# SBA 504 Funding Process

July 2022

Funding Small Businesses for 36 Years

- 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)

- Section 503 provides for a guarantee of full and timely debenture payments. Section 504 allows debentures to be sold to investors, and 505 provides a guarantee on 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

- 36 years of history have led to stable performance through multiple interest rate and economic cycles and through large crises. $96 billion in certificates have been issued with $29 billion outstanding

SBA 504 Capital Markets Team

- **Small Business Administration –** Guarantor of debentures approved for funding, approves funding amounts and the debenture rates

- **Fiscal Agent/Selling Agent** – *Eagle Compliance LLC.* Manage the funding process for SBA and CDCs to obtain the best monthly debenture rate available for CDCs, therefore the best loan rate for the borrower

- **Underwriters** – *Credit Suisse and Bank of America.* Market, sell and trade DCPCs, 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, LLC.* Process loans, report new pool statistics to Eagle Compliance, collect loan payments, pay out proceeds

- **Legal Counsel** –Morgan Lewis*, LLP.* Program and transaction legal advisors to underwriters and Eagle Compliance LLC

From Borrowers to Investors: The Process
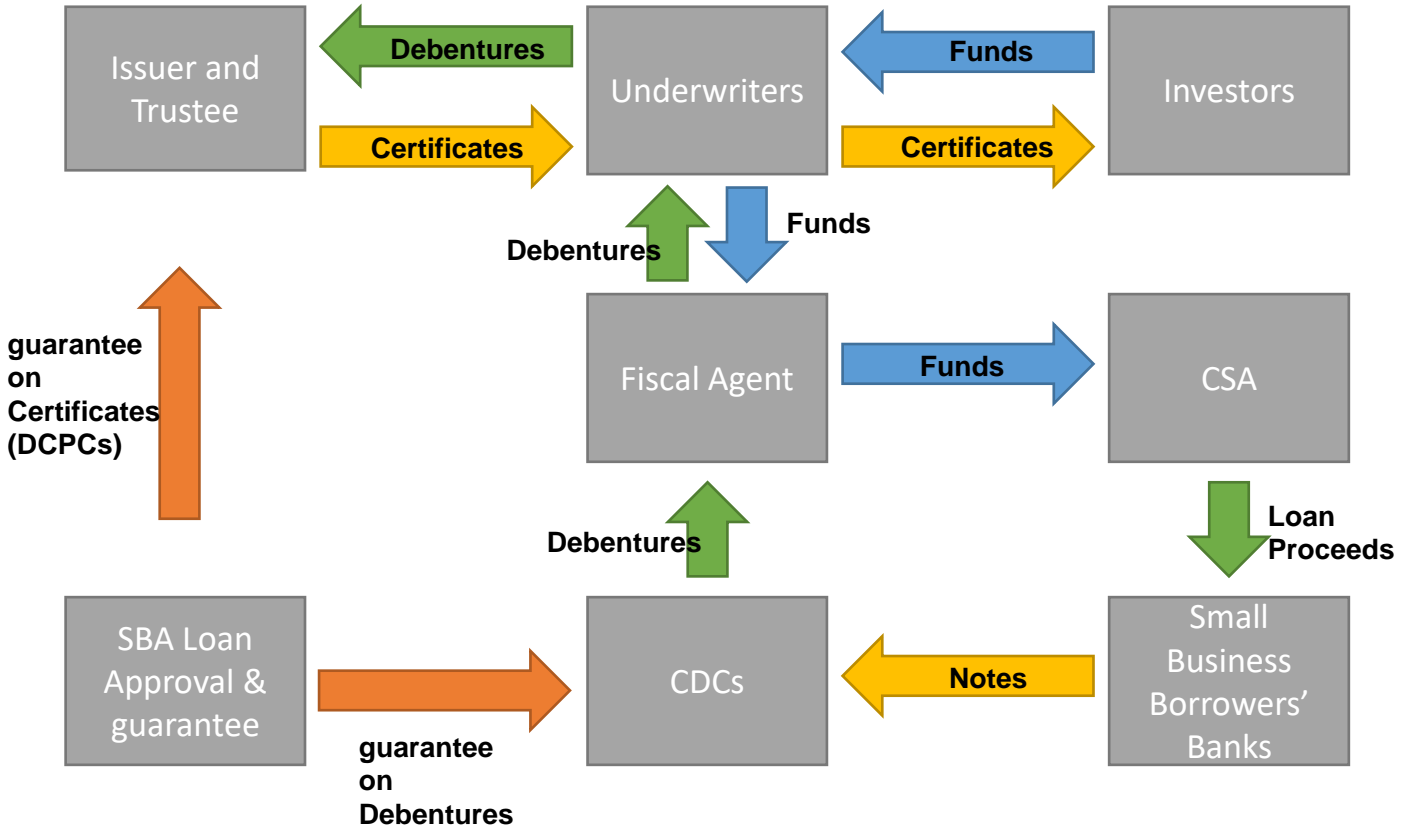
Determining the Various 504 Rates

Debenture Offering 2022-25G	Rate Calculation
Treasury Yield	2.96
+ Spread to Treasury	0.97
= CDC Semi-ann. Debenture Rate	3.93
= Borrower Monthly Note Rate	3.98
+ SBA Ongoing Guarantee Fee	0.2475
+ CSA Fee	0.10
+ Minimum CDC Servicing Fee	0.625
= Full Term Effective Rate	5.110

25-year and 20-year 504 debentures set over *10-year treasury yield*

10-year 504 debentures set over *5-year treasury yield*

To learn how the full-term effective rate is calculated please see the 504 Rate Tutorial via the Eagle Compliance, LLC website. The effective rate is not an APR equivalent as it is not calculated using any upfront fees.

SBA 504 Funding Calendar
Example: July 2022

- Thursday June 23 – *Cut-Off-Date* **–** was last day for loan documents to arrive at CSA for review and resolution of any loan package errors

- Thursday June 30 - CSA provided Eagle with preliminary debenture pool figures

- Friday July 1 – *Pulled Loan Deadline*. CSA and CDCs resolved all loan documentation issues

- Tuesday July 5 – *Announcement Date* with final pool figures

- Thursday July 7 – *Pricing Date*. Rates were set and pools formed

- Wednesday July 13 – *Closing Date*, CSA distributed proceeds of sale, pool certificates transferred to investors

SBA 504 Debenture Rate (%, right axis) and
Total Pool Size ($MM, left axis)

Total Pool Size — 504 Debenture Rate
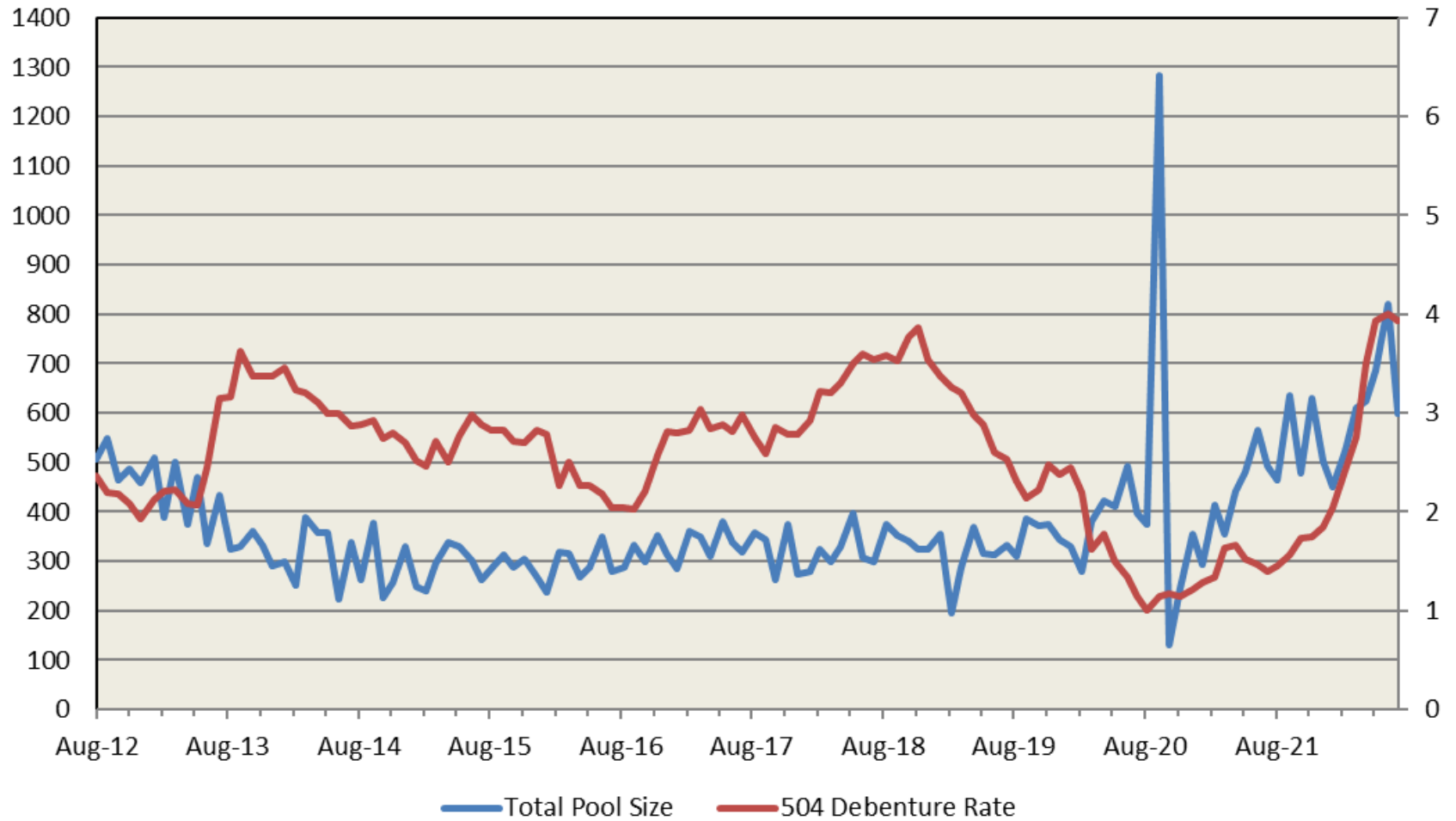
SBA 504 Portfolio Summary
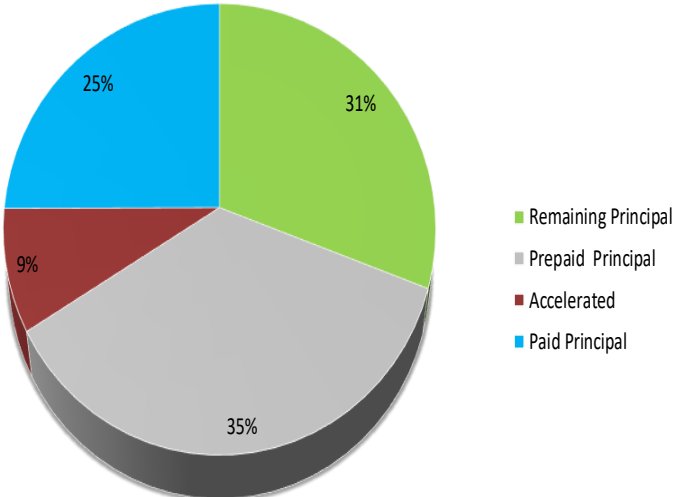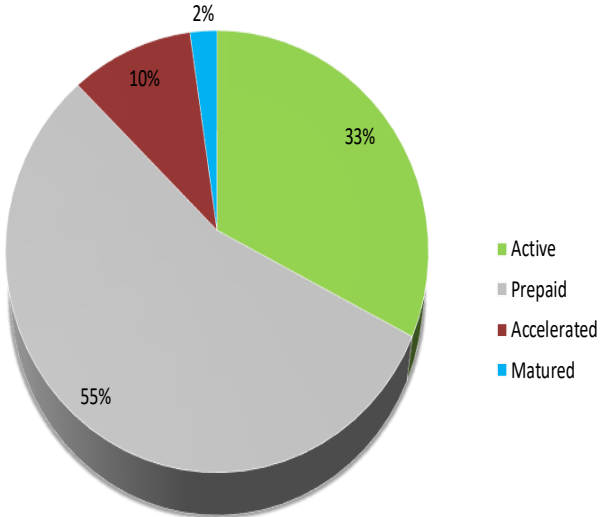
	Debentures	10-Year Maturity		20-Year Maturity		25-Year Maturity			Portfolio Amount	10-Year Maturity		20-Year Maturity		25-Year Maturity	
		Count	%	Count	%	Count	%			Amount	%	Amount	%	Amount	%
Active	56,048	1,277	2%	39,099	70%	15,672	28%	Remaining Principal	$29,660,216,180.70	$360,242,804.66	1%	$16,580,033,776.85	56%	$12,719,939,599.19	43%
Prepaid	94,020	3,277	3%	90,217	96%	526	1%	Prepaid Principal	$34,292,477,065.25	$648,579,084.77	2%	$33,175,752,141.82	97%	$468,145,838.66	1%
Accelerated	17,546	835	5%	16,695	95%	16	0%	Accelerated	$8,463,616,231.34	$275,880,279.86	3%	$8,174,854,719.39	97%	$12,881,232.09	0%
Matured	3,873	1,530	40%	2,343	60%	0	0%	Paid Principal	$24,214,690,522.71	$1,609,271,830.71	7%	$22,085,172,361.94	91%	$520,246,330.06	2%
Total	171,487	6,919	4%	148,354	87%	16,214	9%	Total	$96,631,000,000.00	$2,893,974,000.00	3%	$80,015,813,000.00	83%	$13,721,213,000.00	14%

DCPC Characteristics

- DCPC's match the amortization, interest rate, maturity and prepayment penalty schedule of the debentures. P&I paid semiannually

- *Prepayment penalty* starts at *100%+debenture interest rate* and declines ratably to par after 5 years (10-year maturity) or 10 years (20 and 25-year maturities)

- Acceleration of debenture principal upon loan default is paid at par

- Scheduled P&I and any prepayments are allocated to DCPC holders on a *pro rata* basis

- Full faith and credit obligation of the United States for risk weighting by investors and federal income tax treatment

- Projected average life on a new 25-year par pool is 9.8 years at 5% Constant Payment Rate (CPR) convention

- Actual CPR is running 10% or faster

How Have Debentures/DCPCs Prepaid?

SBA 504 Pre-Payments
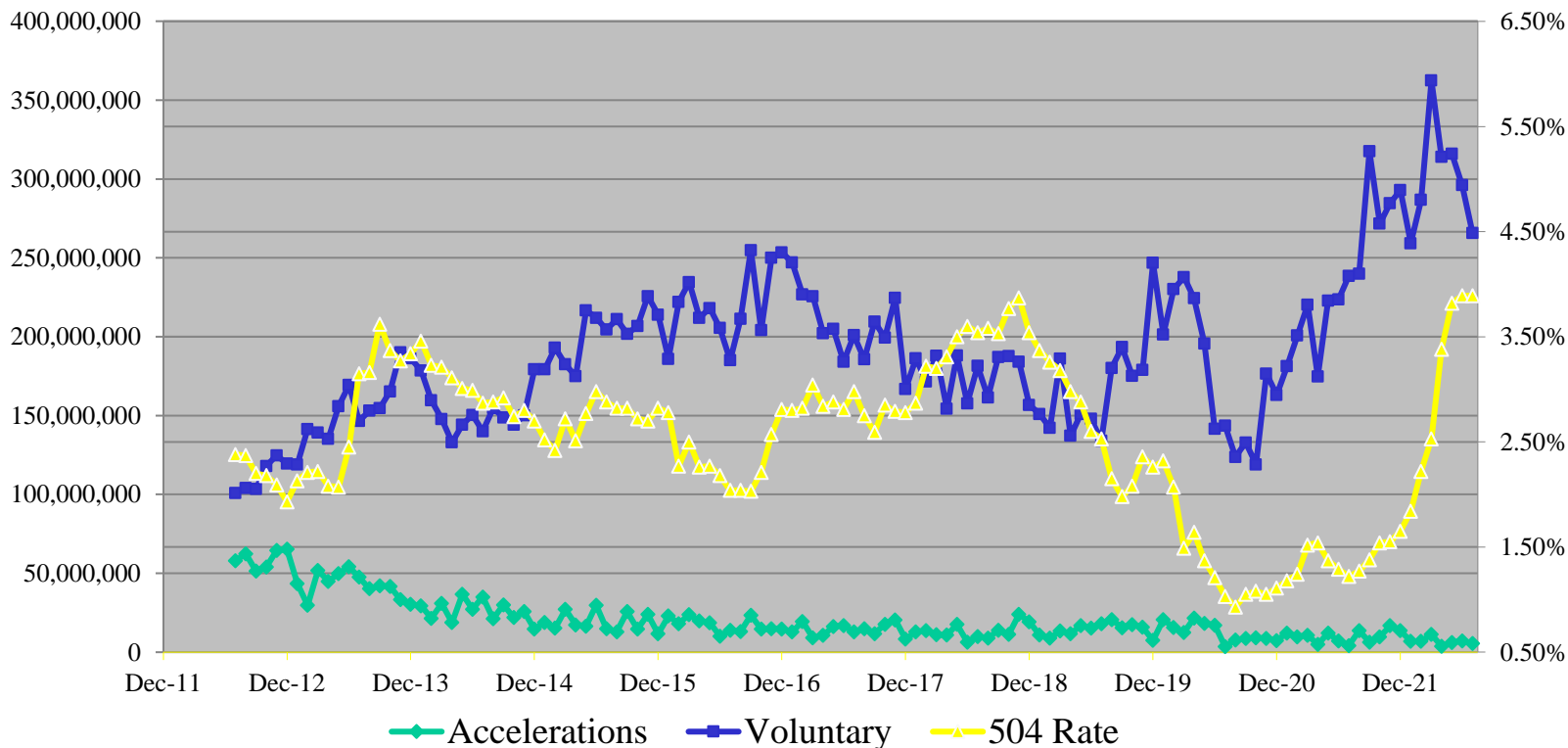
Why Do Investors Buy DCPCs?

- Full faith and credit of the U.S. Highest quality.

- Absolute yield with a wide selection of coupons and prices.

- Spread over treasuries 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.

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

- **Minimum original denomination** - $25,000 with $1,000 multiples thereafter

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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