

FY16 Issuance Summary – SBA 504 Program

FY16 saw a drop in rate with a slight increase in issuance for the SBA 504 loan program, resulting in the lowest average rate for its 20-year debentures – 2.38%.

With regard to that twenty-year debenture rate, we ended the 4Q16 pretty much where we started it: down 1 bps to 2.03%. The program funded 21 fewer debentures in Q4 (1226) for \$900,540,000; \$3,757,000 less than in 3Q16; but \$40,827,000 more than 4Q15.

For the fiscal year, below is a table comparing performance y/y.

Period	Rate	Loans	Issued	Swap Spread	CT-10
FY16	2.38%	4950	\$3.6B	+68	+56
FY15	2.73%	4956	\$3.4B	+45	+55

The reason for the dramatic widening in pricing the 20-year series to Interest Rate Swaps was the change in that benchmark from a spread of + 1bps to as wide as **-15.75 bps** in September 2016. Such a move in that measure was a direct result of the product being traded as a commodity in a declining rate environment.

Domestic employment remains robust, while economic data is inconsistent and inflation remains below the FOMC's 2.0% target. The quarter saw two meetings for the Committee and neither resulted in a rate increase, although there was dissension at the last one. A move ahead of the November 8 election is highly unlikely and the market has assigned a 62% chance of a rate increase at the December 14 meeting.

A rent headline, "Not too fast, not too slow, just not quite right," captures sentiment about global economic strength while hawkish Committee members are becoming concerned about Chairwoman Yellen's pledge for gradual change. Dissension is focused on introducing a tighter policy now so that future hikes would not have to be accelerated.

Adding to the Committee's global concern is the major event that occurred just before its start – Brexit. Three months later, government leadership has changed, the required Article 50 has yet to be submitted though Ms. May has indicated it will be done by March, and EU leaders feel strongly that UK access to its single market should be expensive. The Bank of England has commenced its own Quantitative Easing program, to go with the ECB and the BoJ, and that has fostered a global capital market that still has \$13T of debt trading at negative yields. That condition assures demand for US government debt if any backup in rate occurs.

Below is a PPT that identifies the prepayment performance for the program, as of 4Q16. It is clear how dramatic an impact Voluntary prepayments are having on the program's OPB.

SBA 504 Program Constant Default Rate (CDR) Update



4Q2016

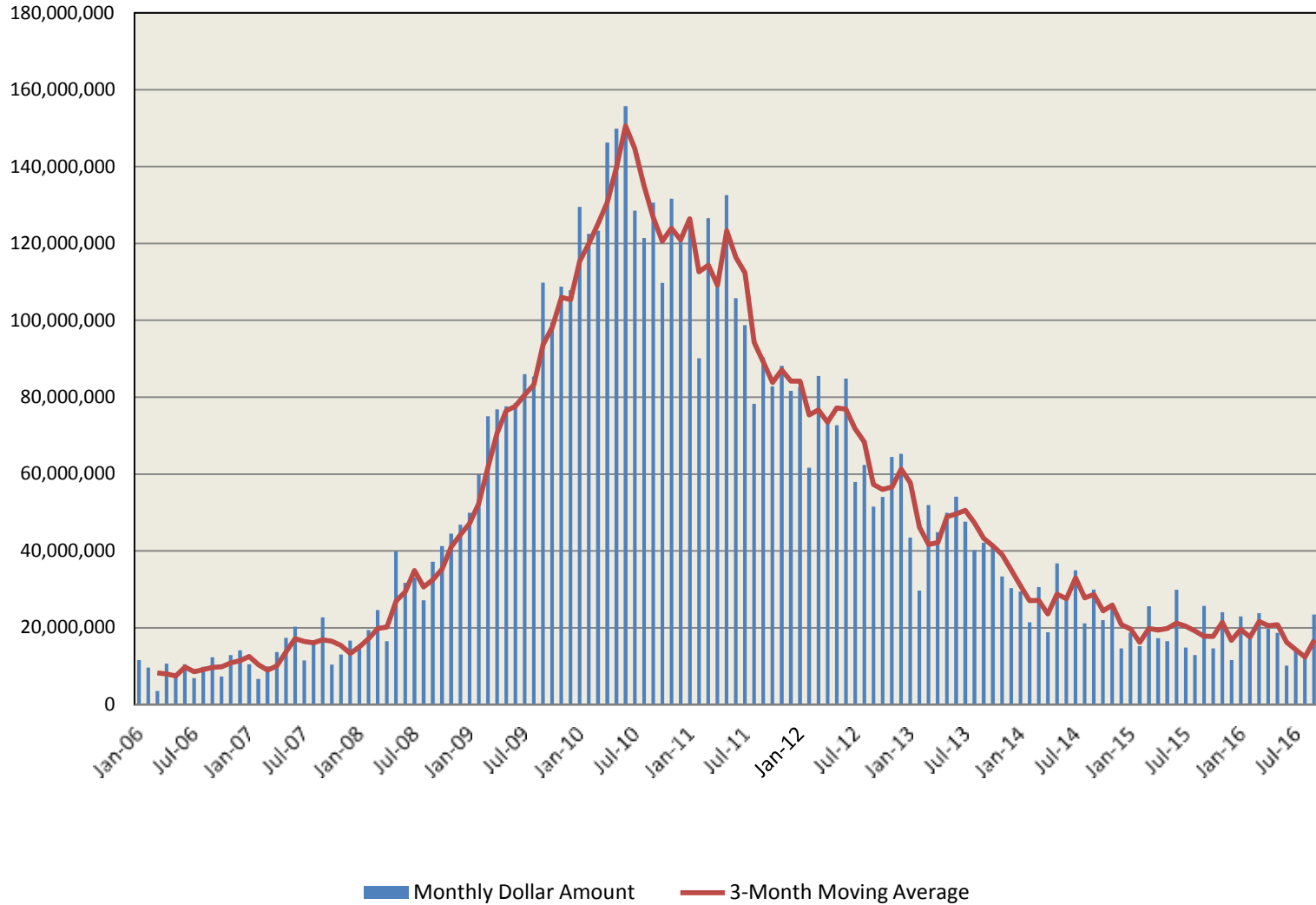
Definitions

- CDR is calculated by dividing total debenture accelerations by the average outstanding principal balance for the desired measurement period and annualizing the result.
- Calendar YTD, single month, 3-month and 6-month CDRs are calculated.
- Payment data source: SBA 504 Trustee BNYM
- Data is not seasonally-adjusted (NSA).

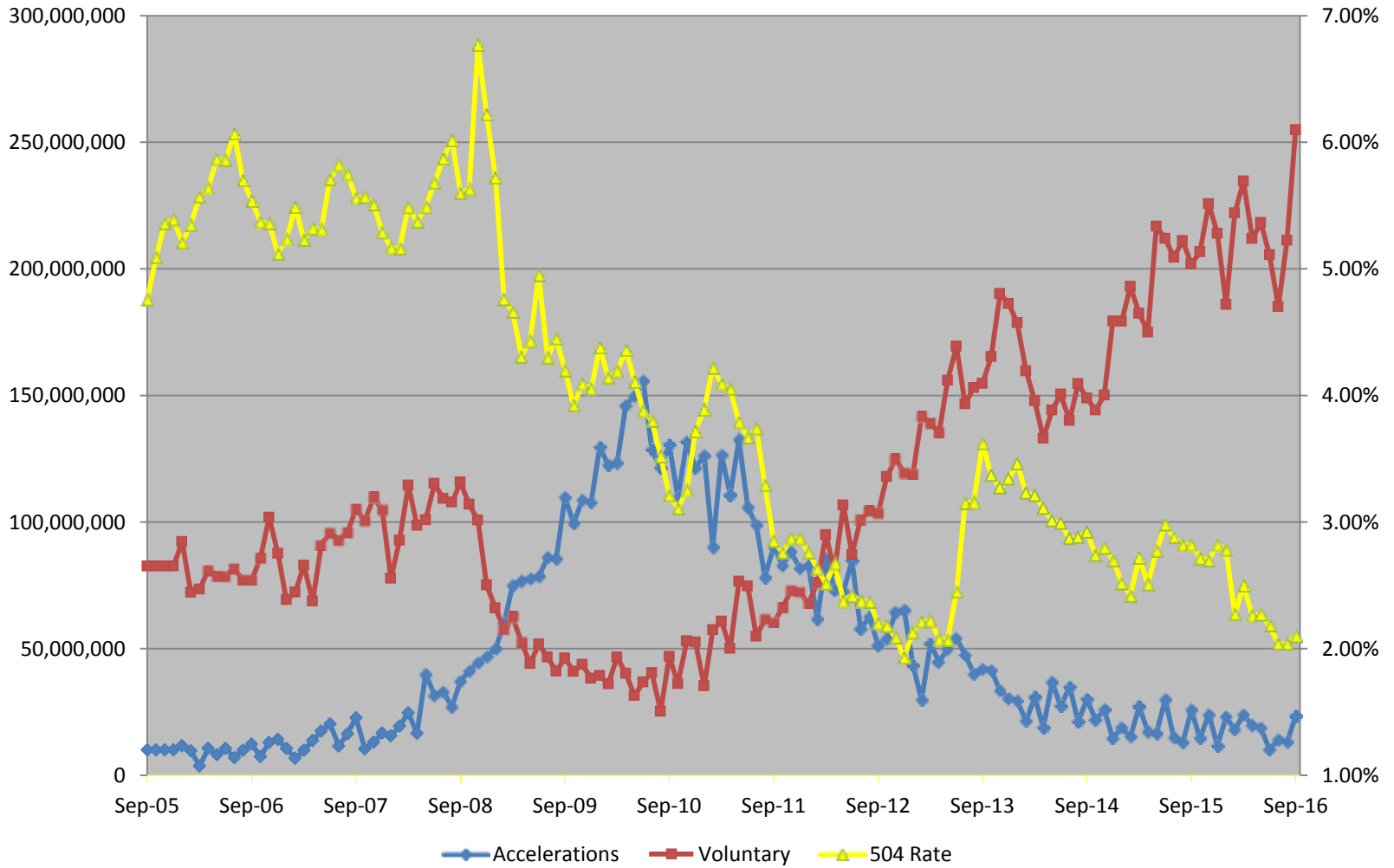
4Q2016 Results

- Accelerations increased in Q4 in dollar terms and CDR. The dollar amount was down 6% from a year ago.
- \$50.4M accelerated vs \$48.6MM n Q3 and \$53.4M a year ago.
- The three-month moving average is \$16.8M vs. \$17.8M one year ago. See page 4 for chart.
- Voluntary pre-pays increased 2% to \$651.2M since Q3, and are 5% higher than the year-ago amount. See page 5 for chart.
- Twelve-month CDR is 0.81% . See page 6 for chart.
- Single month CDR for September increased to 1.08% from 0.60%, 3-month CDR increased to 0.77% and 6 month CDR remained at 0.75%. All three remain well below the Long-Run Average of 1.7%. See page 7 for chart.
- The balance of outstanding DCPC's is \$26,113,498,719.57. See page 8 for chart.

SBA DCPC Monthly Accelerations (\$) September 2016

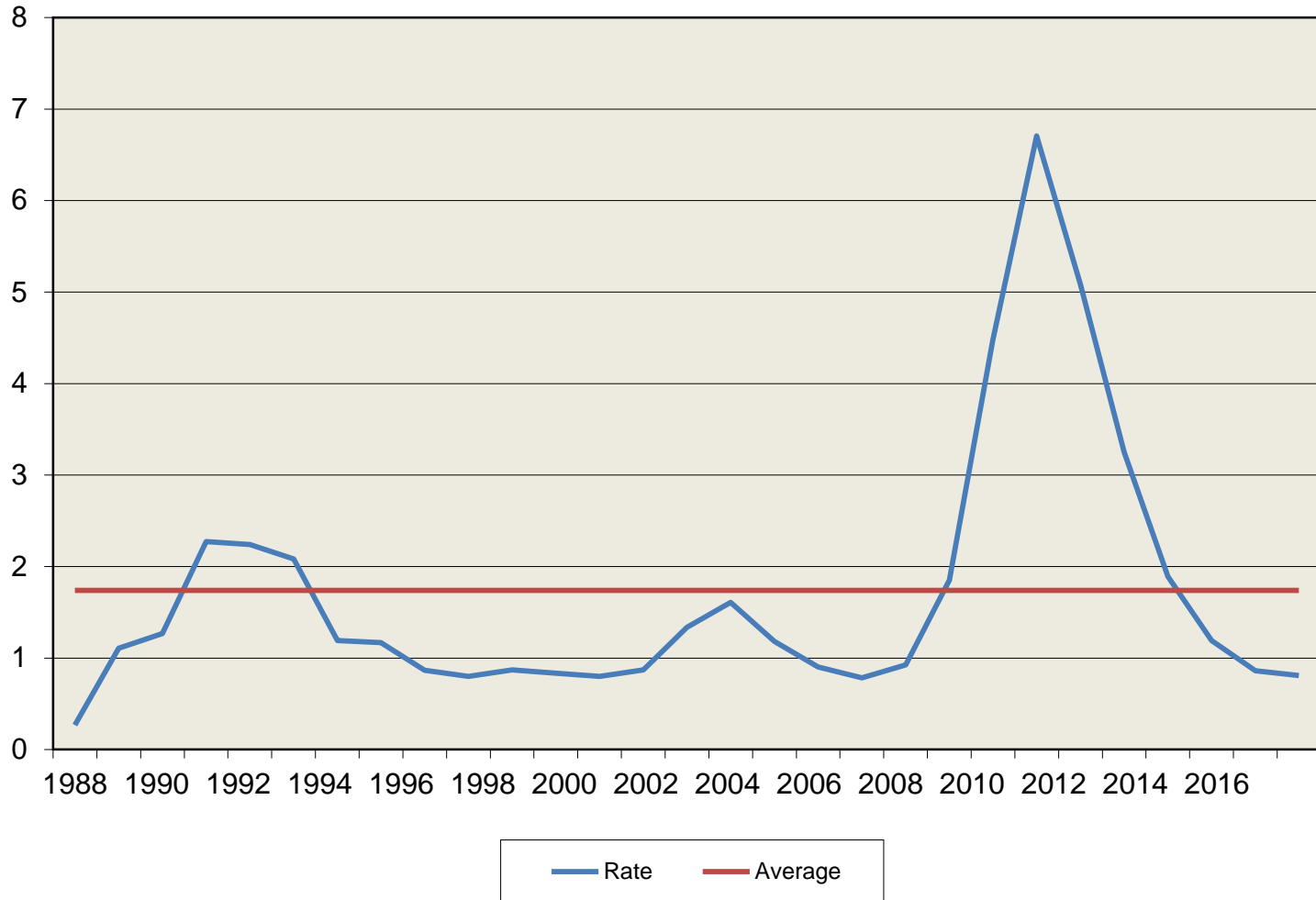


SBA 504 Pre-Payments



SBA 504 Annualized CDR (%)

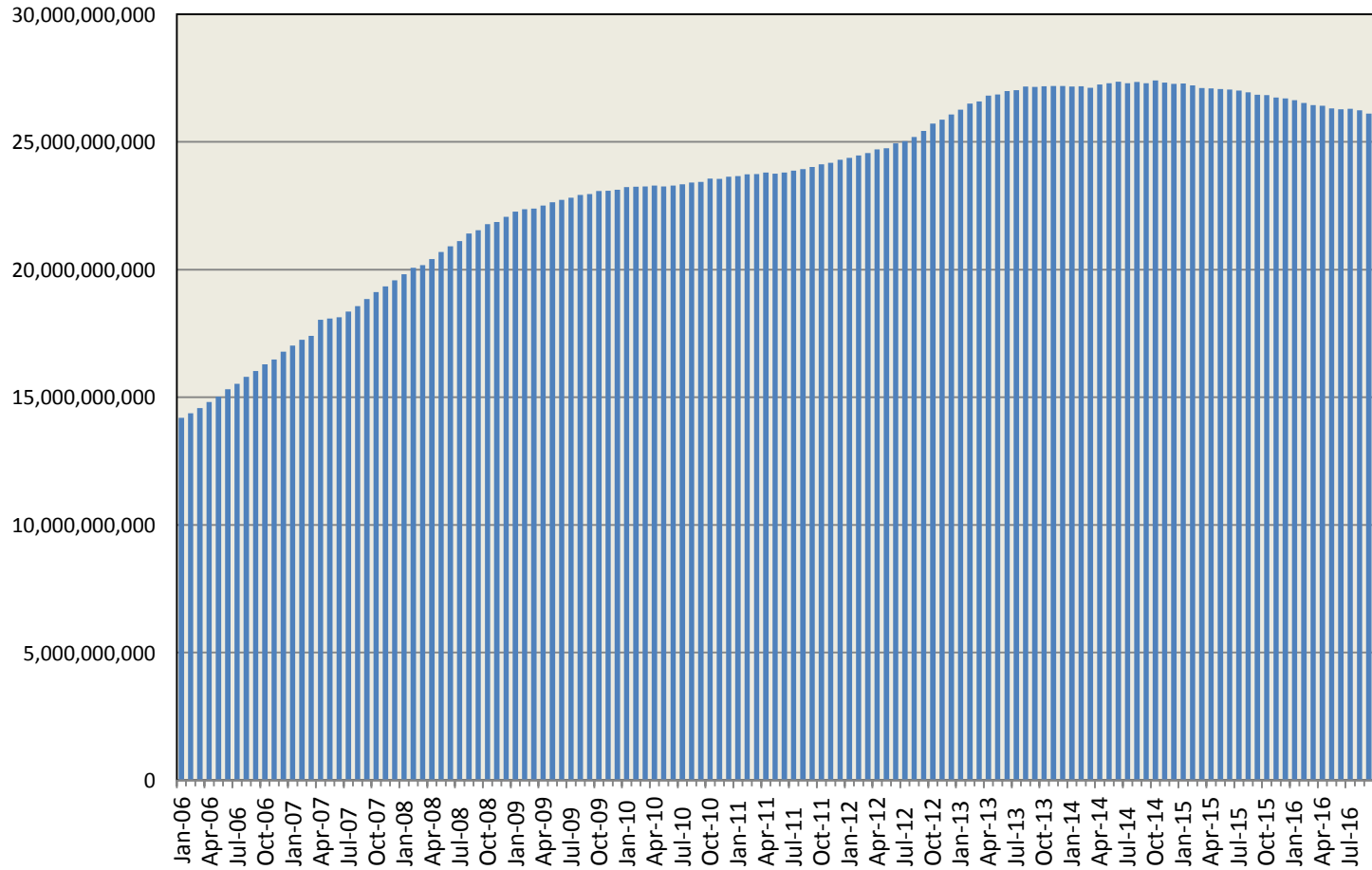
source: DCFLLC and BAML



SBA 504 Annualized CDR - September 2016



Monthly DCPC Outstanding Balance(\$) September 2016



Disclaimer

The information herein has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy or completeness.



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