



## Community Advantage Pilot Program Analysis

June 2018, (Data reported through 5/31/2018)

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### **Community Advantage Background:**

- Community Advantage (CA) is a pilot initiative aimed at increasing loans to underserved communities; this pilot is currently scheduled to expire in 2020.
- CA lenders are mission-oriented lenders, primarily nonprofit financial intermediaries focused on economic development.
- CA lenders are required to make at least 60% of their CA loans in underserved areas, which include various geographic areas as well as “new” businesses.
- The maximum loan size is \$250,000.
- CA loans, like most other 7(a) loans, are guaranteed up to 85% for loans not exceeding \$150,000 and up to 75% for loans greater than \$150,000.
- Community Advantage loans are non-revolving.

### **Community Advantage Analysis Methodology:**

- In order to give context to and benchmark Community Advantage performance over time, this report compares CA loans with other relevant groups of 7(a) loans. The groups are:
  - Small 7(a) loans approved for less than or equal to \$250,000 excluding CA loans
  - Underserved (including all 7a loans approved less than or equal to \$250,000 to Minorities, Veterans, or Women Owned Businesses, excluding CA loans. Demographic data is self-reported which may affect the data’s reliability), small 7(a) loans excluding CA loans
  - The entire 7(a) Portfolio

### **Community Advantage Analysis Results:**

- Community Advantage loans continue to exhibit more risk than the overall 7(a) Portfolio and the 7(a) loan benchmark groups across time and vintage cohort years.
- The sharp uptick in Community Advantage’s “early problem loan rate” in 2016 Q3 has begun to decline, but is still around 8% and is high compared to the overall 7(a) early problem loan rate of around 2%.
- The Early Default rate as well as the last 12 month default rate in the CA program have continued to steadily increase since 2015 and are around 2.5% and 4%, respectively.
- The cumulative purchase rate for the Community Advantage program for cohort 2013 is 7.9%, over 3 times greater than the cumulative purchase rate for cohort 2013 for the 7(a) Portfolio (2.2%).
- CA Loans with an SBSS (FICO liquid origination credit score) score < 140 at origination experience larger cumulative purchase rates.
- CA Lenders that are CDFIs or microlenders experience larger cumulative purchase rates.

**Definition of Key Metrics:**

- **Early Problem Loan Rate** – the gross approval amount of young loans (36 months on book or less) that have had either a deferred, delinquent (60 or more days past due), liquidated, purchased, or charged off status within 18 months of disbursement, divided by the gross approval amount of young loans.
- **Early Default Rate** – the gross balance at default of young loans (36 months on book or less) that experienced a default event (liquidation or purchase) within the first 18 months of disbursement, divided by the gross approval amount of young loans.
- **Small Business Risk Portfolio Solution Score (commonly known as SBPS Score)** – an indication of the relative credit quality of the businesses and predicts a business’s propensity to become severely delinquent in debt in the next 12 to 24 months. Ranges from 0-300, with 0-159 considered to be high risk and 180-300 considered to be low risk.
- **The Last 12 Month Default Rate** – the default amount (gross outstanding balance at purchase or liquidation) of all loans that have defaulted over the last 12 months, divided by the average active balance over the last 12 months plus the default amounts of the last 12 months.
- **Small Business Scoring Service (SBSS) Credit Score** – An assessment of small business credit risk at the time of origination. It is a blend of consumer and business credit information and predicts the propensity of a small business becoming delinquent or having a default in the first 18 months on book. (SBSS is sometimes referred to as the FICO liquid origination credit score.)
- **The 5 Year Cumulative Net Yield** – an annualized cumulative net cash flow (recoveries and fees minus purchases) over the last 5 years to the SBA, divided by SBA’s guaranteed share of gross balance averaged over the last 5 years. It is the cash flow impact to the SBA.
- **Cumulative Purchase Rate by Vintage Year** – all purchases from loans approved in the same fiscal year, divided by all disbursement dollars of loans approved in the same fiscal year.
- **Cumulative Net Yield by Vintage Year** – the net cash flow to the SBA (recoveries plus fees minus SBA purchases) from all loans in the same fiscal approval year, divided by all disbursement dollars of loans approved in the same fiscal year.
- **PARRiS** – an acronym for the specific risk areas that SBA reviews for 7(a) lenders. CA Lenders are subject to risk-based reviews and examination protocols using the PARRiS methodology.

**Current State of Community Advantage:**

\*Note that the count of lenders in each program are not mutually exclusive and the number of CA lenders is based on the number of lenders with outstanding loans.

Program	Count of Lenders	Outstanding Gross Loan Count	Outstanding Gross Balance
Community Advantage	85	2,886	\$303,772,122
Small Loan (≤\$250k)	2,885	165,554	\$9,131,639,339
Underserved Small Loan (≤\$250k)	2,233	69,901	\$3,729,481,157
7(a) Portfolio	3,531	278,725	\$89,793,567,106

**Early Problem Loan Rate:**

\*Note that Small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 excluding CA loans. Underserved Small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 to Minorities, Veterans, or Women Owned Businesses excluding CA loans. Early problem loan rate is a PARRiS Metric that falls under the Asset Management category. Currently, greater than 4% is considered to be higher risk and 0% is considered to be lower risk.

Month	Community Advantage	7(a) Portfolio	Small Loans (≤ \$250k)	Underserved Small Loans (≤ \$250k)
Mar-12	4.85%	4.07%	4.85%	5.04%
Jun-12	3.14%	3.94%	4.47%	4.55%
Sep-12	3.67%	3.64%	4.11%	4.19%
Dec-12	3.25%	3.48%	3.95%	4.01%
Mar-13	3.47%	3.49%	3.93%	3.99%
Jun-13	2.93%	3.26%	3.64%	3.69%
Sep-13	4.91%	3.11%	3.52%	3.50%
Dec-13	4.83%	3.00%	3.33%	3.40%
Mar-14	4.79%	2.91%	3.21%	3.24%
Jun-14	5.28%	2.78%	3.12%	3.11%
Sep-14	4.95%	2.57%	2.94%	2.93%
Dec-14	5.17%	2.43%	2.81%	2.79%
Mar-15	4.71%	2.39%	2.78%	2.75%
Jun-15	4.67%	2.30%	2.67%	2.70%
Sep-15	4.12%	2.23%	2.55%	2.64%
Dec-15	8.93%	2.39%	2.71%	2.87%
Mar-16	10.19%	2.47%	2.84%	3.02%
Jun-16	9.81%	2.38%	2.60%	2.65%
Sep-16	9.06%	2.23%	2.54%	2.55%
Dec-16	9.50%	2.27%	2.54%	2.57%
Mar-17	10.03%	2.29%	2.61%	2.65%
Jun-17	9.60%	2.25%	2.56%	2.64%
Sep-17	8.89%	2.11%	2.46%	2.59%
Dec-17	9.37%	2.31%	2.48%	2.70%
Mar-18	8.29%	2.00%	2.30%	2.44%

**Early Default Rate:**

\*Note Small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 excluding CA loans. Underserved Small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 to Minorities, Veterans, or Women Owned Businesses excluding CA loans. Early Default Rate is a PARRiS Flag where > 1% is currently considered higher risk.

Month	Community Advantage	7(a) Portfolio	Small Loans (≤ \$250k)	Underserved Small Loans (≤ \$250k)
Mar-12	N/A	1.30%	1.58%	1.81%
Jun-12	N/A	1.21%	1.45%	1.56%
Sep-12	N/A	1.11%	1.34%	1.46%
Dec-12	0.66%	1.05%	1.25%	1.36%
Mar-13	0.74%	0.99%	1.23%	1.31%
Jun-13	1.88%	0.94%	1.17%	1.27%
Sep-13	2.53%	0.94%	1.18%	1.25%
Dec-13	2.25%	0.91%	1.15%	1.23%
Mar-14	2.16%	0.86%	1.07%	1.07%
Jun-14	2.21%	0.83%	1.02%	1.07%
Sep-14	2.11%	0.78%	1.02%	1.09%
Dec-14	2.36%	0.76%	1.02%	1.12%
Mar-15	1.72%	0.76%	1.00%	1.10%
Jun-15	1.50%	0.67%	0.97%	1.12%
Sep-15	1.36%	0.72%	0.94%	1.09%
Dec-15	1.73%	0.75%	0.95%	1.15%
Mar-16	1.89%	0.75%	1.00%	1.20%
Jun-16	1.85%	0.71%	0.96%	1.14%
Sep-16	2.16%	0.66%	0.95%	1.07%
Dec-16	2.29%	0.66%	0.96%	1.07%
Mar-17	2.59%	0.65%	0.98%	1.09%
Jun-17	2.62%	0.64%	0.99%	1.14%
Sep-17	2.36%	0.62%	1.04%	1.20%
Dec-17	2.47%	0.67%	1.05%	1.20%
Mar-18	2.64%	0.69%	1.10%	1.24%

### **Small Business Risk Portfolio Solution (SBPS) Score:**

The chart below shows that the credit quality in the Community Advantage pilot program has decreased since 2015 while the rest of the 7(a) program has seen an increase in credit quality.

\*Note small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 excluding CA loans. Underserved Small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 to Minorities, Veterans, or Women Owned Businesses excluding CA loans. Average SBPS (weighted) is a PARRIS Metric that falls under the Special Items category. Currently, scores less than 180 are considered higher risk and scores greater than 203 are considered lower risk.

<b>Month</b>	<b>Community Advantage</b>	<b>7(a) Portfolio</b>	<b>Small Loans (≤ \$250k)</b>	<b>Underserved Small Loans (≤ \$250k)</b>
Jun-12	170.4	184.5	178.5	176.3
Sep-12	173.4	184.9	178.9	176.9
Dec-12	173.7	185.0	178.9	176.9
Mar-13	175.9	185.6	179.7	177.8
Jun-13	176.0	185.7	179.7	177.8
Sep-13	173.0	185.4	179.6	177.9
Dec-13	175.4	186.6	181.2	178.8
Mar-14	175.2	187.0	181.5	179.2
Jun-14	175.9	187.0	181.8	179.7
Sep-14	174.1	186.7	181.5	179.3
Dec-14	175.3	187.4	182.4	180.3
Mar-15	174.8	187.4	182.4	180.5
Jun-15	175.8	187.6	182.8	181.0
Sep-15	175.5	187.8	182.8	180.8
Dec-15	175.0	188.3	183.4	181.3
Mar-16	174.4	188.4	183.4	181.3
Jun-16	174.2	188.3	183.6	181.6
Sep-16	174.5	188.4	183.7	182.5
Dec-16	173.8	188.7	184.1	182.9
Mar-17	173.1	188.1	183.3	182.2
Jun-17	173.5	188.3	183.3	182.3
Sep-17	173.6	188.2	183.1	182.2
Dec-17	173.9	188.1	183.2	182.5
Mar-18	173.5	187.8	182.8	182.2

**Last 12 Month Default Rate:**

\*Note small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 excluding CA loans. Underserved Small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 to Minorities, Veterans, or Women Owned Businesses excluding CA loans. The Last 12 Month Default Rate is a PARRIS Metric that falls under the Performance category. Currently, 0% is considered to be lower risk and greater than 4% is considered to be higher risk.

Month	Community Advantage	7(a) Portfolio	Small Loans (≤ \$250k)	Underserved Small Loans (≤ \$250k)
Mar-12	N/A	4.97%	6.67%	8.16%
Jun-12	N/A	4.71%	6.31%	7.51%
Sep-12	N/A	4.52%	5.91%	6.97%
Dec-12	N/A	4.33%	5.54%	6.44%
Mar-13	1.49%	3.99%	5.25%	6.00%
Jun-13	3.24%	3.54%	4.74%	5.33%
Sep-13	4.19%	3.26%	4.51%	4.90%
Dec-13	3.40%	2.85%	4.20%	4.90%
Mar-14	2.65%	2.75%	4.01%	4.70%
Jun-14	2.34%	2.53%	3.40%	3.85%
Sep-14	1.85%	2.28%	2.97%	3.58%
Dec-14	2.51%	2.34%	3.11%	3.71%
Mar-15	2.39%	2.29%	3.10%	3.68%
Jun-15	2.12%	2.33%	3.34%	4.06%
Sep-15	2.01%	2.25%	3.25%	3.98%
Dec-15	2.84%	2.15%	3.19%	3.92%
Mar-16	3.09%	2.04%	3.05%	3.74%
Jun-16	3.33%	1.75%	2.66%	3.20%
Sep-16	4.29%	1.79%	2.64%	2.96%
Dec-16	3.75%	1.81%	2.70%	3.08%
Mar-17	4.11%	1.96%	2.86%	3.26%
Jun-17	3.89%	1.88%	2.71%	3.07%
Sep-17	3.06%	1.78%	2.70%	3.06%
Dec-17	4.04%	1.91%	2.78%	3.18%
Mar-18	4.41%	1.94%	2.87%	3.22%

**Last 12 Month Default Rate by Small Business Scoring Service (SBSS) Credit Score:**

\*Note the following compares the performance of Community Advantage loans with SBSS scores of less than 140 to Community Advantage loans with SBSS greater than or equal to 140 over time. Currently, the minimum required SBSS score for expedited processing for CA applications is 120. SBSS is sometimes referred to as the FICO liquid origination credit score.

Month	Community Advantage SBSS < 140	Community Advantage SBSS ≥ 140
Jun-15	0.00%	0.00%
Sep-15	0.00%	0.00%
Dec-15	2.44%	1.57%
Mar-16	4.13%	1.83%
Jun-16	4.77%	2.06%
Sep-16	7.36%	3.24%
Dec-16	5.27%	3.16%
Mar-17	8.46%	3.43%
Jun-17	8.72%	2.99%
Sep-17	8.15%	2.06%
Dec-17	10.76%	3.10%
Mar-18	11.14%	3.49%

**General SBSS Statistics:**

SBSS Range	Number of Approved Loans	% of Total Approved Loans	Outstanding Dollars	% of Outstanding Dollars
< 140	1189	27.8%	\$59,290,292.00	19.4%
≥ 140	3092	72.2%	\$246,875,241.00	80.6%



**Cumulative 5 Year Net Yield Rate:**

\*Note Small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 excluding CA loans. Underserved Small Loans Benchmark includes all 7(a) loans approved less than or equal to \$250,000 to Minorities, Veterans, or Women Owned Businesses excluding CA loans. The 5 Year Cumulative Net Yield is a PARRiS Benchmark that falls under the Performance category. Currently, > 2% is considered to be lower risk and lower than -1% is considered to be higher risk.

Month	Community Advantage	7(a) Portfolio	Small Loans (≤ \$250k)	Underserved Small Loans (≤ \$250k)
Mar-12	86.72%	-15.69%	-27.84%	-34.18%
Jun-12	60.06%	-15.68%	-28.25%	-34.83%
Sep-12	48.19%	-15.42%	-28.53%	-35.38%
Dec-12	29.68%	-15.01%	-28.44%	-35.52%
Mar-13	22.49%	-14.50%	-28.18%	-35.42%
Jun-13	18.75%	-13.52%	-27.20%	-34.39%
Sep-13	19.13%	-12.75%	-26.30%	-33.41%
Dec-13	17.06%	-11.41%	-24.89%	-37.38%
Mar-14	11.56%	-9.99%	-23.35%	-35.69%
Jun-14	8.66%	-8.48%	-21.24%	-33.00%
Sep-14	7.24%	-7.00%	-19.00%	-30.27%
Dec-14	6.25%	-5.67%	-16.61%	-27.16%
Mar-15	5.13%	-4.21%	-14.52%	-24.37%
Jun-15	5.13%	-2.39%	-12.14%	-20.59%
Sep-15	2.94%	-1.05%	-10.01%	-17.63%
Dec-15	2.23%	-0.06%	-8.51%	-15.18%
Mar-16	1.02%	0.93%	-6.94%	-12.09%
Jun-16	-0.39%	1.59%	-5.74%	-9.95%
Sep-16	-2.77%	2.03%	-4.73%	-6.07%
Dec-16	-2.95%	2.61%	-3.98%	-4.99%
Mar-17	-4.24%	3.04%	-3.24%	-3.94%
Jun-17	-4.18%	3.52%	-2.58%	-2.99%
Sep-17	-4.44%	3.77%	-2.03%	-2.15%
Dec-17	-4.90%	4.07%	-1.82%	-1.77%
Mar-18	-6.16%	4.30%	-1.64%	-1.39%

**Cumulative Purchase Rate by Vintage Year:**

*The following table is of Cumulative Purchases for the 7(a) Portfolio.*

Disbursement Year	Approval Amount	Cumulative Purchase Amount	Cumulative Purchase Rate
2011	\$15,314,898,433	\$533,661,103	3.50%
2012	\$13,444,921,950	\$401,539,101	3.00%
2013	\$15,364,604,802	\$345,698,644	2.20%
2014	\$17,375,361,385	\$315,293,166	1.80%
2015	\$19,949,913,486	\$245,046,946	1.20%
2016	\$22,041,573,795	\$149,985,442	0.70%
2017	\$23,397,635,008	\$38,265,876	0.20%
2018	\$9,635,353,976	\$214,283	0.00%

*The following table is of Cumulative Purchases for the Community Advantage Program.*

Disbursement Year	Approval Amount	Cumulative Purchase Amount	Cumulative Purchase Rate
2011	\$460,500	\$0	0.00%
2012	\$15,382,900	\$935,225	6.10%
2013	\$30,250,800	\$2,388,117	7.90%
2014	\$46,702,817	\$3,051,656	6.50%
2015	\$81,749,206	\$4,660,563	5.70%
2016	\$109,302,325	\$3,857,813	3.50%
2017	\$117,150,440	\$775,526	0.70%
2018	\$48,582,900	\$0	0.00%

*The following table is of Cumulative Purchase for Small Loans (≤\$250,000)*

Disbursement Year	Approval Amount	Cumulative Purchase Amount	Cumulative Purchase Rate
2011	\$2,365,397,185	\$80,627,445	3.40%
2012	\$2,116,182,611	\$60,107,958	2.80%
2013	\$2,149,354,441	\$57,924,308	2.70%
2014	\$2,426,265,529	\$53,209,056	2.20%
2015	\$2,809,429,538	\$52,677,986	1.90%
2016	\$2,909,921,637	\$38,254,153	1.30%
2017	\$2,935,596,771	\$8,045,239	0.30%
2018	\$1,231,175,953	\$0	0.00%

*The following table is of Cumulative Purchase for Underserved Small Loans (≤\$250,000)*

Disbursement Year	Approval Amount	Cumulative Purchase Amount	Cumulative Purchase Rate
2011	\$893,717,436	\$32,291,684	3.60%
2012	\$795,678,471	\$24,326,550	3.10%
2013	\$824,752,105	\$24,976,460	3.00%
2014	\$912,069,389	\$21,511,303	2.40%
2015	\$1,092,812,300	\$25,023,023	2.30%
2016	\$1,168,800,001	\$17,125,677	1.50%
2017	\$1,193,057,670	\$3,342,936	0.30%
2018	\$499,318,445	\$0	0.00%

**Cumulative Net Yield Rate by Vintage Year:**

\*Note: The cumulative net yield is the cash flow impact to the SBA

*The following table is of Cumulative Yields for the 7(a) Portfolio.*

Disbursement Year	Approval Amount	Cumulative Purchase Amount	Cumulative Purchase Rate
2011	\$18,363,596,342	\$82,621,436	0.4%
2012	\$15,216,341,086	\$307,473,251	2.0%
2013	\$17,279,981,861	\$416,622,281	2.4%
2014	\$18,502,637,952	\$417,825,767	2.3%
2015	\$21,887,730,331	\$509,145,748	2.3%
2016	\$22,352,850,840	\$542,991,333	2.4%
2017	\$21,890,025,364	\$649,744,293	3.0%
2018	\$6,297,648,449	\$259,177,968	4.1%

*The following table is of Cumulative Yields for the Community Advantage Program.*

Disbursement Year	Approval Amount	Cumulative Purchase Amount	Cumulative Purchase Rate
2011	\$1,831,900	-\$92,501	-5.0%
2012	\$20,400,517	-\$384,882	-1.9%
2013	\$31,720,225	-\$851,381	-2.7%
2014	\$49,569,673	-\$2,292,013	-4.6%
2015	\$90,500,416	-\$3,147,211	-3.5%
2016	\$104,308,440	-\$1,654,456	-1.6%
2017	\$109,500,969	\$1,010,522	0.9%
2018	\$27,485,071	\$684,020	2.5%

*The following table is of Cumulative Yields for Small Loans (≤\$250,000)*

Disbursement Year	Approval Amount	Cumulative Purchase Amount	Cumulative Purchase Rate
2011	\$3,421,493,253	-\$21,825,542	-0.6%
2012	\$2,997,050,309	\$1,647,500	0.1%
2013	\$2,935,850,933	\$6,387,623	0.2%
2014	\$3,293,223,703	-\$16,591,944	-0.5%
2015	\$3,708,492,331	-\$15,383,072	-0.4%
2016	\$3,463,223,423	-\$1,684,023	0.0%
2017	\$3,107,051,233	\$27,407,931	0.9%
2018	\$879,173,611	\$12,737,774	1.4%

*The following table is of Cumulative Yields for Underserved Small Loans (≤\$250,000)*

Disbursement Year	Approval Amount	Cumulative Purchase Amount	Cumulative Purchase Rate
2011	\$1,239,328,213	-\$8,624,069	-0.7%
2012	\$1,094,949,839	-\$249,866	0.0%
2013	\$1,100,846,363	\$1,877,008	0.2%
2014	\$1,213,486,681	-\$7,397,569	-0.6%
2015	\$1,425,648,493	-\$9,589,422	-0.7%
2016	\$1,373,068,731	-\$2,653,741	-0.2%
2017	\$1,268,922,434	\$10,944,500	0.9%
2018	\$353,965,889	\$4,844,596	1.4%

**Community Advantage by Lender Type:**

Total CA Outstanding Balance: \$303,772,122

Lender Type	Outstanding Balance	Cumulative Purchase Rate
CDC	\$134,869,580.00	1.17%
Micro	\$177,016,901.00	2.16%
CDFI	\$161,712,724.00	2.41%

Lender Type	Cumulative Purchase Rate
CDC	1.17%
Non-CDC	2.63%

**Community Advantage by Lender Size:**

Larger more established lenders experience the largest purchase rates in the Community Advantage Pilot Program.

\*Note: Lender size is determined by outstanding CA dollars

Total CA Outstanding Balance: \$303,772,122

Lender Size	Lender Count	Outstanding Balance	Cumulative Purchase Rate
\$0MM	6	\$0	0.00%
< \$1MM	40	\$13,357,841	3.27%
\$1MM – <\$4MM	25	\$60,297,766	3.50%
\$4MM – <\$10MM	14	\$88,673,578	2.78%
\$10MM+	7	\$139,743,962	4.51%