

BankDirector

Breakout 6:
**Leveraging Innovation:
Community Banks'
Roadmap to Small
Business Dominance**

Cary Cooper

Lenders Cooperative

Ben Wallace

Summit Technology Group

Ryan Hildebrand

Bankwell Financial Group

Carlos Naudon

Ponce Bank

#A0BA24



SMALL BUSINESS LENDING STRATEGY

Acquire or Be
Acquired
Conference



Presenters



Carlos Naudon,
President, CEO and Director,
Ponce Financial Group, Inc.



Ryan Hildebrand,
EVP, Chief Innovation Officer,
Bankwell Financial Group, Inc.



Cary Cooper,
CEO, Lenders Cooperative



Ben Wallace
CEO, Summit Technology Group



Bank Financial Institutions



Bankwell Financial Group

Location- New Canaan, CT

Assets- \$3.3B

Branches- 9

Employees- 160

www.mybankwell.com



Ponce Bank

Ponce Financial Group

Location- Bronx, NY

Assets- \$2.6B

Branches- 14

Employees- 221

www.poncebank.com

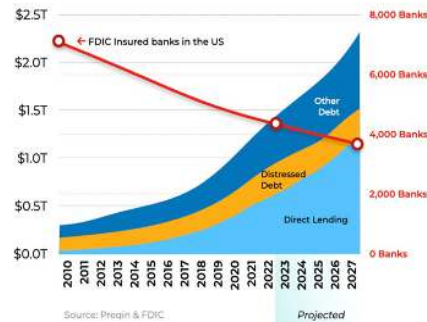
Private Credit is capturing market share in SB Lending

OUR MARKET OPPORTUNITY IS PHENOMENAL

Banks continue to suffer significant headwinds due to non-bank lending options for main street borrowers. Our strategy empowers Banks with a competitive tool to retain these valuable relationships.



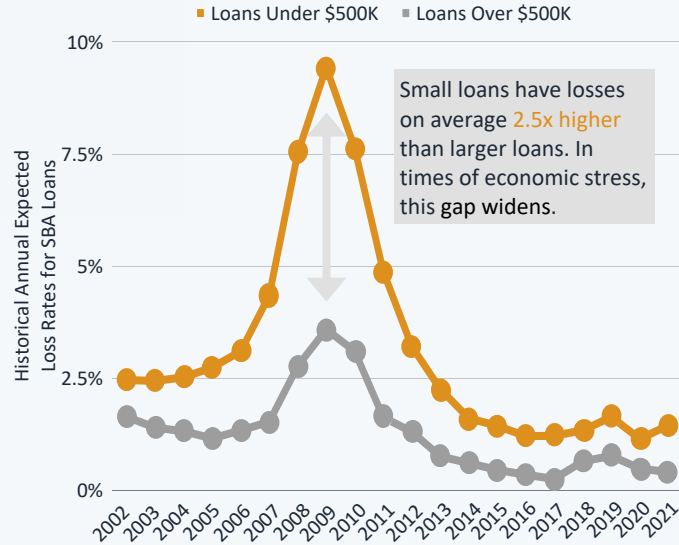
Global Private Debt Assets Under Management



What is this showing?
Private credit is taking over banks' core lending business: the amount of money raised by investors for making private credit deals has increased from roughly \$300 billion in 2010 to \$1.2 trillion by 2021, and it is predicted to swell to **\$2.3 trillion by the end of 2027**, all while the number of banks is declining.

Source: Morgan Stanley

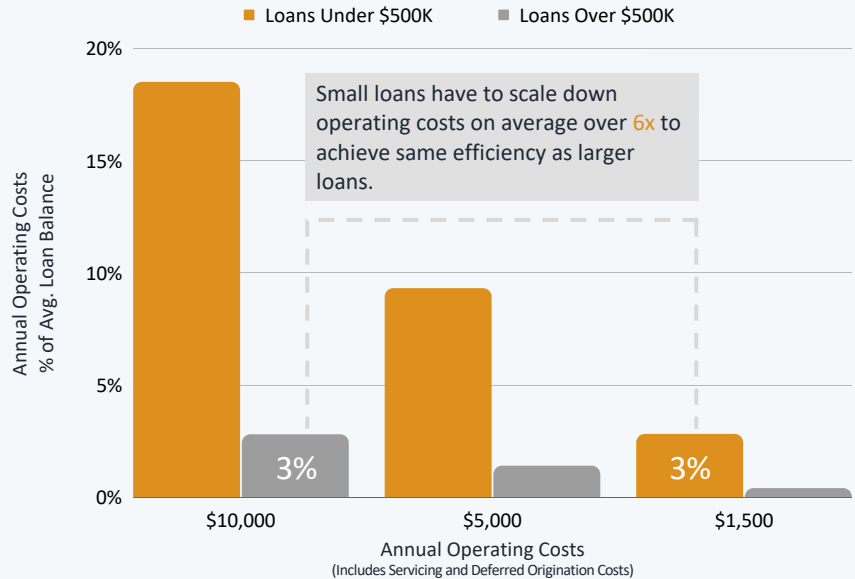
Small dollar/small business loans historically have higher credit risk.



To mitigate this risk, bank lenders typically use [strict, manual underwriting processes](#) that result in fewer approvals and higher operating costs.

Source: Internal Lumos analysis on historical SBA loans

Lenders need to scale down operating costs to make small dollar small business lending profitable.



To scale down costs, online lenders use [automated score-based processes](#) that are more efficient but are not fair and are not accurate enough to mitigate the credit risk.

Leveraging Historical Performance Data for Growth

ROBUST, PROPRIETARY DATA



Our database contains proprietary data on over **2.5M SBA loans** to over **1.2M small businesses**.



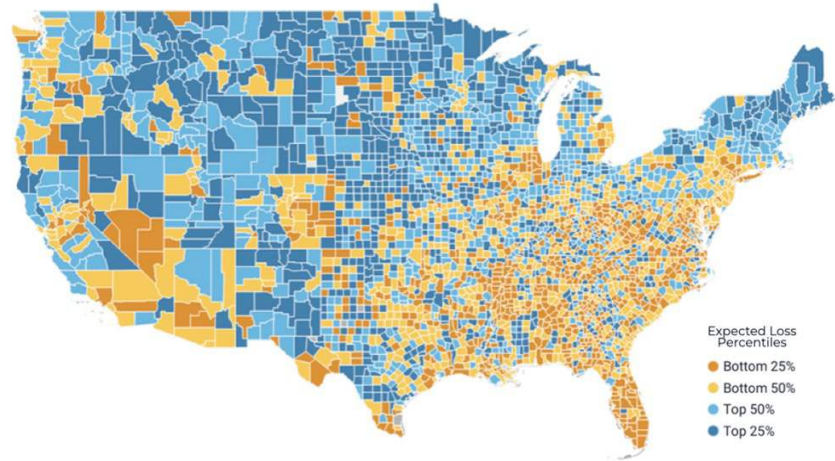
Robust loss data with over **400k defaults** and **300k charge-offs** to calculate PDs, LGDs, and expected loss.



3 Decades of loan and **macroeconomic data** covering the Dotcom Crash, Great Recession and Covid.

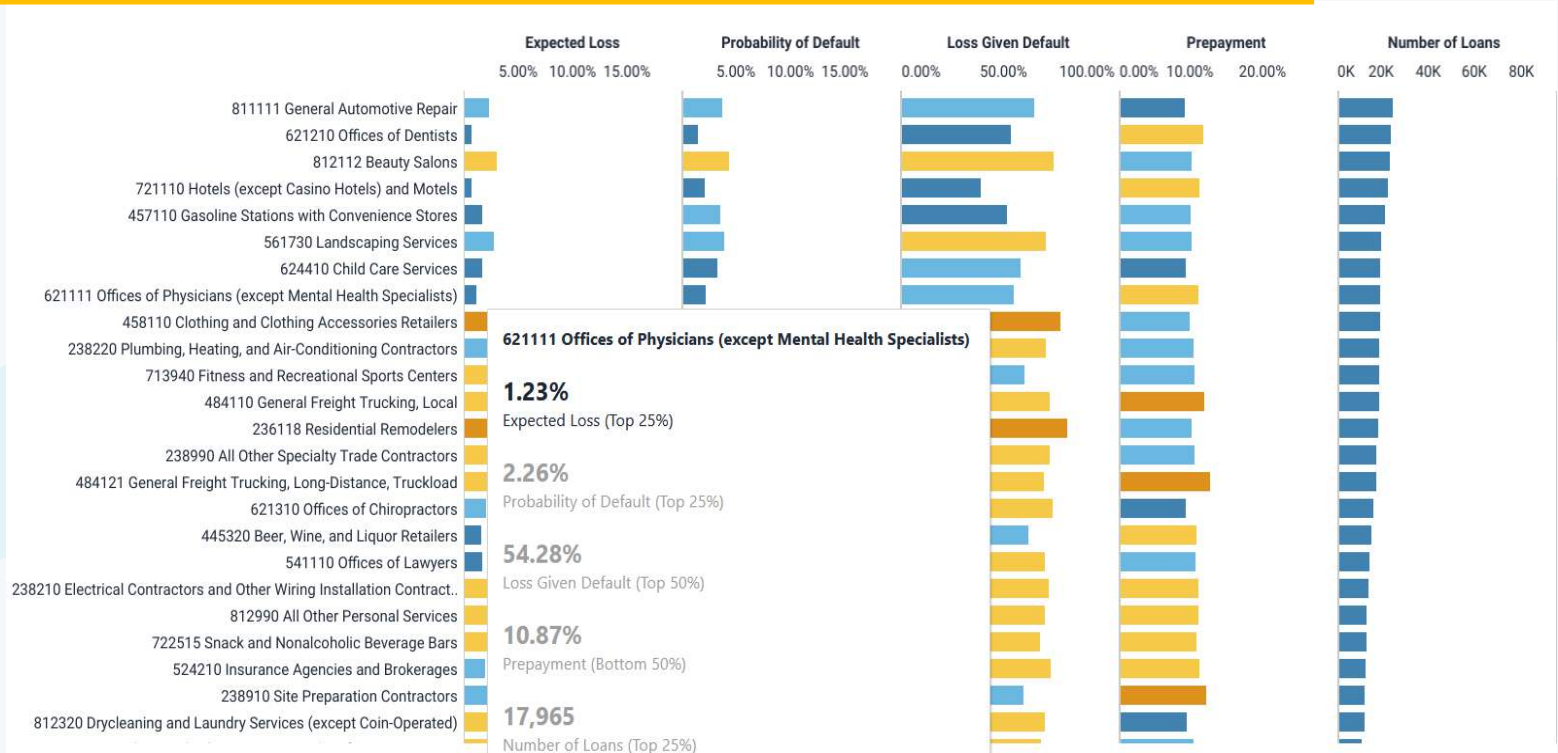


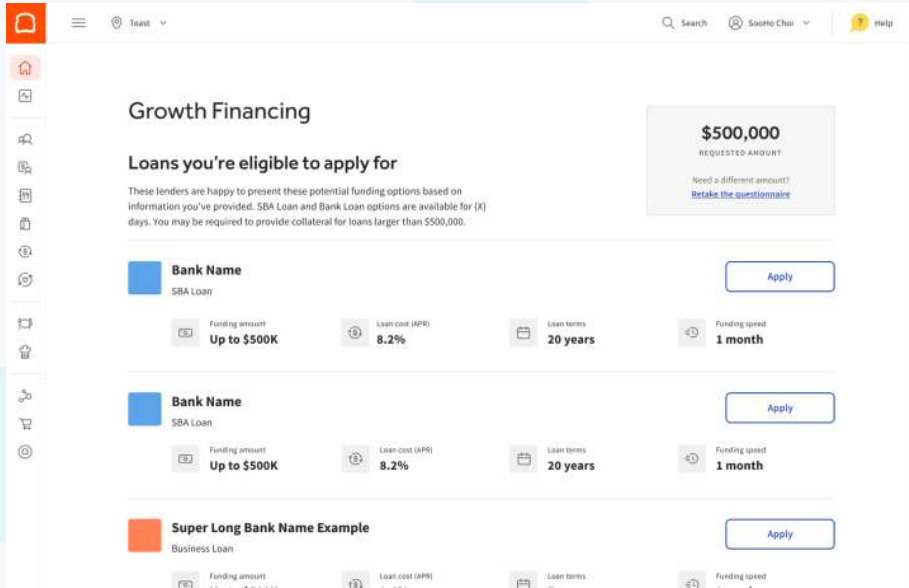
SBA credit loss data across **all types** of businesses, industries, franchises, and geographies



Source: Internal Lumas analysis on historical SBA loans

Leveraging Historical Performance Data for Growth





- ✓ Offers presented inside the Toast UI
- ✓ Merchants are allowed to select a presented offer.
- ✓ Toast and Lenders Cooperative to prioritize offer presentation based on pull through and speed of closure.



✓ Sample of an POS integrated experience with a Bank

Business Loans | Bericwell

preprod.los.lenderscooperative.com/requests/application/5d930cca-f2f7-442d-aff7-49503d38fbae/

Home Loans Service Requests Messages abarwad+toastqa30@thesummitgrp.com

Loan Application

Small Business Term Loan
61948713219
ABC Incorporation
Application In Progress

- Disclosures
- About Your Request
- Questions About Your Business
- Business Structure
- Loan Guarantor Summary
- Documents
- Summary

Tell Us About Your Request

Please answer the below questions to the best of your abilities. Your lender will further review your answers before processing your loan.

About Your Loan

What is the purpose of your loan? *

Working Capital

Tell Us About the Details

What amount would you like a loan for? *

\$ 350,000.00

Term (in Months) *

60

Brief Explanation of Request

H1 H2 H3 B I U S

About You and the Bank

[Complete Loan Application](#)



+



We have pre-filled a loan application form with your pre-qualified loan offer.

Please complete the application to finalize your loan.

[Complete Loan Application](#)

THE BENEFITS OF



Leverages Robust Proprietary Small Business Data

Proprietary small business data containing over 2 million SBA loans to over 1.2 million small businesses.

130k

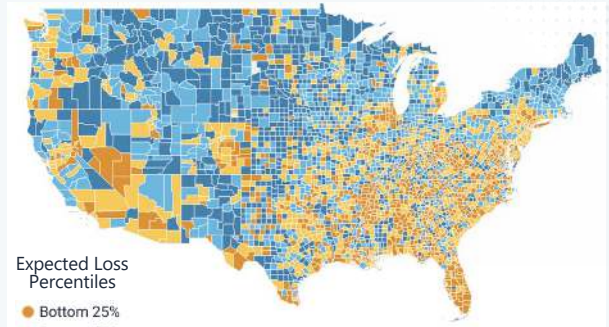
SBA loans disbursed to **restaurants**

1,500+

Franchise brands in the restaurant industry

Robust loss data with over 400 thousand defaults and 300 thousand charge-offs to calculate PDs, LGDs, and expected loss.

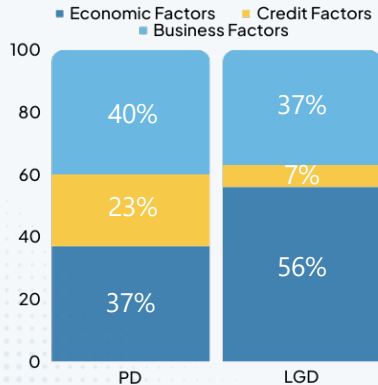
3 Decades of loan and macroeconomic data covering the Dotcom Crash, Great Recession and Covid.



Expected Loss Percentiles

- Bottom 25%
- Bottom 50%
- Top 50%
- Top 25%

Robust SBA credit loss data across types of businesses, industries, franchises, and geographies



Average % of PD & LGD Predictions Driven by Factors

Top factors that drive at least 3% of expected loss predictions on average

- 1 Local employment environment
- 2 Industry of business
- 3 Short & long-term interest rate environment
- 4 Owners' consumer credit scores
- 5 State of business
- 6 Prior business bankruptcies
- 7 Inflation rate environment
- 8 Size of business
- 9 Ownership structure

3000+ Credit Scorecards Using Business, Owner, and Economic Factors

Individual credit scorecards power expected credit loss (PD & LGD) predictions and allow for the discovery of complex, non-linear relationships between economic, credit & business factors.

The **PRIME+ Collateral Enhancer** further boosts credit predictiveness by allowing lenders to incorporate loan specific collateral into the model.

NEW! PRIME+ Now Incorporates Gross Receipt Data Provided by Toast



We've now incorporated gross receipt data into the PRIME+ model boosting statistical performance and enhancing model predictiveness over consumer credit scores and market leading small business credit scores

Credit Risk Transfer – Small Business C&I Lending

FOUR PART STRATEGY

TECHNOLOGY PLATFORM

Our loan origination system (LOS) allows Community Banks the ability to efficiently underwrite, process and close loans.



TURNKEY PRODUCT

Provide technology and services in one comprehensive package so banks can easily and quickly start originating loans.



RISK MODEL

Proprietary, AI-backed credit model based on 2.5 million small business loans originated over the past 30 years serves as the foundation of the expected loss credit model embedded in our workflow.

INSURANCE COVERAGE

Our Service Warranty will allow Community Banks to mitigate credit risk and potentially reduce allocated capital.



30yrs of Performance Data allows for Model Build

SBA DATA - DEFAULTS & CHARGEOFFS

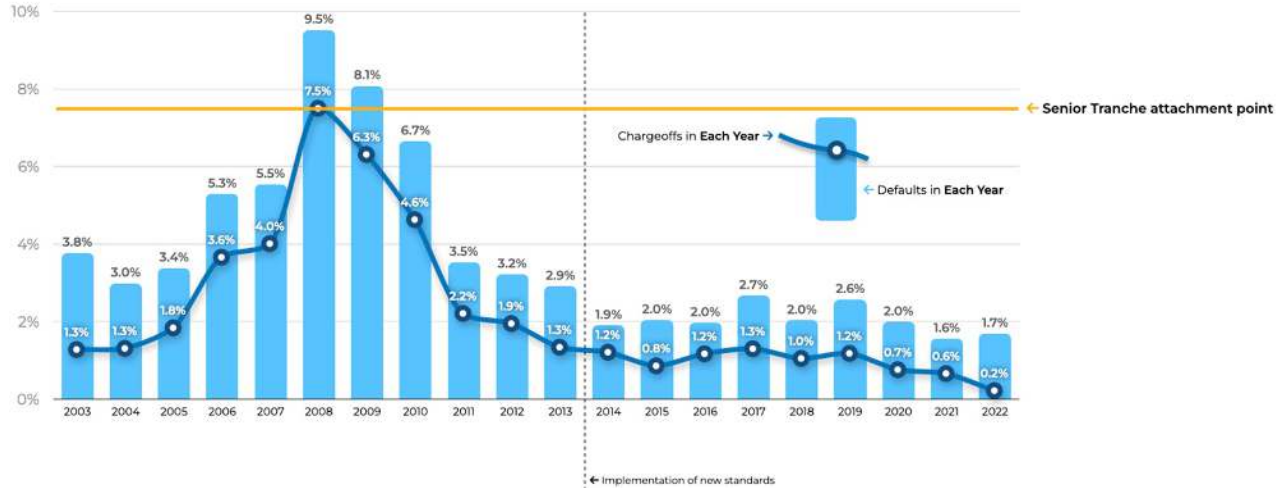
SBA Loan Chargeoffs & Defaults for each Calendar Year
For the last 20 years



What is this showing?
The Senior Tranche attaches well above historical chargeoff levels

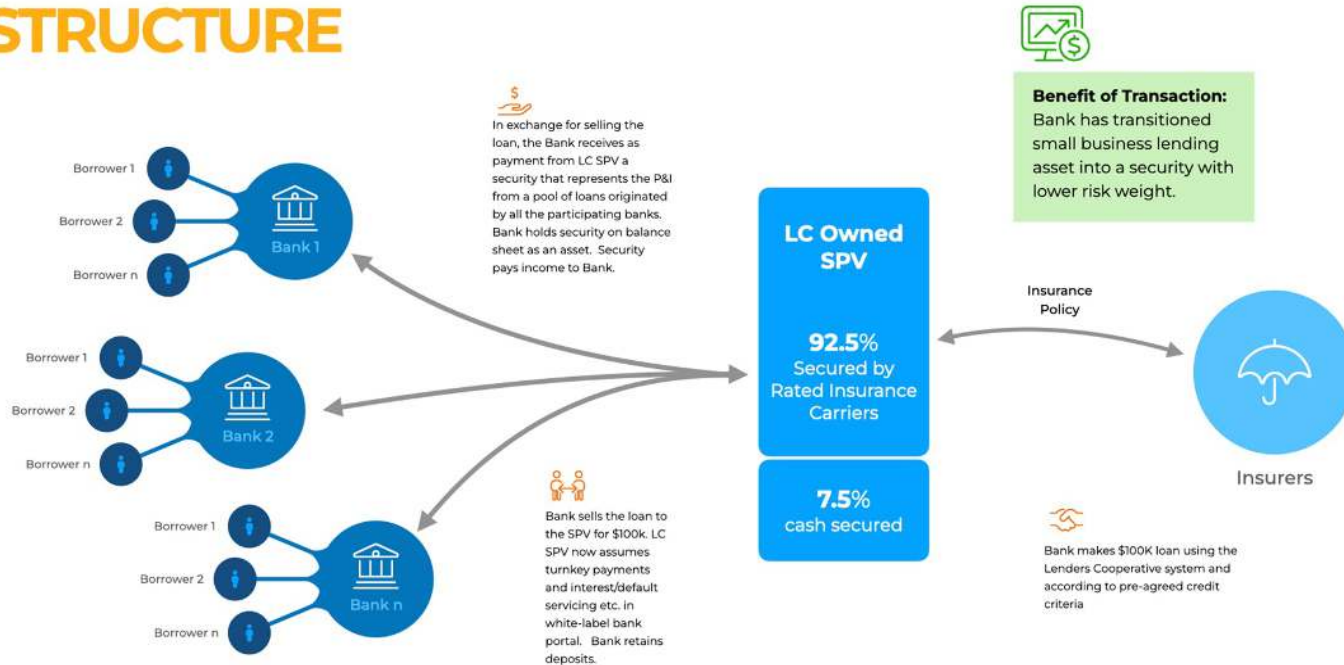
Assumptions:

- Terms of 3-5 years only
- Loan size between \$25k - \$500k
- Term loans only
- Data set comprised of 12,814 loans (with a total value of \$1.151B) as of 9/30/2022



Credit Risk Transfer – Small Business C&I Lending

STRUCTURE



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Scan here to fill out
the evaluation for
this session.



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