment Company (SBIC) program, which connects small businesses to venture capital. Under the 504 program, banks partner with a SBA-approved CDC to leverage funds for small-business financing. The CDC issues long-term debentures to fund small firms' purchases of plant, equipment or real estate. These debentures may then be pooled and securitized as SBA Development Company Participation Certificates (SBA DCPC). In 2020, over \$5 billion of SBA DCPC were issued in the secondary market. Under the SBIC program, SBA-licensed venture capital funds raise funds from private investors. These funds are matched 2-for-1 through the sale of SBA-guaranteed debentures in the secondary market. In 2020, over \$1.7 billion of SBIC debentures were issued in the secondary market.

MARKET SUMMARY

Issuance of Non-Agency RMBS, CMBS, ABS and CLOs through April has reached \$221 billion, 55% above 2020's anemic level at this time. As a testament to the market's recovery, today's issuance volume is running 10% ahead of 2019's for the same period.

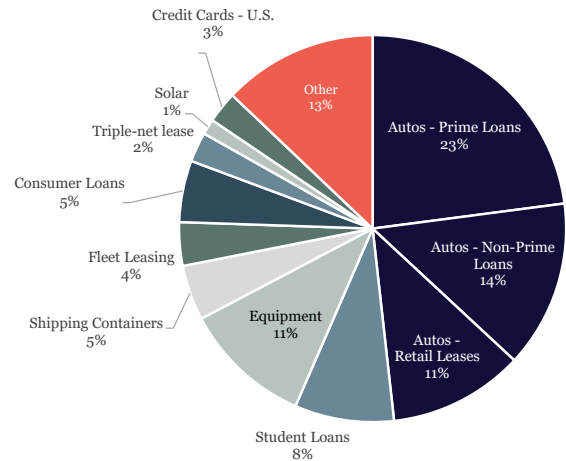
Year-to-date issuance of SOFR-based securitizations has reached \$38.9 billion. Of particular note this period – OneMain has issued the first ABS SOFR-linked note in the U.S. Class A-2 of the \$800 million OMFIT 2021-1 is rated triple-A by S&P, DBRS Morningstar, and KBRA and has a weighted average life of 5.56 years. The \$200 million floating-rate note priced at a spread of 55 bp over SOFR. OneMain [loans](#) are backed by secured and unsecured personal loans that are non-revolving with a fixed-rate and a fixed original term of three to five years. Series 2021-1 is OneMain's first consumer loan ABS transaction in 2021.

**Issuance for Non-Agency RMBS and CMBS, ABS, and CLO
2021 YTD (\$221 Billion) Versus 2019, 2020**



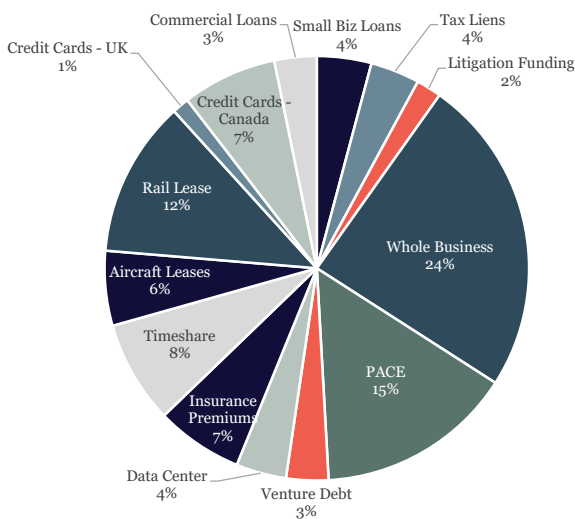
Source: Market Compilation

ABS Only - 2021 YTD: \$81 Billion



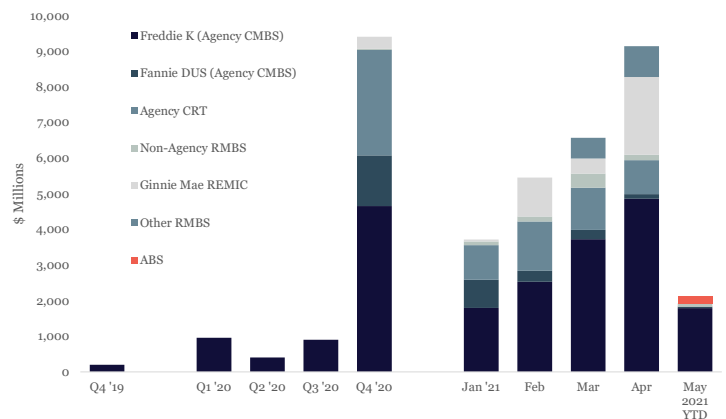
Source: Market Compilation

Other ABS Only - 2021 YTD: \$10.4 Billion



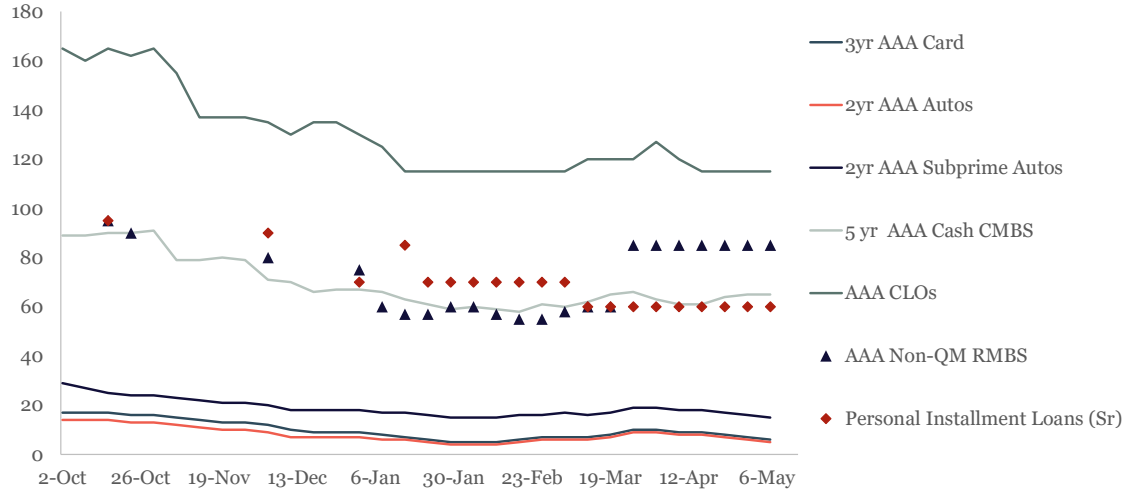
Source: Market Compilation

SOFR Securitizations - 2019 to 2021 YTD: \$38.9 Billion



Other MBS includes mortgage insurance-linked securities.
Data begins Q3 2019.
Source: Market Compilation

Secondary Market Bid-Ask Spreads (BP)



Source: Market Compilation

Secondary Market Bid-Ask Spreads

(bps)	7-May	30-Apr
3yr AAA Card	6	7
2yr AAA Prime Autos	5	6
2yr AAA Subprime Autos	15	16
5yr AAA Cash CMBS	65	65
AAA CLOs	115	115