

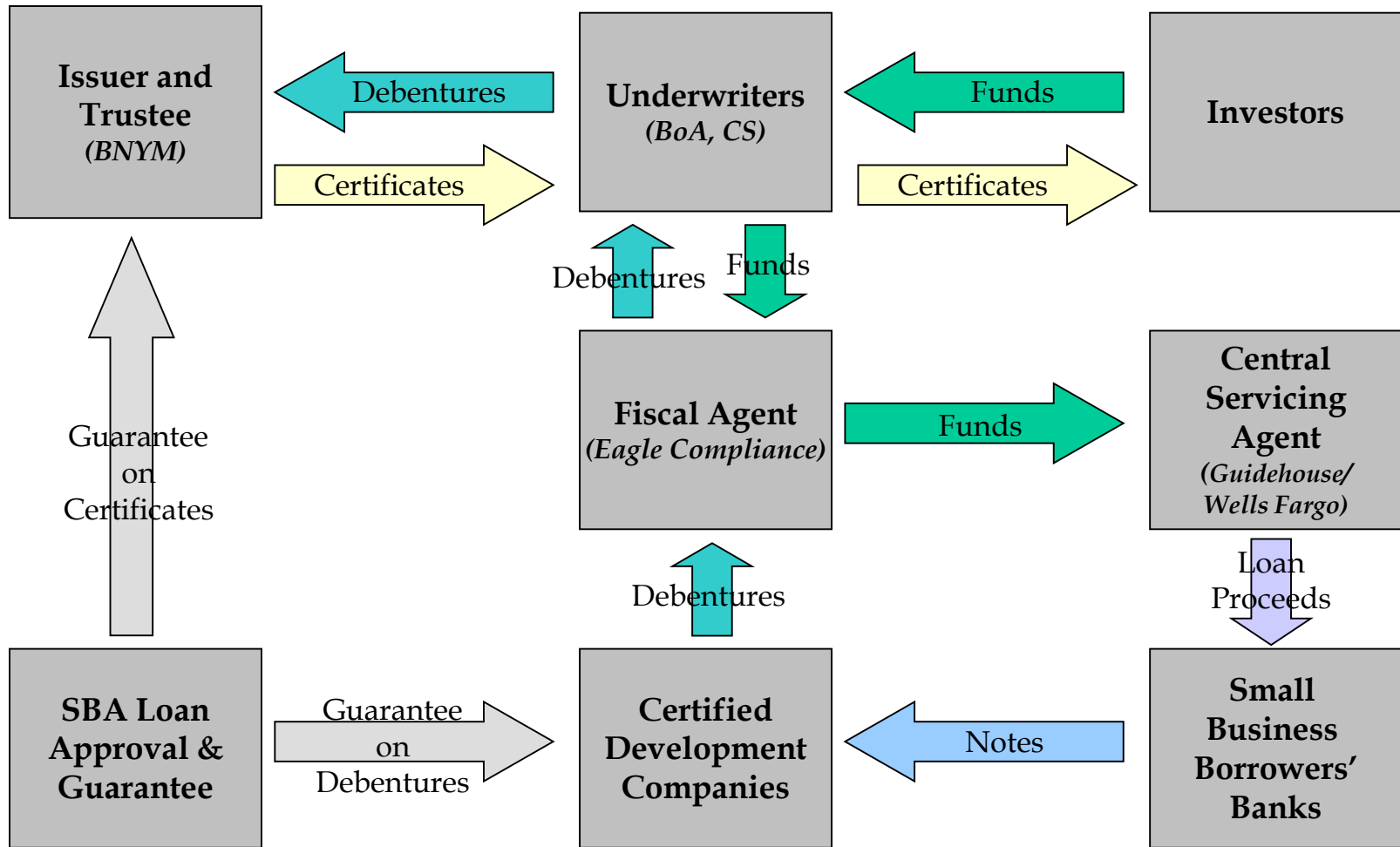


SBA 504 Funding Process

The Small Business Window to Wall Street

Frank Keane
Steve Van Order
Eagle Compliance LLC
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From Borrowers to Investors: The Process



SBA 504 Capital Markets Team

- **Fiscal Agent** – *Eagle Compliance LLC*. Manage the funding process to obtain the best monthly debenture rate available for borrowers.
- **Underwriters** – *Credit Suisse and Bank of America*. Market, sell and trade DCPCs, take capital risk, pool debentures, product research.
- **Issuing Agent and Trustee** – *The Bank of New York Mellon*. Hold debentures issued by CDCs, issue DCPCs as SBA's agent, distribute P&I to DCPC holders, report outstanding pool statistics.
- **Central Servicing Agent** – *Guidehouse/Wells Fargo Corporate Trust Services*. Process loans, report new pool statistics to DCF LLC, collect loan payments, pay out proceeds.
- **Legal Counsel** – *Morgan Lewis Bockius, LLP*. Program and transaction legal advisors to underwriters and DCF LLC.

SBAP Funding Process

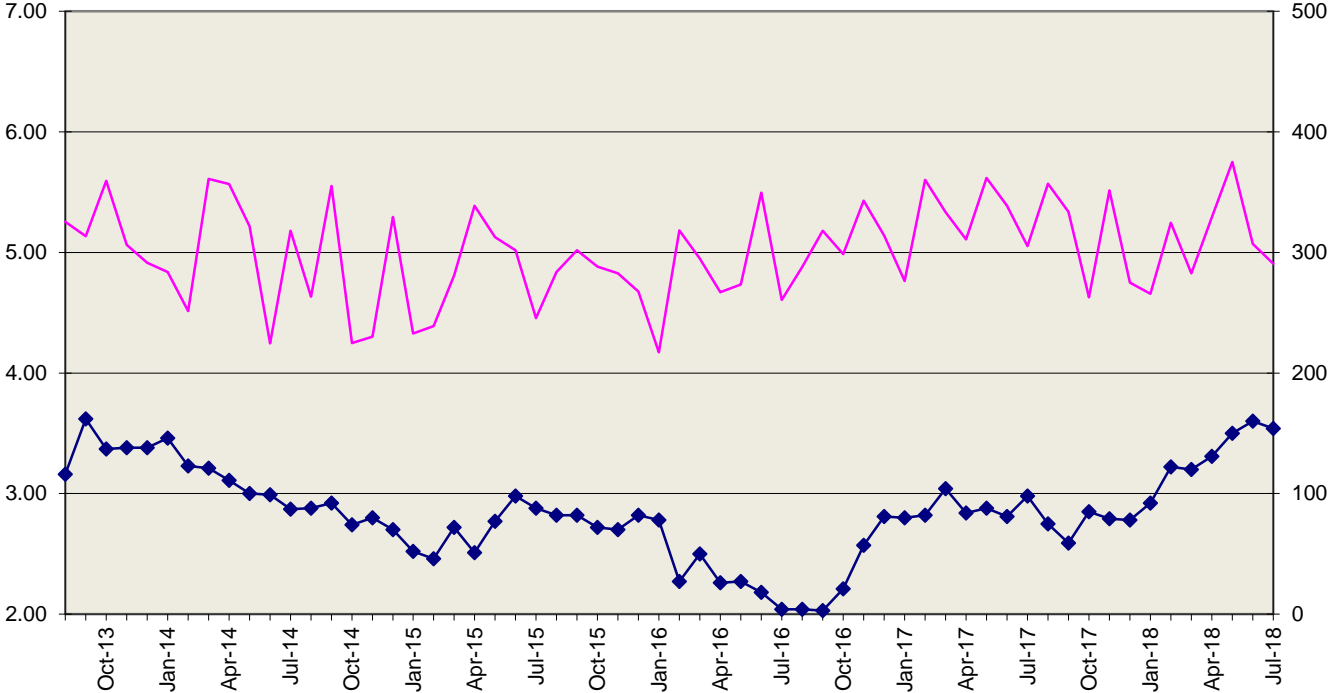
with deadlines for August 2018 Sale

- June 24-July 8 – CDC submission of forms to Sacramento for No Adverse Change; then placed in legal folder for District Counsel review
- Thursday July 26 – ***Cut-Off-Date*** – Upon District Counsel approval, documents go to the CSA for review and resolution of ***Loan Package errors***
- Monday July 26 – the CSA sends CDC Confirmation emails to CDC's
- Friday August 3 – CSA provides FA with preliminary loan numbers
- Monday August 6 – ***Pulled Loan Deadline***. CSA and CDC's have resolved all loan documentation issues
- Tuesday August 7 – ***Announcement Date*** with final numbers
- Thursday August 9 – ***Pricing Date***. Rates are set and pool is formed
- Wednesday August 15 – ***Closing Date***, CSA distributes proceeds of sale

504 Always Funding Small Businesses

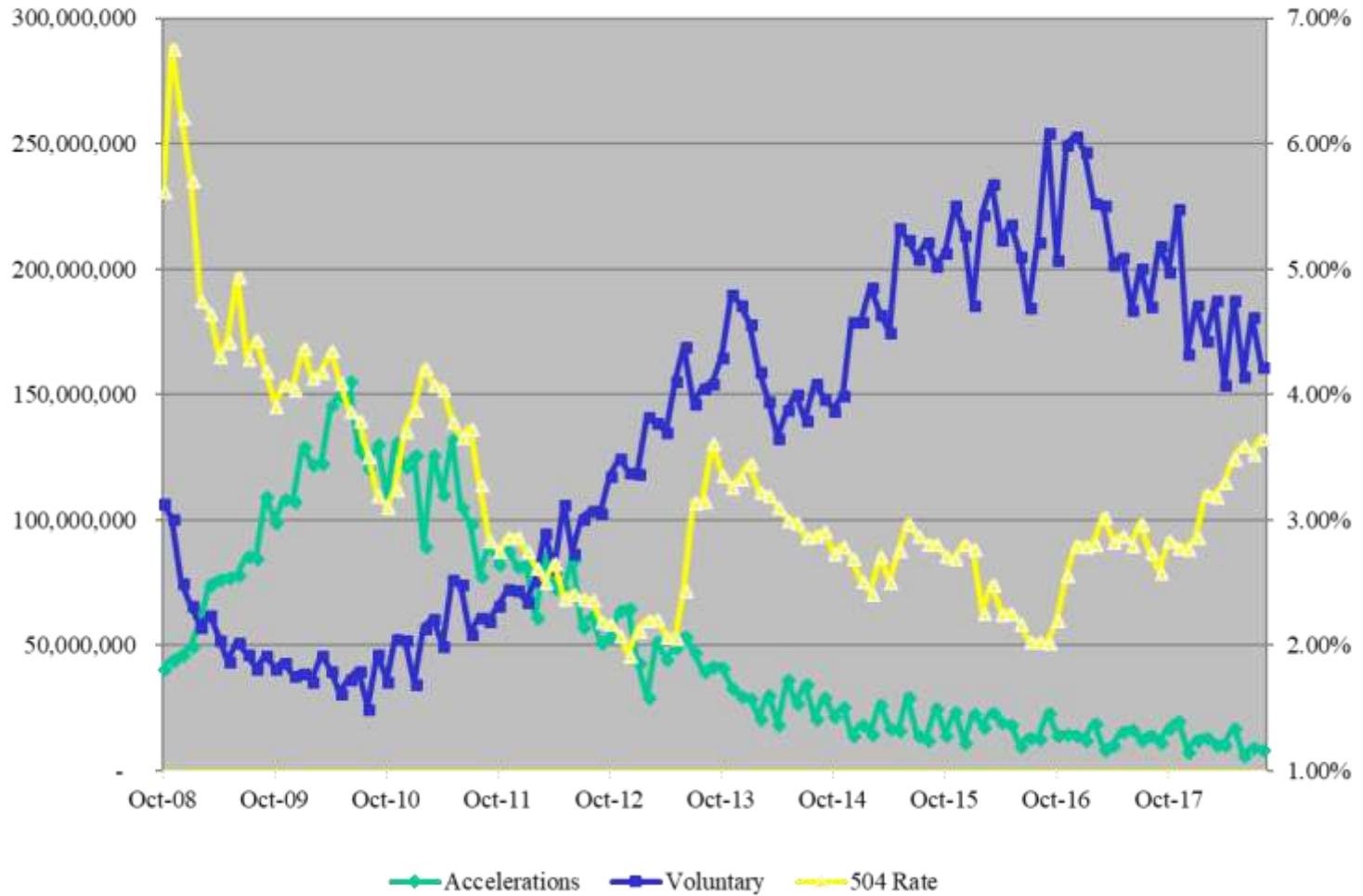
- Sections 503 (1958), 504 and 505 (1986) of the Small Business Investment Act provide for guarantee and pooling of CDC-issued debentures and guarantee and issuance of *Development Company Participation Certificates* (DCPCs). *Loan/Note/Debenture/Certificate*
- Section 503 guarantees full and timely debenture payments. *Section 504 guarantees full and timely payments to DCPC holders.*
- Provides monthly access to fixed rate, long-term funding in the public capital markets not otherwise available to small business.
- Uses a proven securitization process to create appealing investments resulting in efficiently-priced fixed-rate funding for small business borrowers.
- 32 years of history have led to stable performance through multiple interest rate and economic cycles and through large crises. Over \$75 billion in certificates have been issued with \$25.8 billion outstanding.

**SBA-504 20 Yr. Debenture Rate (% , left scale)
and Pool Size (20 &25 year) (\$MM, right scale)**



— Pool Size ◆ Debenture Rate

SBA 504 Pre-Payments



DCPC Characteristics

- DCPCs exactly match the full amortization, interest rate, maturity and prepayment penalty schedule of the pooled debentures. P&I is paid semiannually.
- *Prepayment penalty schedule* starts at $100\% + \text{debenture interest rate}$ and declines ratably to par after 5 years (10-year maturity) or 10 years (20 and 25-year maturity); e.g. 2018-20G, 3.54% 7/1/2038 has an initial prepayment price of 103.54. Prepayments are allocated on a *pro rata* basis.
- Acceleration of principal upon loan default is at par.
- Obligation of the United States for *risk-weighting* by investors and federal income tax treatment.
- Range of coupons: high 10.75% (10/87 20-yr), low 1.93% (12/20 20-yr). Original WAC 4.59%, outstanding WAC 4.29%.
- Projected average life on a new 20-year par pool is 8.23 years at 5% Constant Payment Rate (CPR).

How is the Debenture Rate Determined?

(continued)

- **Debenture Rate** = treasury rate + swap rate + spread to swap. 2018-20G / 2.83%+8bps+63bps=3.54%
- **Swap Rate** = treasury yield + swap spread.
 - 10-year 504 loan uses *5-year swap rate*,
 - 20-year 504 loan uses *10-year swap rate*,
 - 25-year 504 loan is presently priced on spread to the 20-year debenture rate.
- **Pricing.** Fiscal Agent and Underwriters agree on the rates; Fiscal Agent accepts the debenture rate and obtains approvals from Treasury and SBA.

Who Buys DCPCs?

- **Insurance companies** – yield, safety and government security status with yield very important to match their liabilities.
- **Bank Portfolios** – yield, safety, government security status. Held for sale and to maturity.
- **Money Managers** – on the behalf of other institutions and individuals. Relative value/spread buyers. Includes mutual funds, hedge funds, state pension funds.
- **Minimum original denomination** - \$25,000 with \$1,000 multiples thereafter.

Why Do Investors Buy DCPCs?

- Full faith and credit of the U.S. Highest quality.
- Absolute yield, 4.57% WAC over program life. Wide selection of coupons and prices.
- Spread over treasuries/swaps in compensation for the borrower prepayment option and lower liquidity.
- Monthly offering calendar.
- Well-supported secondary market.
- Reasonably predictable cash flows.
- Long history, rich prepayment/acceleration data.

What's Ahead

- Fed will continue to raise short-term rates
- Slope of Treasury curve to continue flattening
- That helps DCPC pricing
- Program now has a 25-year loan to offer
- Debt Refi has been slow – borrowers had ample opportunity to refinance
- 504 borrowers cannot refinance within 504
- www.eaglecompliance504.com

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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