

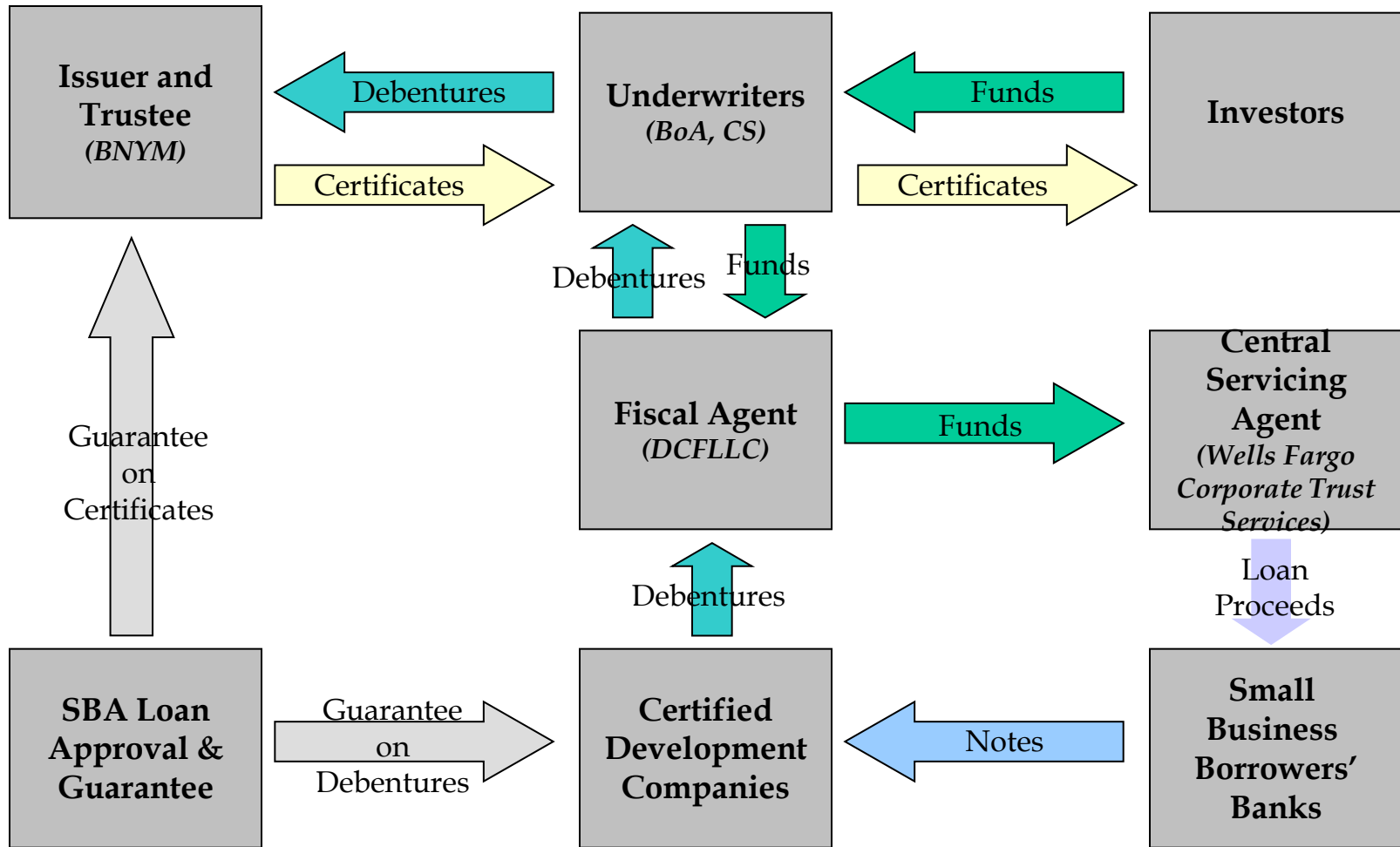


SBA 504 Funding Process

The Small Business Window to Wall Street

Frank Keane
DCF LLC Fiscal Agent
April 28, 2015

From Borrowers to Investors: The Process



Source: Merrill Lynch Research, 1998.

SBA 504 Capital Markets Team

- **Fiscal Agent/Selling Agent** – *DCF 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** – *Wells Fargo Corporate Trust Services*. Process loans, report new pool statistics to DCF LLC, collect loan payments, pay out proceeds.
- **Legal Counsel** – *Morgan Lewis, LLP*. Program and transaction legal advisors to underwriters and DCF LLC.

SBAP Funding Process

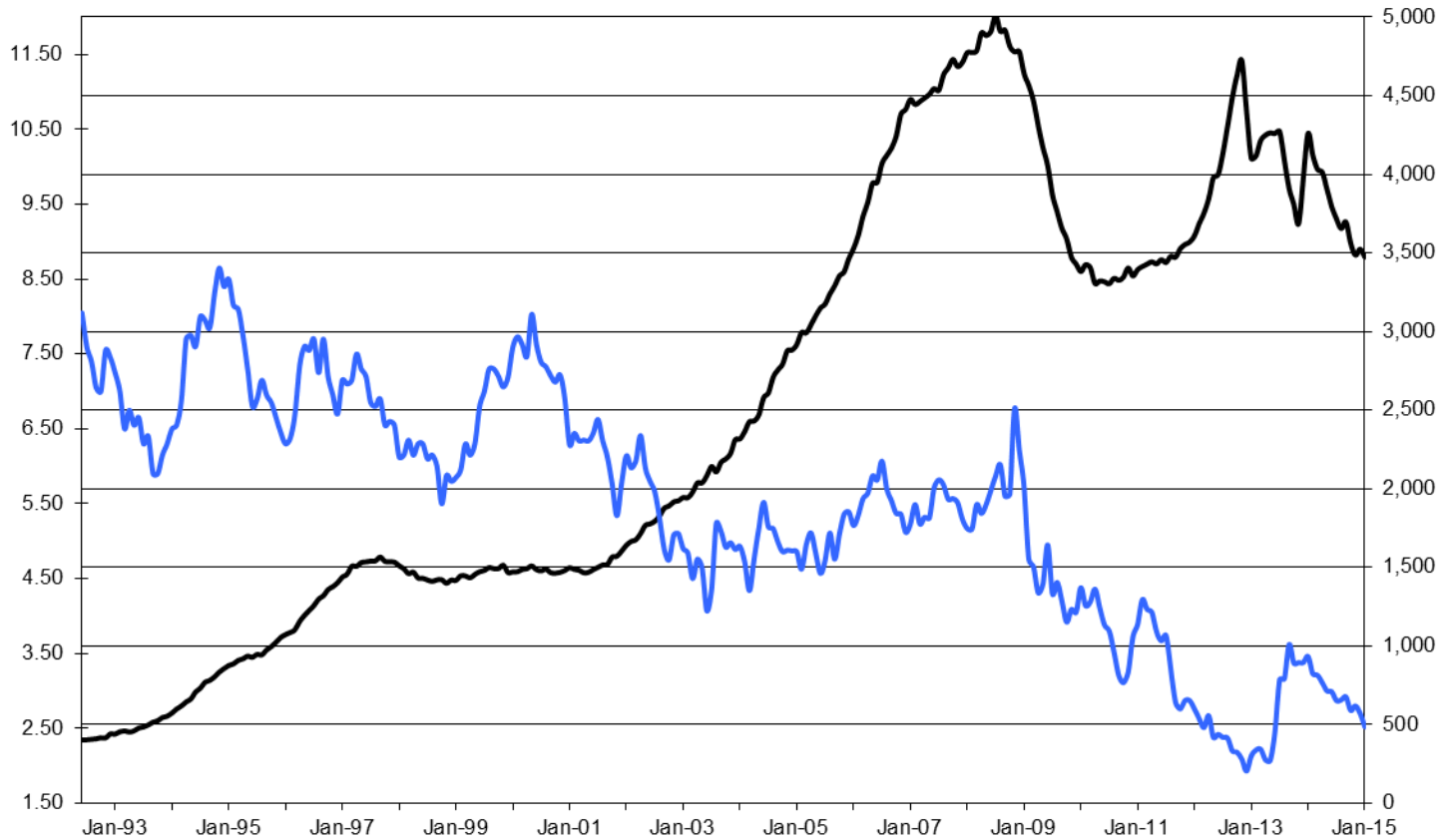
with deadlines for May 2015 Sale

- March 18-April 1 – CDC submission of forms to Sacramento for No Adverse Change; then placed in legal folder for District Counsel review
- Thursday April 23 – ***Cut-Off-Date*** – Upon District Counsel approval, documents go to the CSA for review and resolution of ***Loan Package errors***
- Monday April 27 – the CSA sends CDC Confirmation e mails to CDC's
- Friday May 1 - CSA provides FA with preliminary loan numbers
- Monday May 4 – ***Pulled Loan Deadline***. CSA and CDC's have resolved all loan documentation issues
- Tuesday May 5 – ***Announcement Date*** with final numbers
- Thursday May 7 – ***Pricing Date***. Rates are set and pool is formed
- Wednesday May 13 – ***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.
- 28 years of history have led to stable performance through multiple interest rate and economic cycles and through large crises. Over \$63 billion in certificates have been issued with \$27.1 billion outstanding.

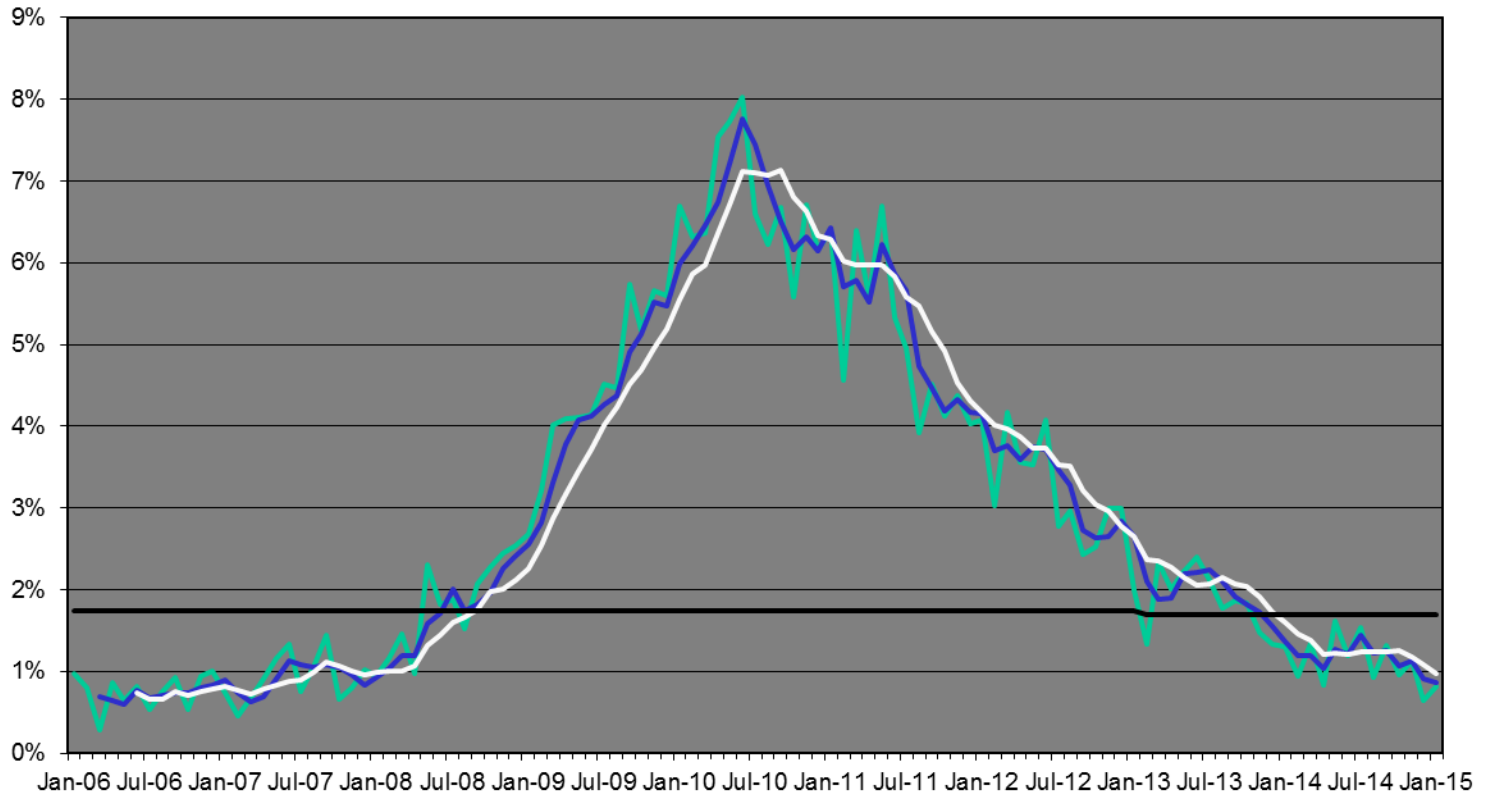
**SBA-504 20 Yr. Debenture Rate (% , light, left scale)
and Amount Issued (rolling 12 mo. total, \$MM, heavy, right scale)**



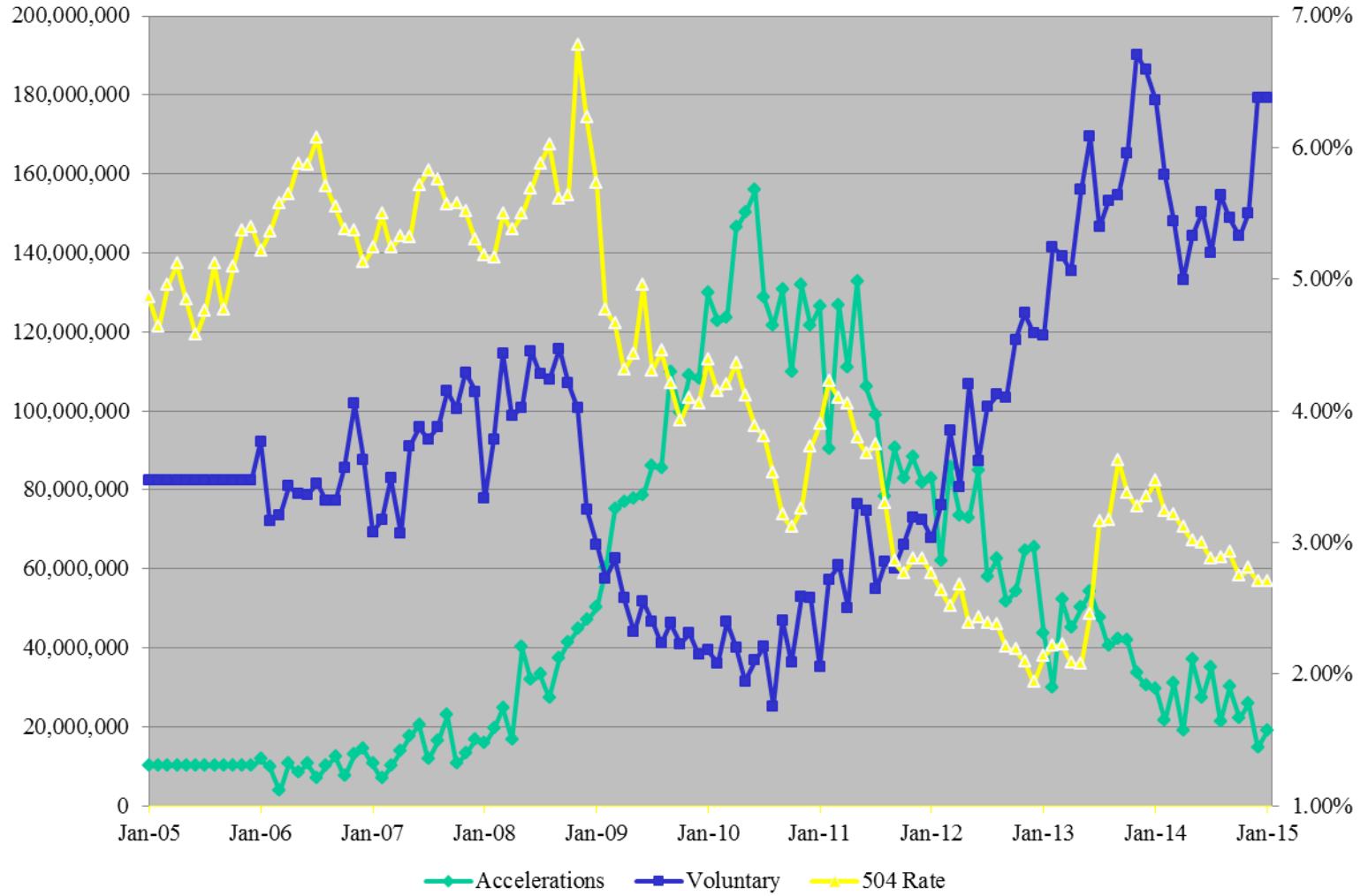
Effective Rate Calculator

REQUIRED INPUTS IN BLUE			RESULTS IN GREEN	
Enter debenture rate and fees as decimal values (e.g. 5% as .05)				
			Estimated	Estimated
Debenture Rate	2.510%	<u>Term</u>	<u>Effective Rates</u>	<u>Monthly Pmts.</u>
Loan Amount	2,069,000	1st 5 Years	4.40%	13,884.24
CDC fee	0.625%	2nd 5 Years	4.49%	13,298.39
Borrower fee	0.938%	3rd 5 Years	4.70%	12,632.85
CSA fee	0.100%	<u>4th 5 Years</u>	<u>5.76%</u>	11,876.76
(CSA fee is fixed at 0.1%)		Full Term	4.58%	
Note Rate	2.55362%	Cumulative Effective Rate		
Ending Balance	0.00	1st 5 Years	4.40%	
		1st 10 Years	4.44%	
		1st 15 Years	4.49%	
		Full Term	4.58%	

SBA 504 Annualized CDR - January 2015



SBA 504 Pre-Payments



DCPC Characteristics

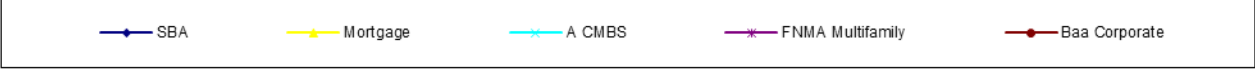
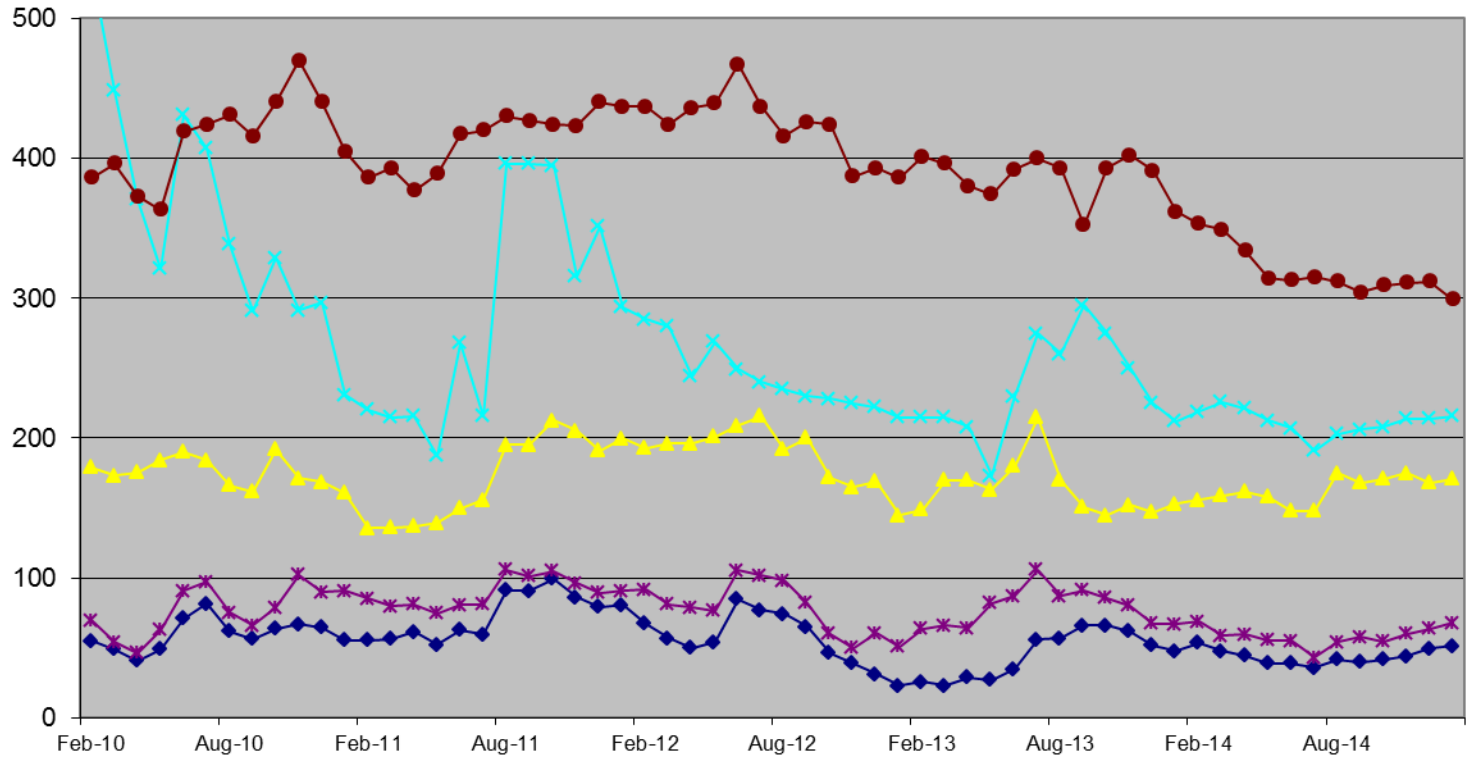
- DCPC's exactly match the full amortization, interest rate, maturity and prepayment penalty schedule of the pooled debentures. P&I is paid semiannually.
- *Prepayment penalty schedule* starts at $100\% + \text{debenture interest rate}$ and declines ratably to par after 5 years (10-year maturity) or 10 years (20-year maturity) ; e.g. 2015-20D, 2.51% 4/1/2035 has an initial prepayment price of 102.51. 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 4.98%, outstanding WAC 4.65%.
- Projected average life on a new 20-year par pool is 8.02 years at 5% Constant Payment Rate (CPR)

How is the Debenture Rate Determined?

(continued)

- **Debenture Rate** = treasury rate + swap rate + spread to swap. 2015-20D / 2.01%+11bps+40bps=2.52%
- **Swap Rate** = treasury yield + swap spread. 20-year 504 loan uses *10-year swap rate*, 10-year 504 loan uses *5-year swap rate*.
- **Pricing.** Fiscal agent and underwriters agree on the rates; fiscal agent accepts the debenture rate and obtains approvals from Treasury and SBA.

Comparative Spreads to Treasury (BP)



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.

Why Do Investors Buy DCPCs?

- Full faith and credit of the U.S. Highest quality.
- Absolute yield, 4.98% 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

- Interest rates remain historically low, until wage growth improves and global economy strengthens Fed unlikely to raise rates
- Cheap gas hasn't helped consumption, and strong \$ has hurt American exporters
- Europe needs to reduce unemployment and end deflation
- Federal Reserve needs to raise rates, but it won't be drastic
- Banks reduce exposure to fixed-rate loans with higher rates
- CDC's see renewed demand for fixed rate, term loans
- Congress authorized reinstatement of Debt Refi, and possibly internal refinance within the program

- www.dcflc.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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