



# GENERAL SESSION 2

## REVIEW AND OUTLOOK FOR SBA 504 DEBENTURE RATES

TUESDAY, NOVEMBER 15  
3:30 PM – 5:00 PM  
ADAMS BALLROOM A



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# SPEAKERS

**Linda Reilly, Chief, 504 Loan Division, Office of Financial Assistance**  
U.S. Small Business Administration

**Rich Sigg, Managing Director**  
Bank of America Securities

**Kavitha Vignarajah, Director**  
Credit Suisse Securities

**Steve Van Order, Selling Agent**  
Eagle Compliance, LLC

# **NADCO 2022 Annual Conference Fiscal Agent and Underwriters Report**



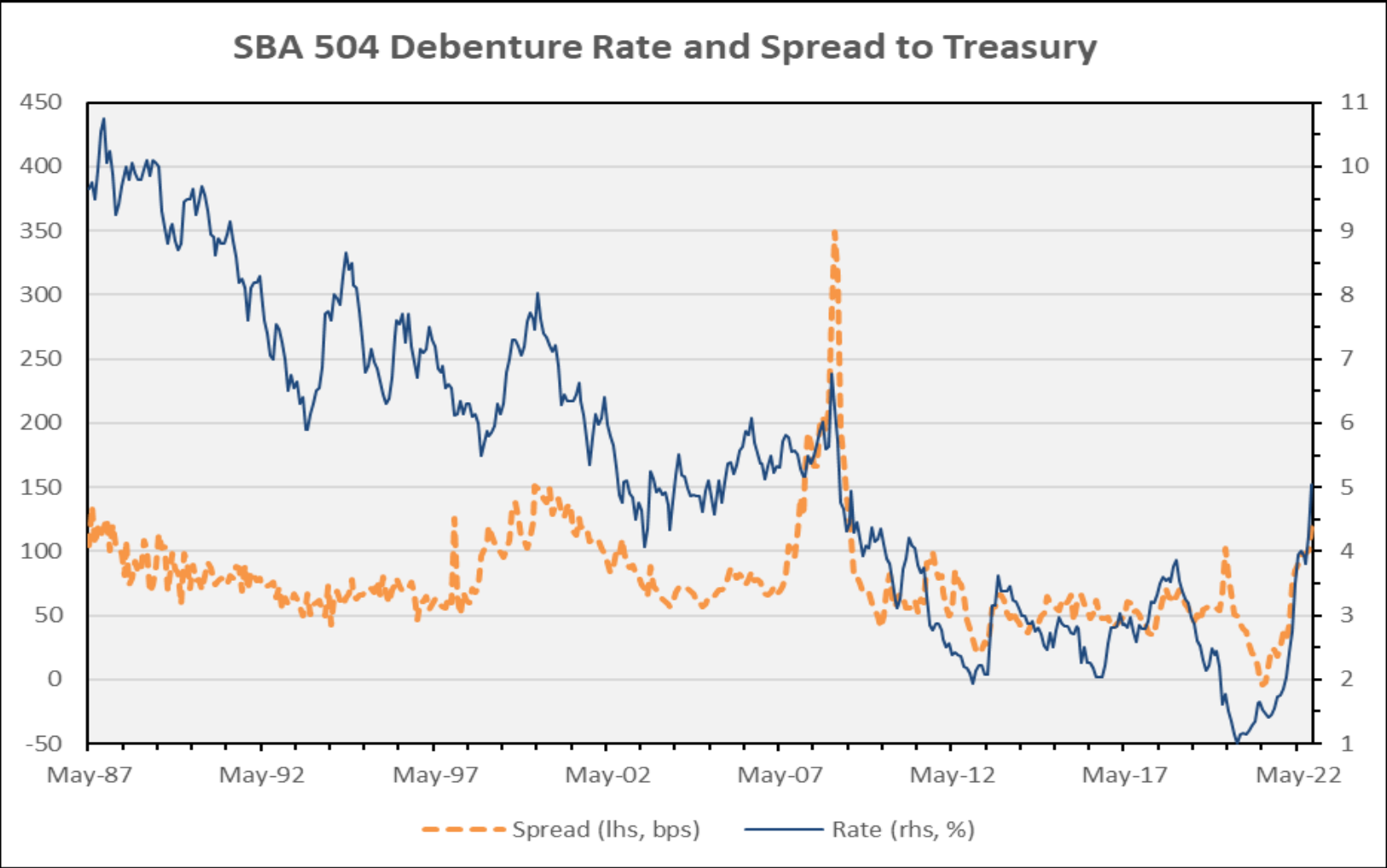
*Markets, until now, never traded during a time of 8% inflation with the Fed moving from zero-rate policy/QE to a record string of large rate hikes with QT*

# Review: Key Factors Affecting 504 Debenture Rates

- *Macro Backdrop*: 8% CPI inflation w/Fed hikes and QT (Tsy and MBS roll off)
- *Yields and Money Rates*: sharply higher across the board
- *Treasury Yield Curve Slope*: nearly fully inverted
- *Treasury Yield Volatility*: persistently very high historical and expected measures
- *Spreads*: broadly sharply wider esp. for prepayment sensitive securities like DCPCs
- *New Supply*: DCPC issuance sharply higher, record \$7.2 B issued in FY'22
- *504 Prepayments*: until recent months, record high speeds and dollars

# **A CLOSER LOOK AT THE MAJOR INFLUENCES ON DEBENTURE RATES AND SPREADS**

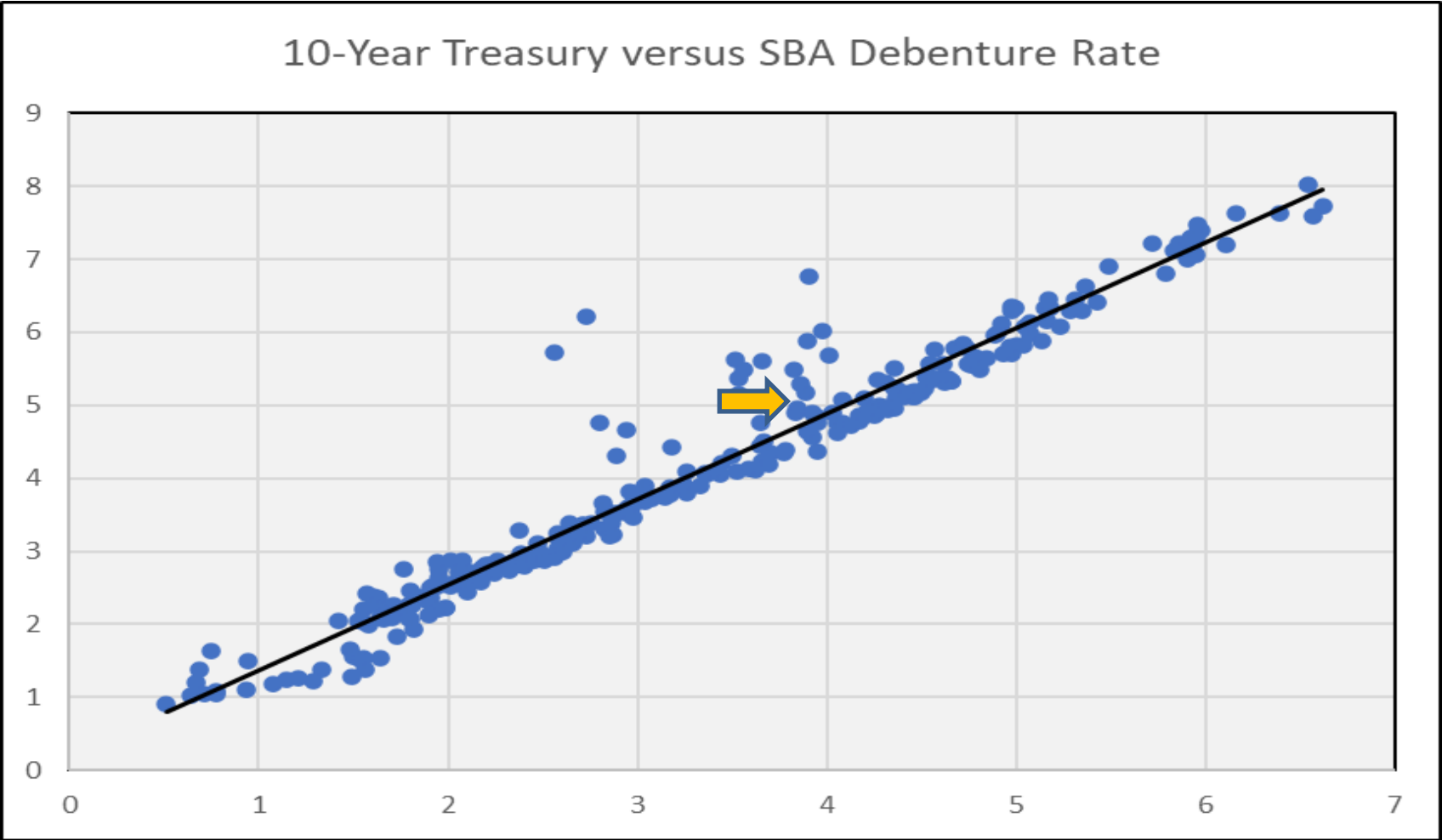
# Current 504 Debenture Rates and Spreads Are Well-Explained By the Treasury Yield Level, Curve Slope and High Volatility





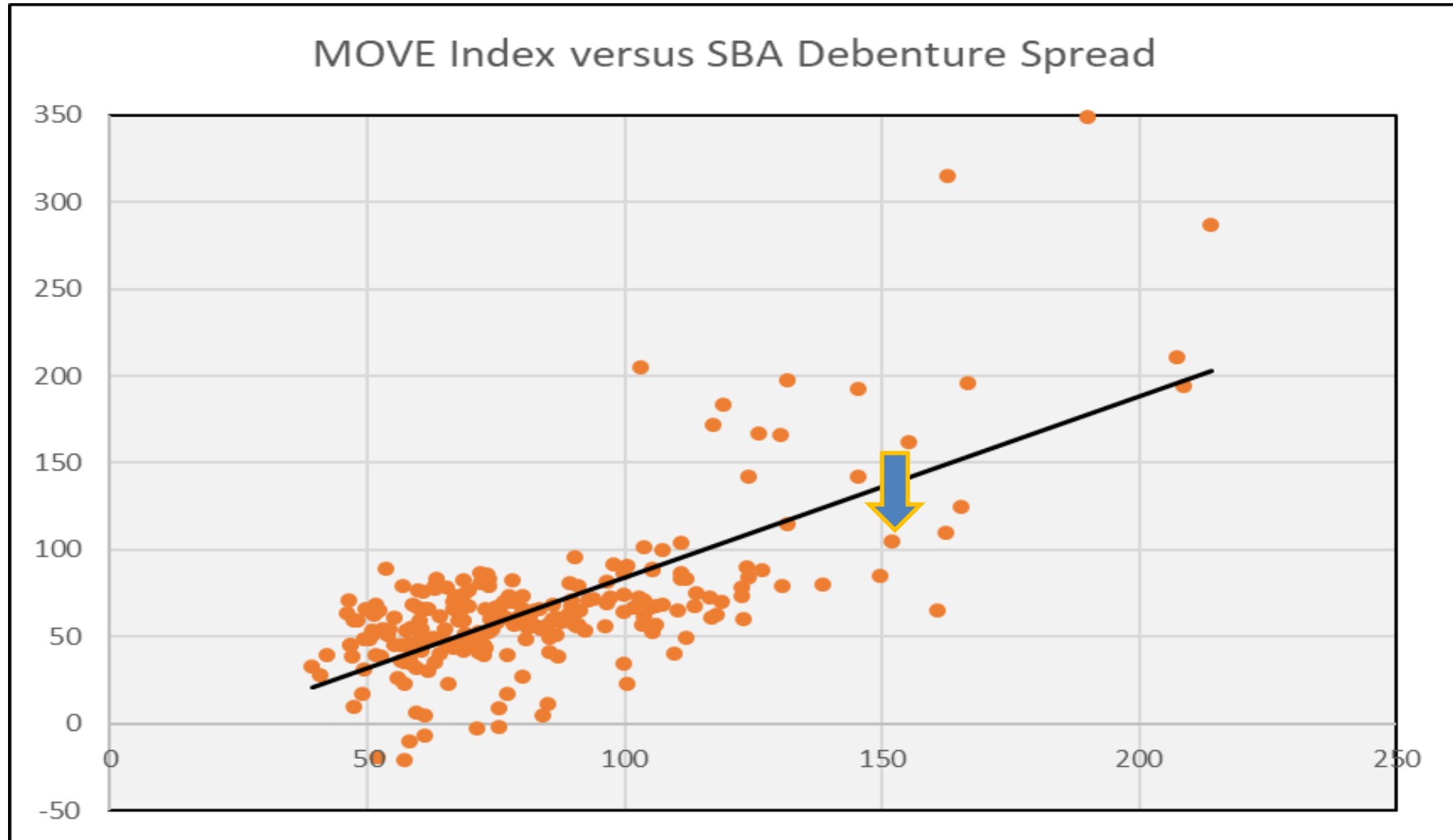
# When Treasury Yields Rise 504 Debenture Rates Rise

Debenture Rate Is Highly Positively Correlated to the Treasury Yield



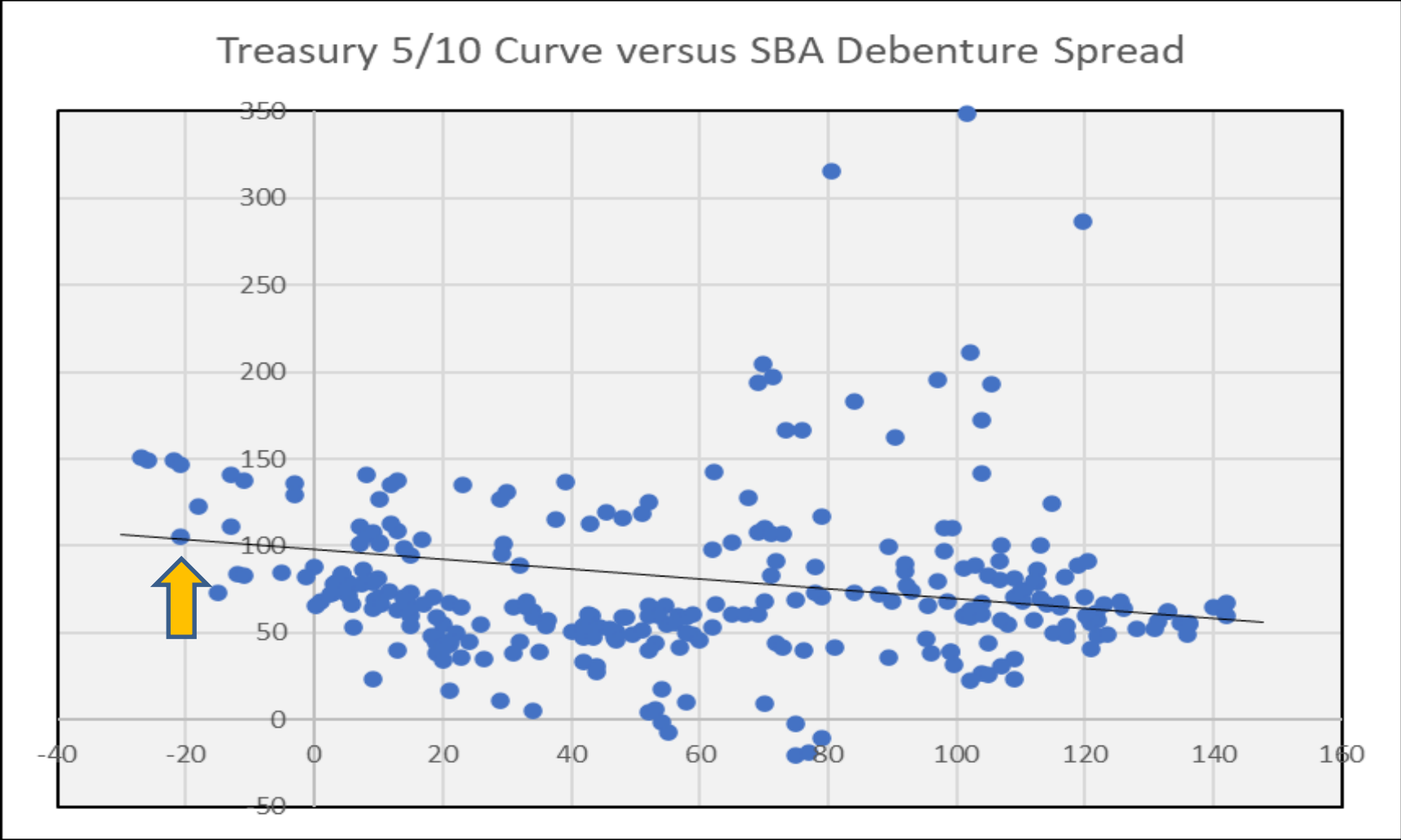
# When Interest Rate Volatility Is High the Debenture Spread to Treasury Is Wide

Debenture Rate Spread to Treasury Is Positively Correlated to the MOVE Index

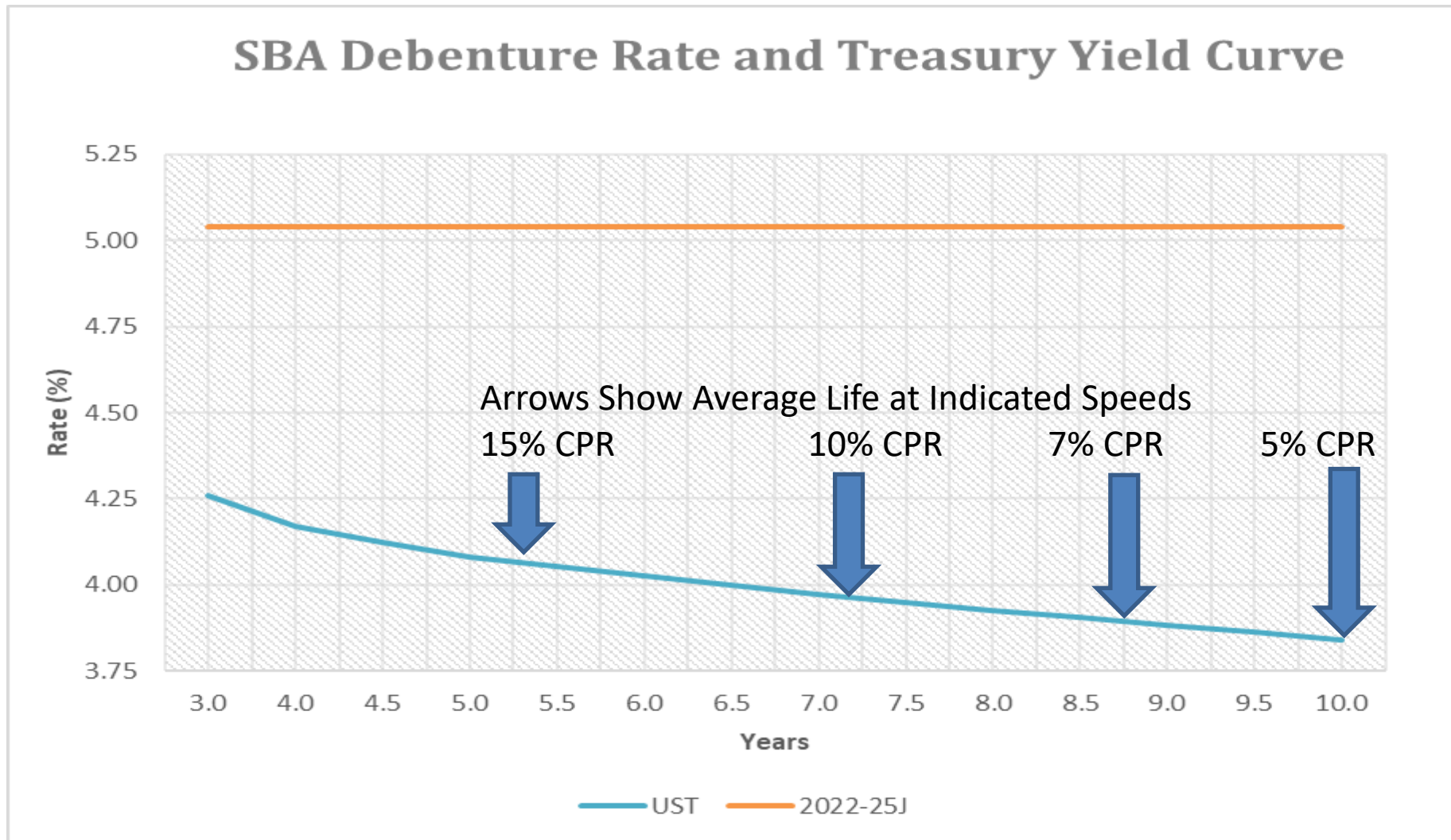


# When the Yield Curve Inverts the Debenture Spread Is Wide

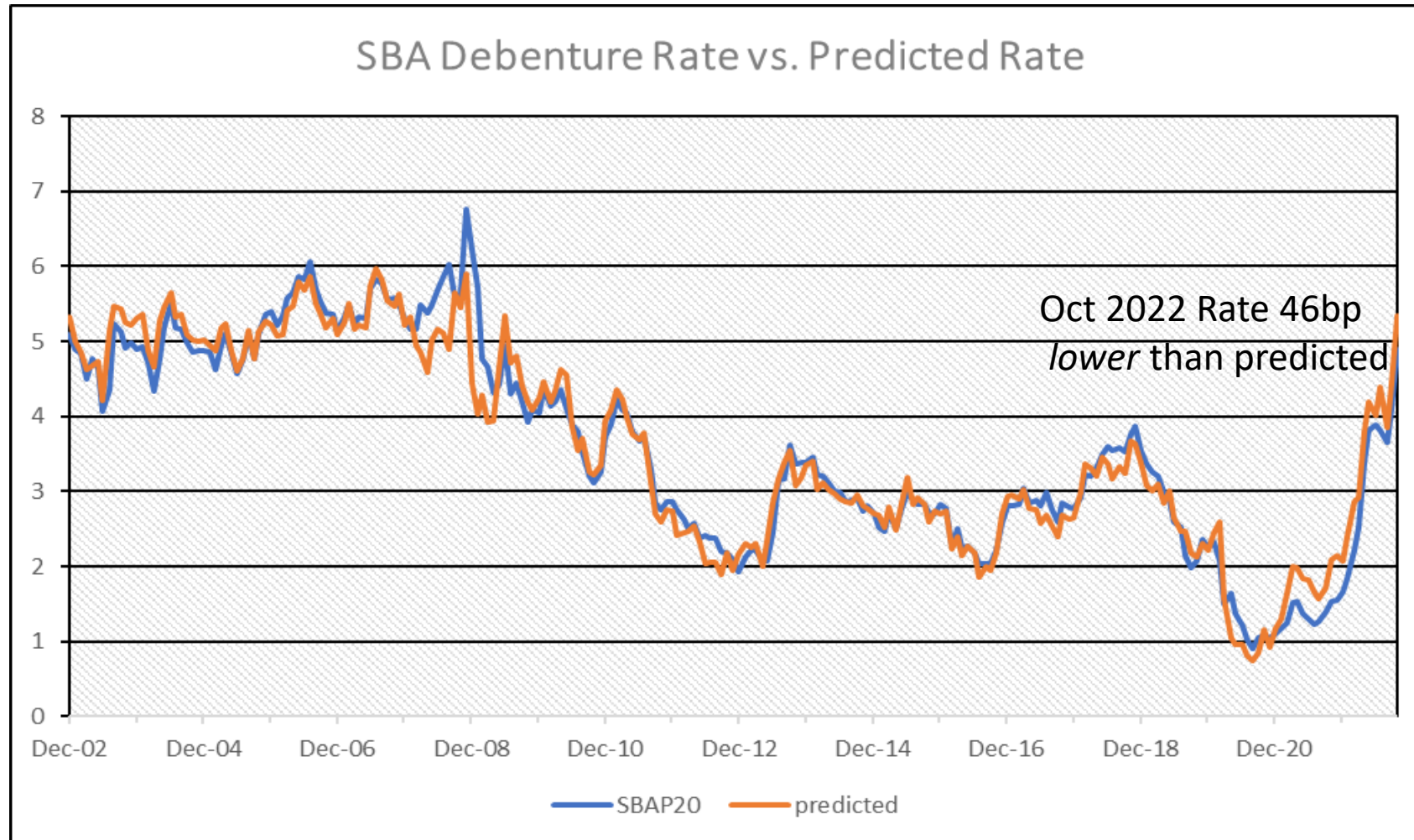
Debenture Rate Spread to Treasury Is Negatively Correlated With the Slope of the Yield Curve



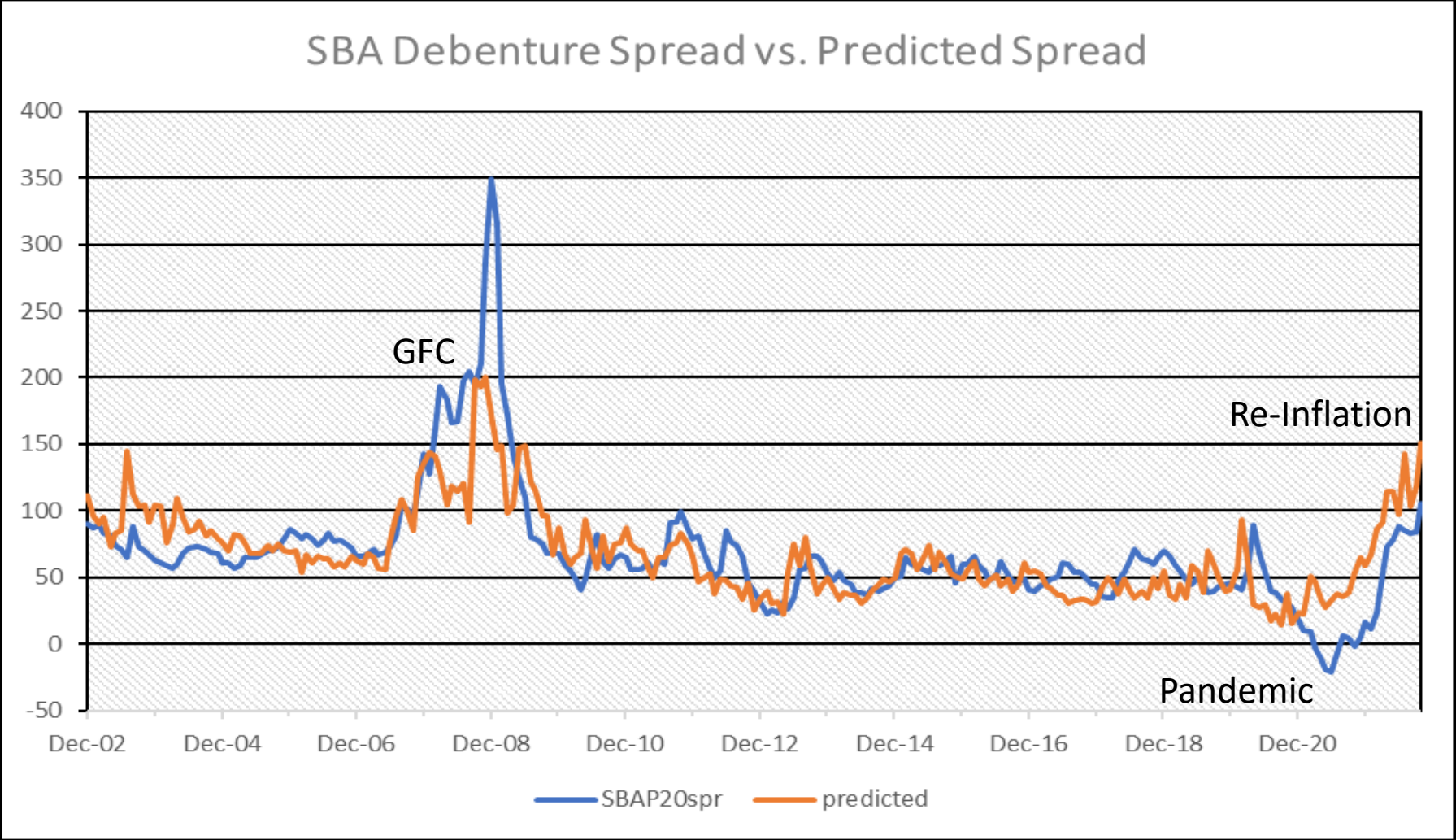
# Because Debenture Pools Have Uncertain Prepayment Speeds, More Spread to Treasury Is Required in Inverted Yield Curves



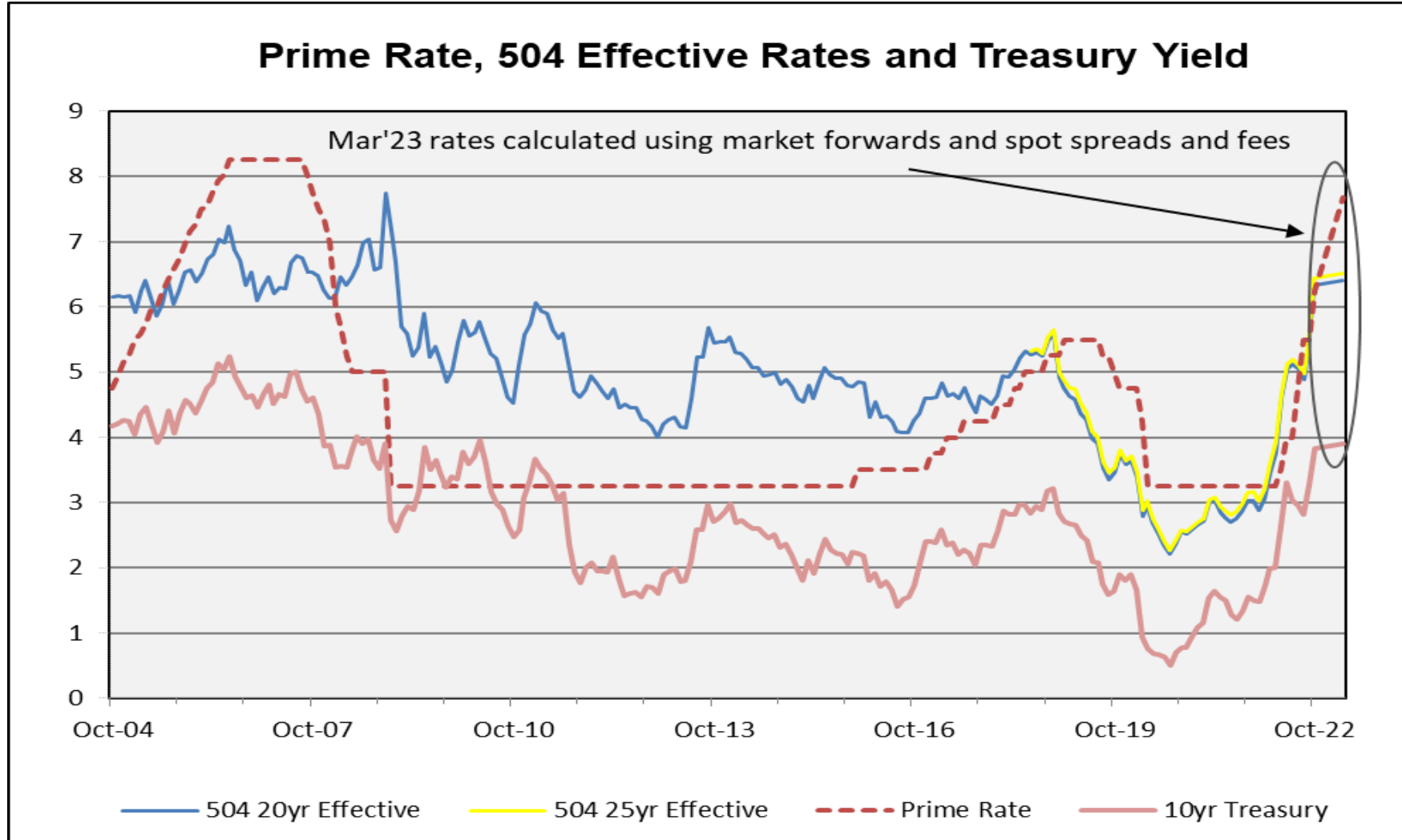
# But: Debenture Rate Predictions in Times of Market Extremes Are the Most Error Prone



# And: Prediction Error Mainly Comes From Fluctuations in the Spread (Which Was Tighter Than Predicted in Oct Deal)



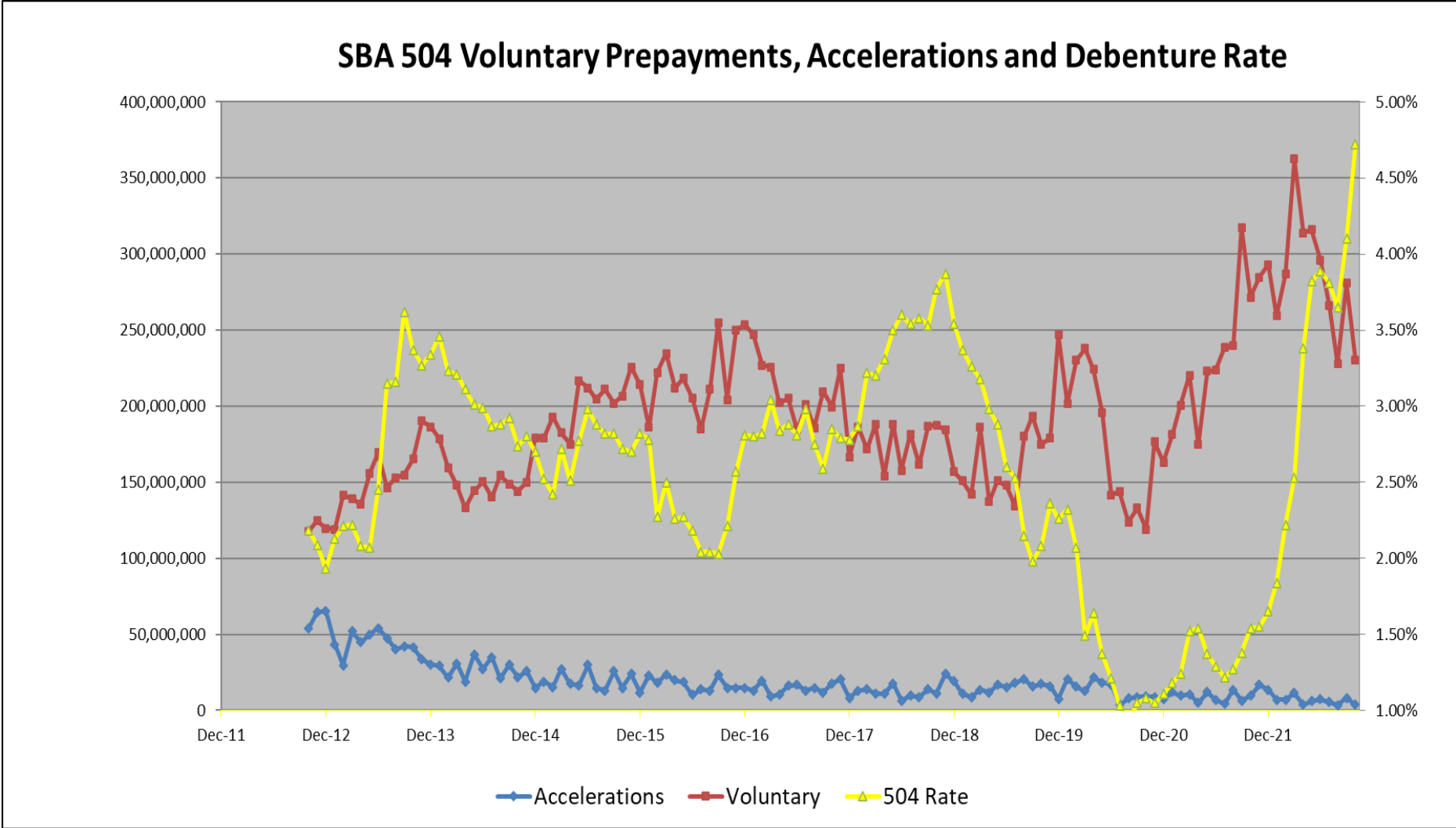
# 504 Rates Typically < Prime as Fed Completes Tightening



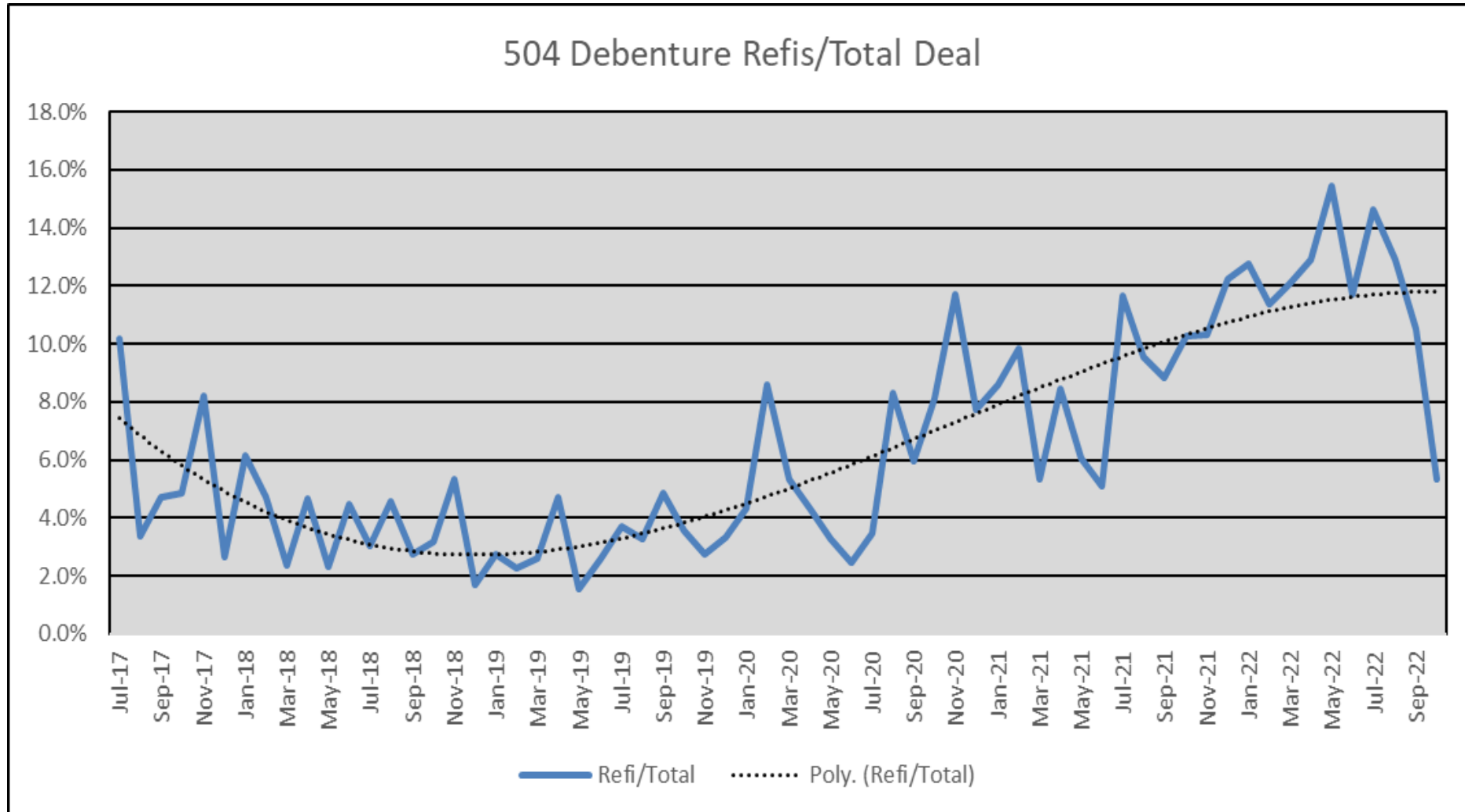
# **504 DEBENTURE PORTFOLIO TRENDS**



# Debenture Pool Prepayments Rolled Over in 2022

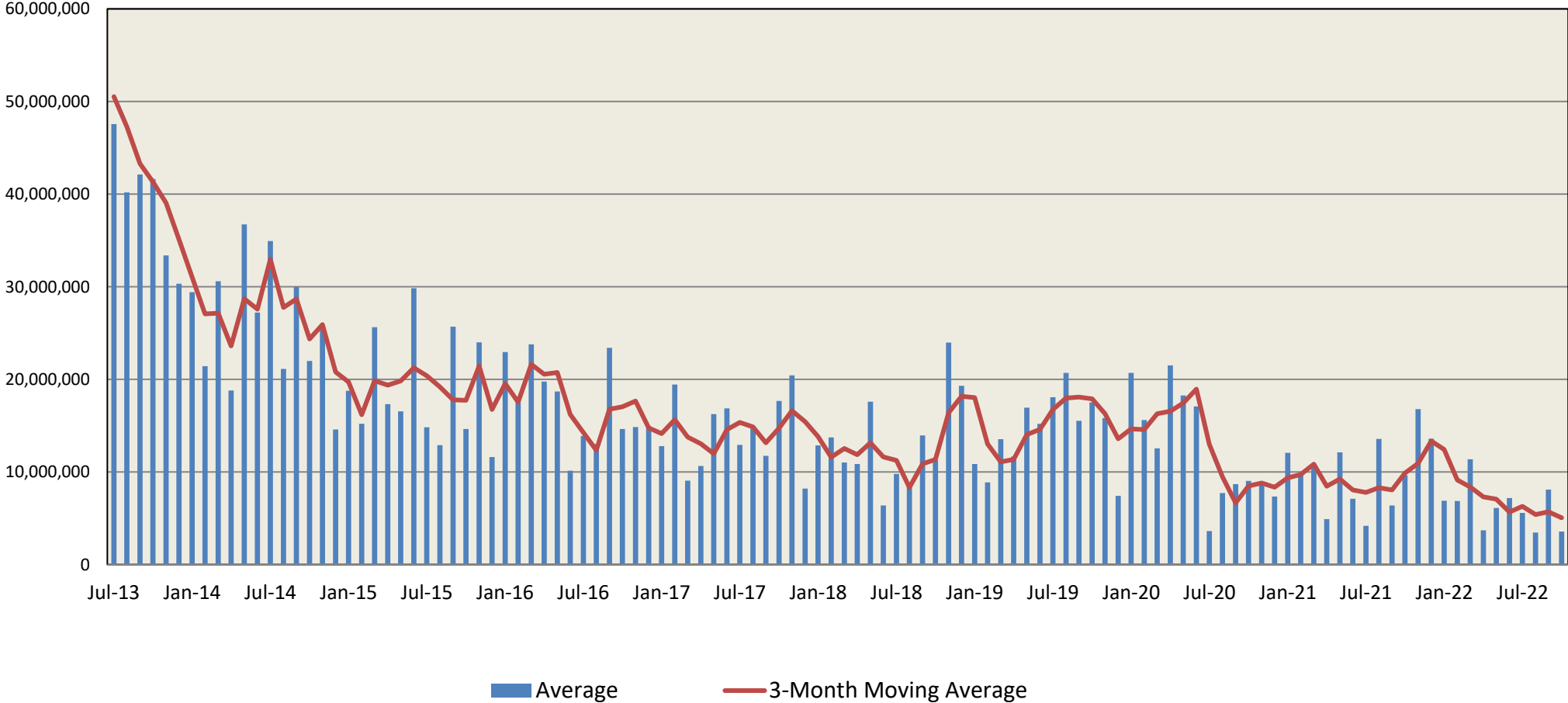


# Refis As Percent of Monthly Debenture Poolings Rolled Over Too

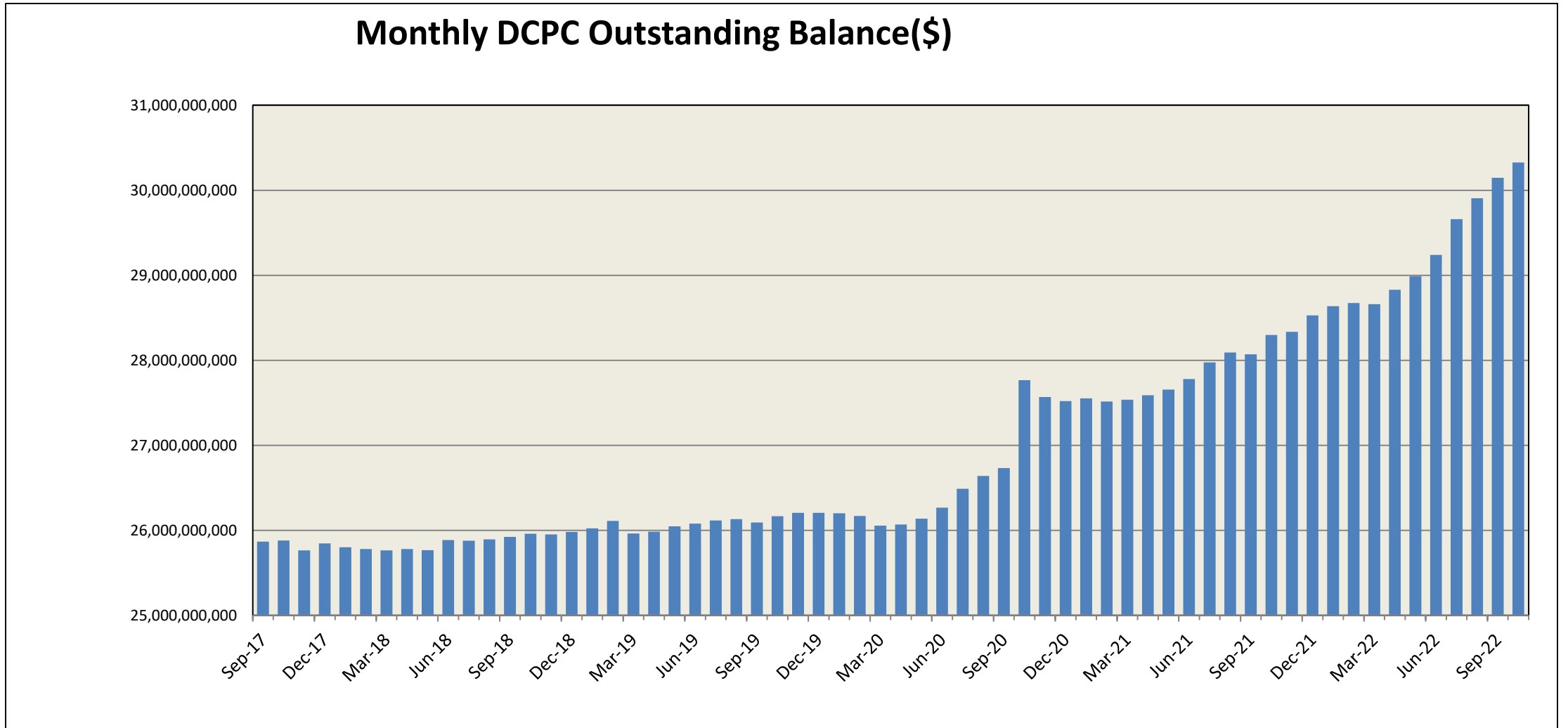


# Debenture Accelerations Remain Very Low

## SBA DCPC Monthly Accelerations (\$) September 2022



# Portfolio Outstanding Balance Passed \$30 Billion



# Use the Eagle Website for 504 Resources Including:

- Weekly Market Commentary
- Debenture Offering Results
- Funding Calendar
- Effective Rates and Calculator
- Fee Tables
- Link to Portfolio Dashboard
- Tutorials: Understanding 504 Interest Rates and the Funding Process
- <https://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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**November 2022**

# NADCO NOW

*Denver, CO*

# SBA 504 Debenture Program Trustee Report

- Overall Program Statistics
- Key Pool Activity



# Program Statistics - November 1986 – October 2022

- **686 Pools**

- 200 - 10 year pools
- 434 - 20 year pools
- 52 - 25 year pools

- **\$98,916,190,000**

- \$2,928,488,000
- \$80,268,259,000
- \$15,719,443,000

**Total Original Principal Amount Issued**

Total Original PA - 10 year pools

Total Original PA - 20 year pools

Total Original PA - 25 year pools

- **174,067 Debentures Issued**

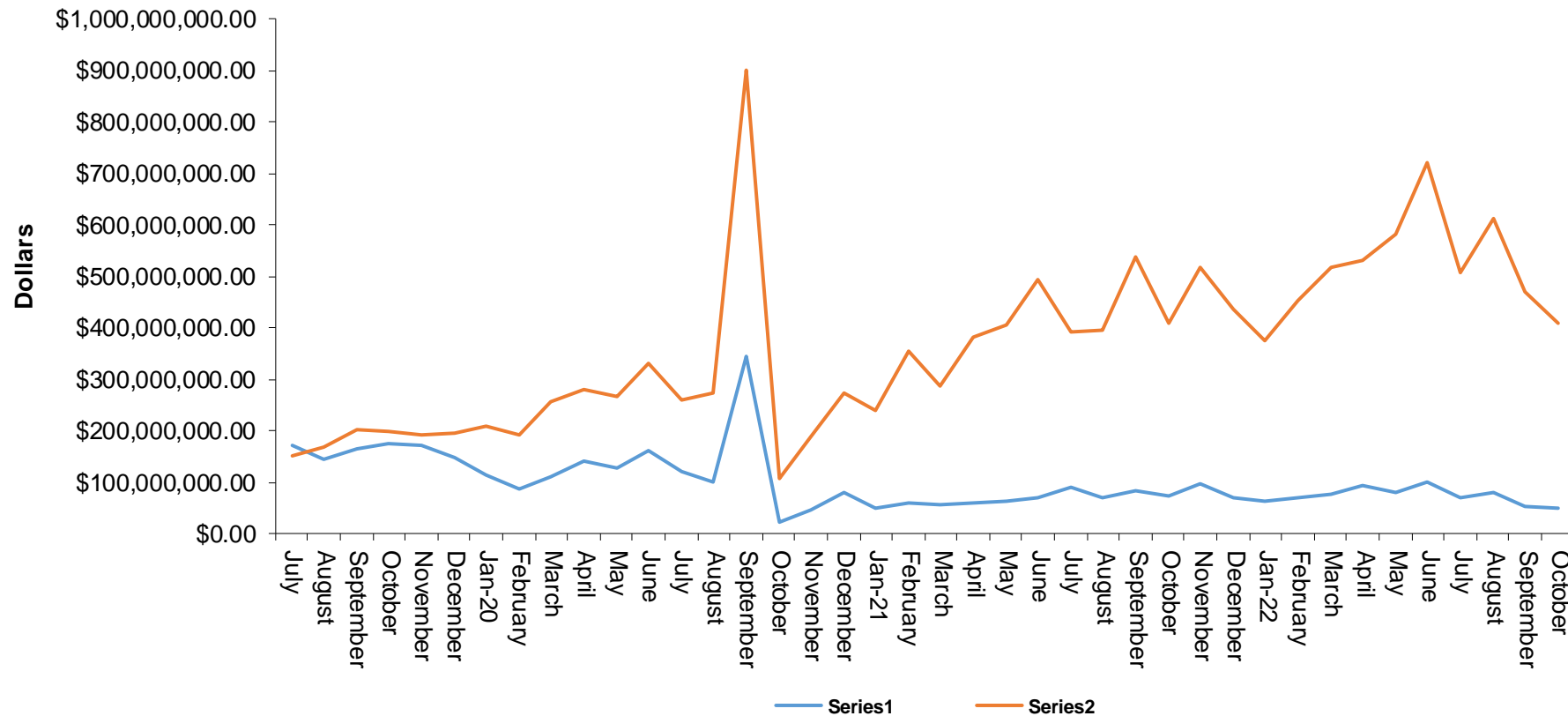
- 6,974 - 10 year debentures
- 148,732 - 20 year debentures
- 18,361 - 25 year debentures

- **95,647 Debentures have Prepaid (54.948%)**

- **17,575 Debentures have Accelerated (10.097%)**

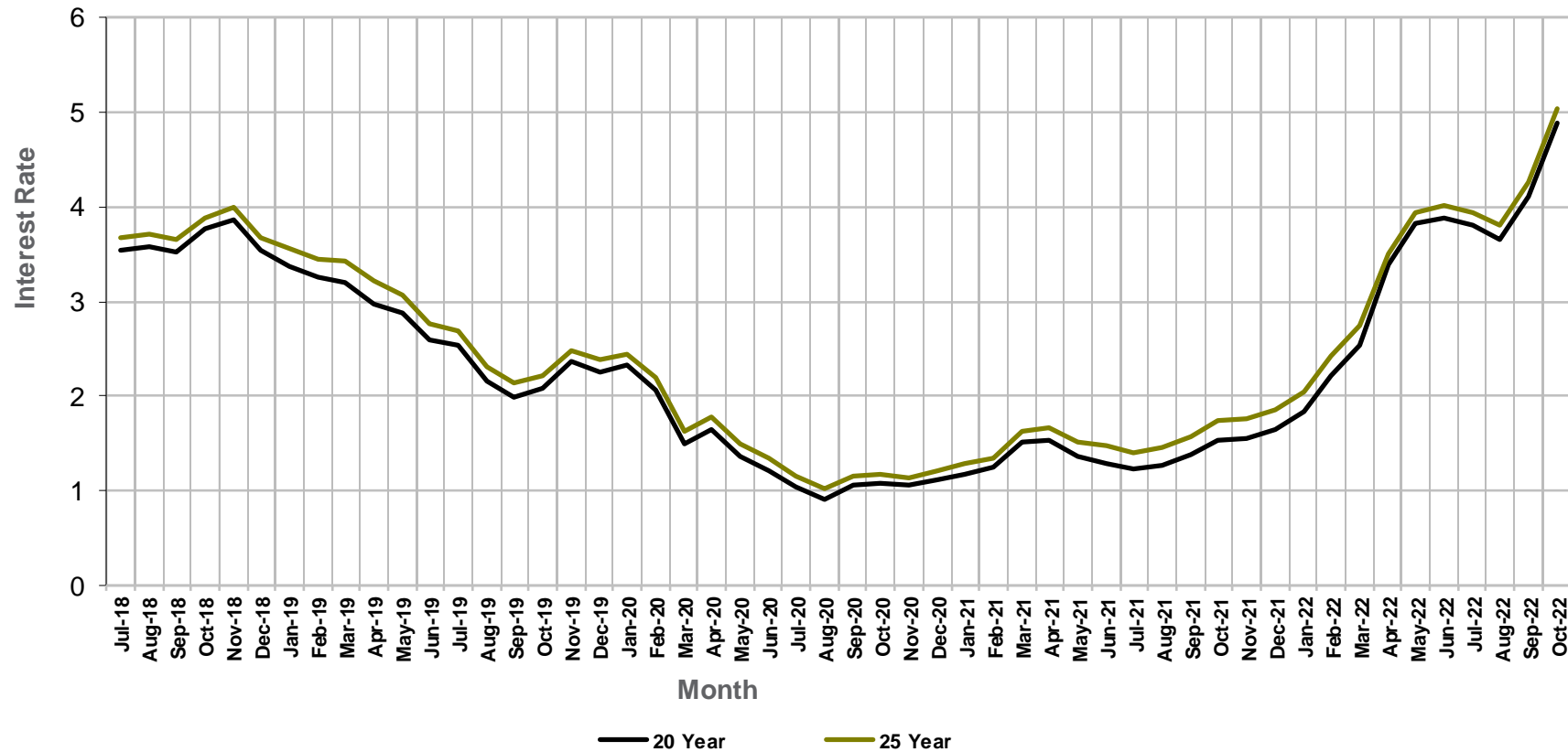
# SBA 504 Debenture Program

## 20 and 25 Year Monthly Pool Activity July 2019-October 2022



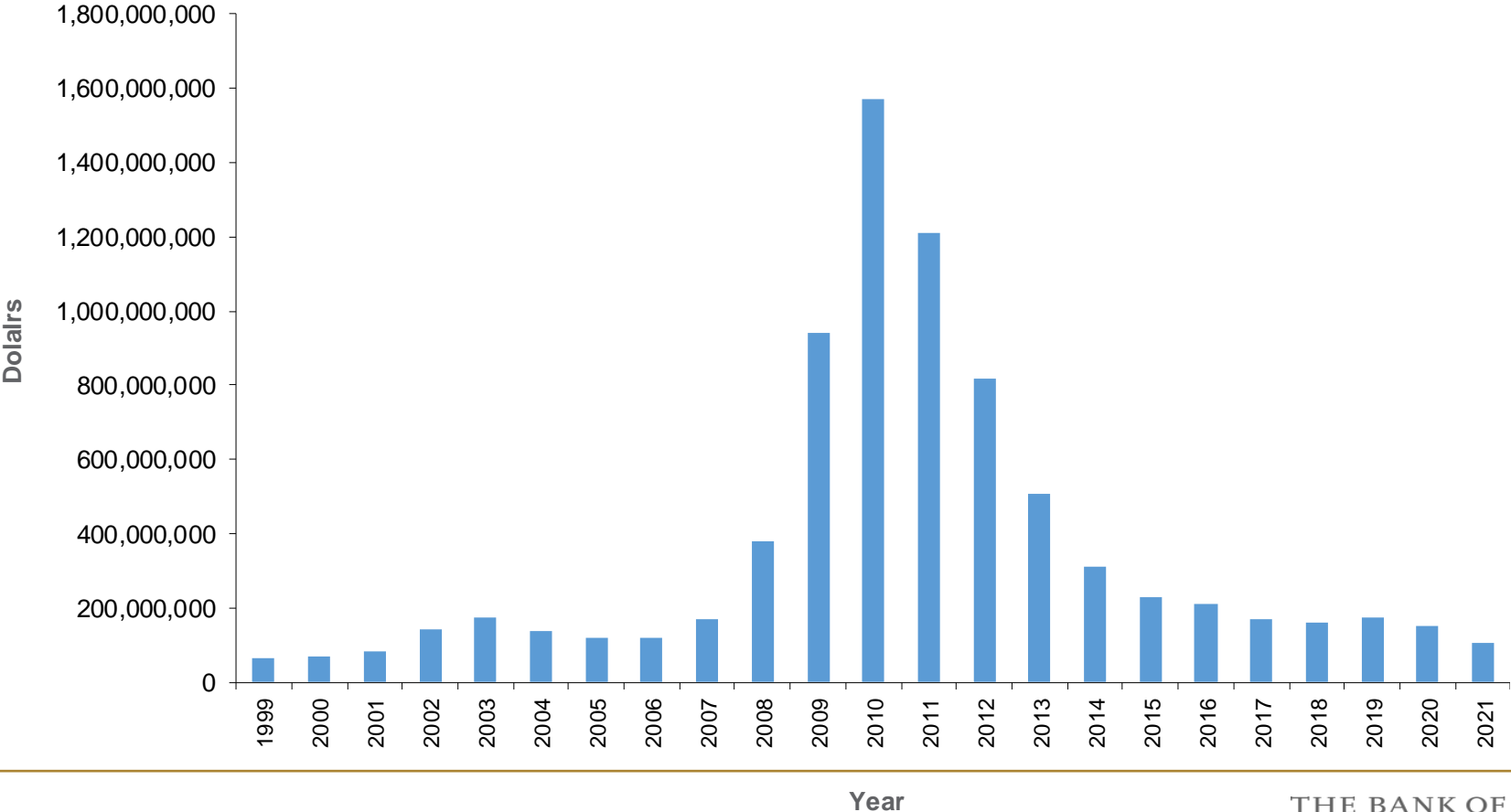
# SBA 504 Debenture Program

## 20 and 25 Year Pool Interest Rates (Current to October 2022)



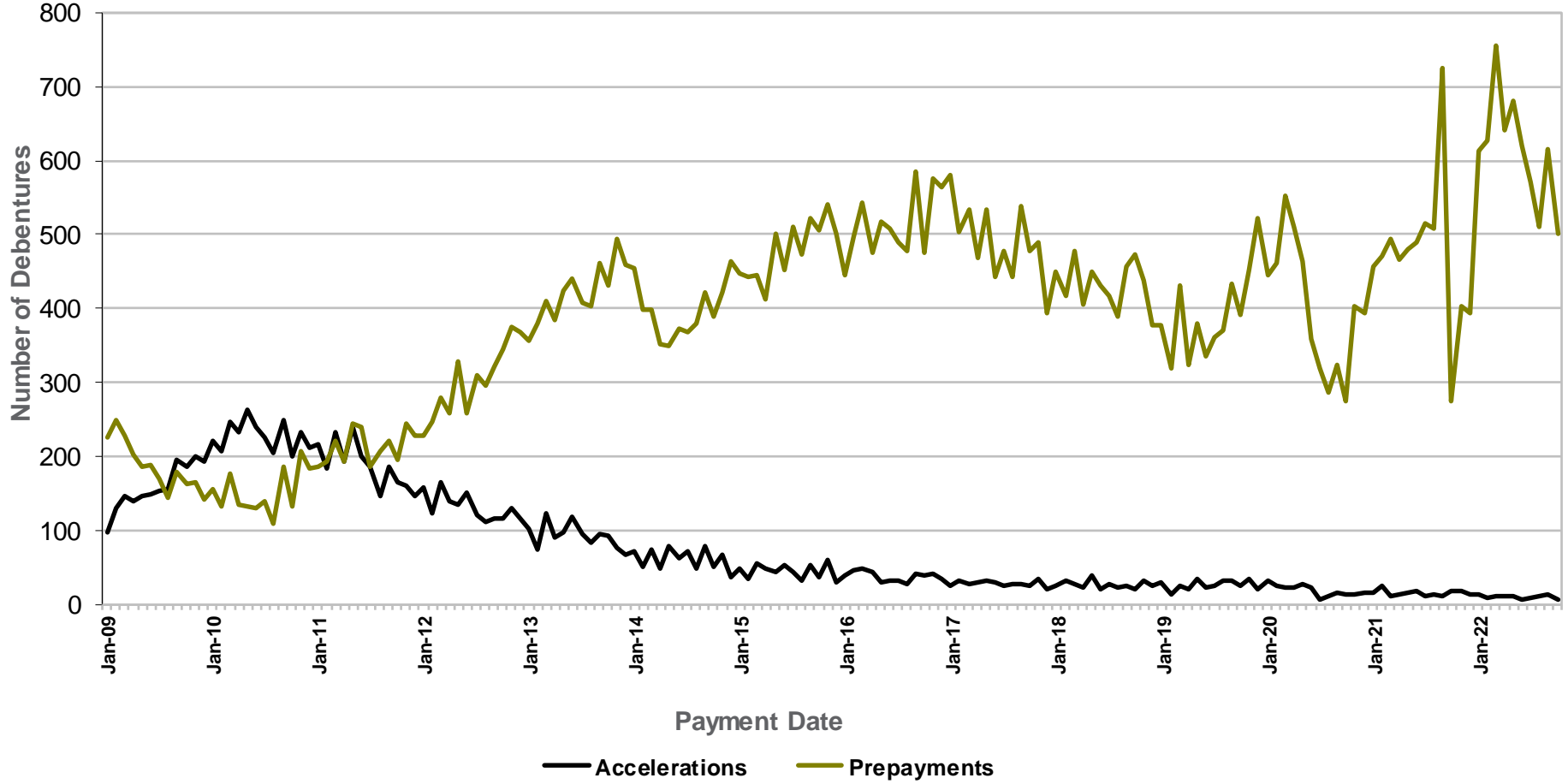
# SBA 504 Debenture Program

## SBA 504 Acceleration Activity 1999 – 2021



# SBA 504 Debenture Program

### Accelerations/Prepayments by Date (for Period January 2009 to September 2021)



# Program Statistics - November 1986 – October 2022

## Then:

**1986-20A: \$7,087,000**

**1986-10A: \$753,000**

**1986-20A: 8.750%**

**1986-10A: 7.750%**

**1986-20A: 30**

**1986-10A: 4**

## Now:

### Issuance:

**2022-20J: \$50,244,000**

**2022-25J: \$409,101,000**

**2022-10E: \$15,202,000**

### Rates:

**2022-20J: 4.89%**

**2022-25J: 5.04%**

**2022-10E: 3.78%**

### Number of Debentures:

**2022-20J: 73**

**2022-25J: 427**

**2022-10E: 21**

## Contacts

### **Trustee**

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New York, NY 10286

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# WHAT'S UP NEXT

**5:30 PM – 7:30 PM**

**504PAC Party**

Adams Ballroom Foyer





# THANK YOU!



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