

SBA 504 Funding Process

September 2024



EAGLE
COMPLIANCE LLC

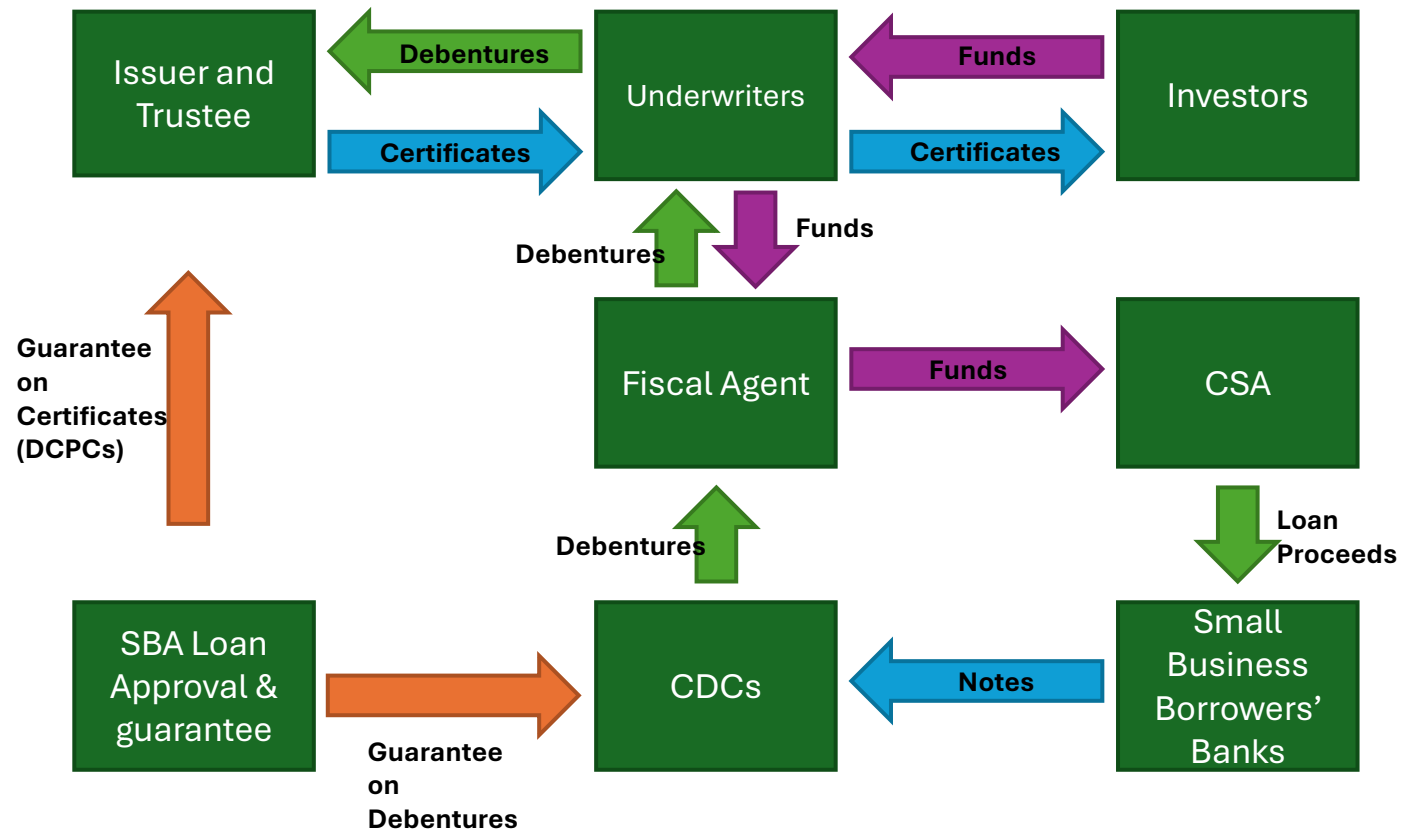
Funding Small Businesses for 38 Years

- 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
- 38 years of history have led to stable performance through multiple interest rate and economic cycles and through large crises. \$108 billion in certificates have been issued with \$34 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** – *Stifel, Nicolaus & Company, Incorporated* and *BofA Securities, Inc.* Market, sell and trade DCPCs, pool debentures, product research
- **Issuing Agent and Trustee** – *The Bank of New York*. 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

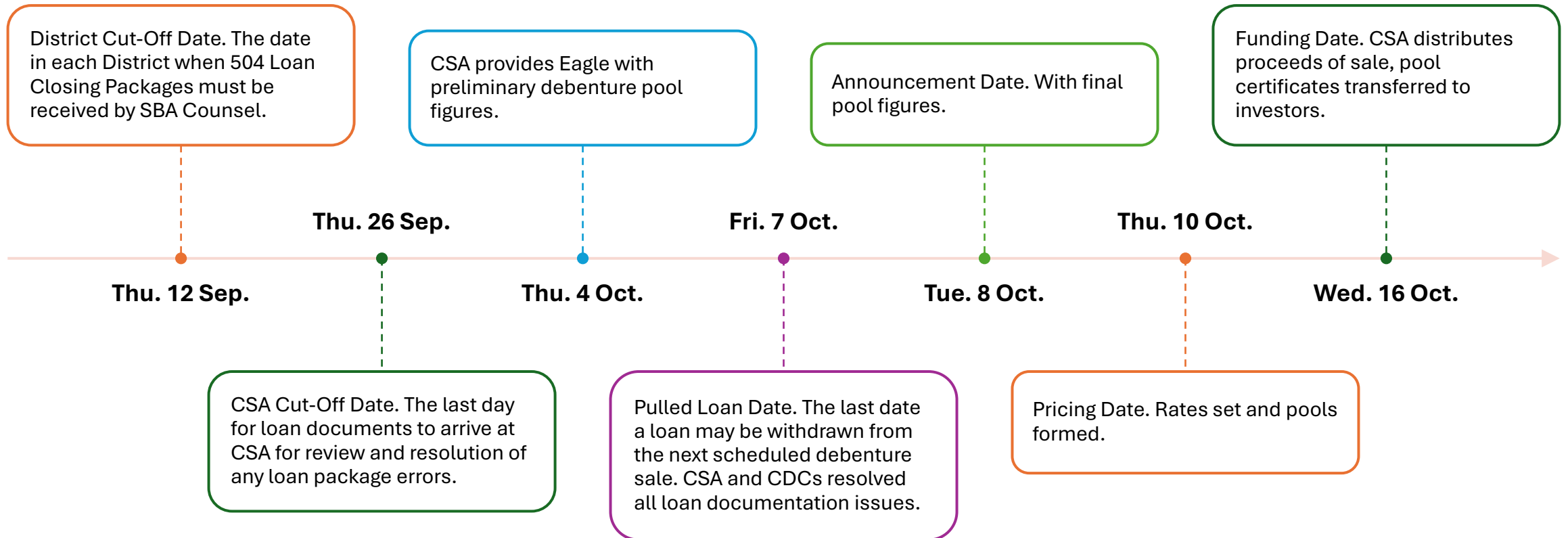


Determining the Various 504 Rates

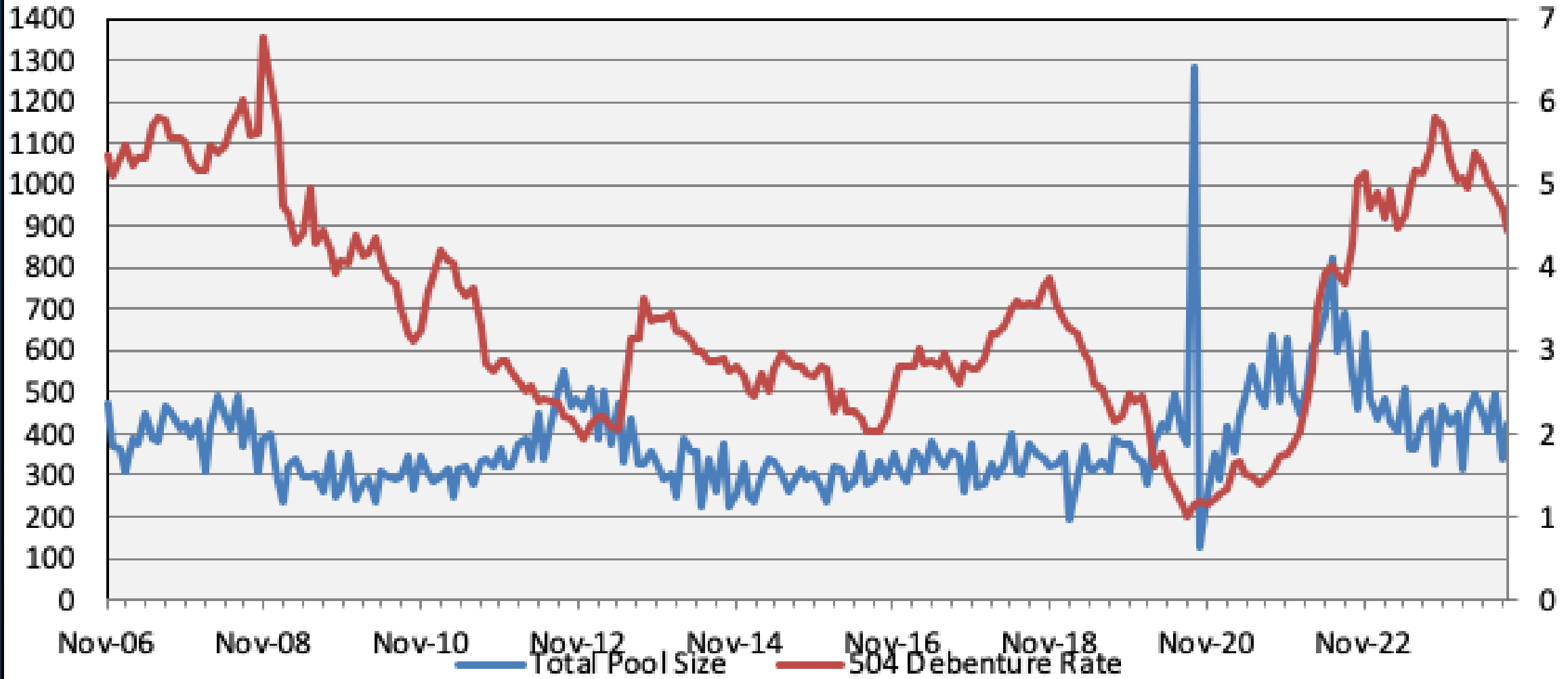
Debenture Offering 2024-25I	Rate Calculation
U.S. Treasury Yield	3.748
+ Spread to U.S. Treasury	.70
= CDC Semiannual Debenture Rate	4.448
= Borrower Monthly Note Rate	4.499
+ SBA Ongoing Guarantee Fee	0.364
+ CSA Fee	0.10
+ Minimum CDC Servicing Fee	0.625
= Full Term Effective Rate	5.765

- 25-year and 20-year 504 debentures set over 10-year U.S. Treasury yield
- 10-year 504 debentures set over 5-year U.S. 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.***

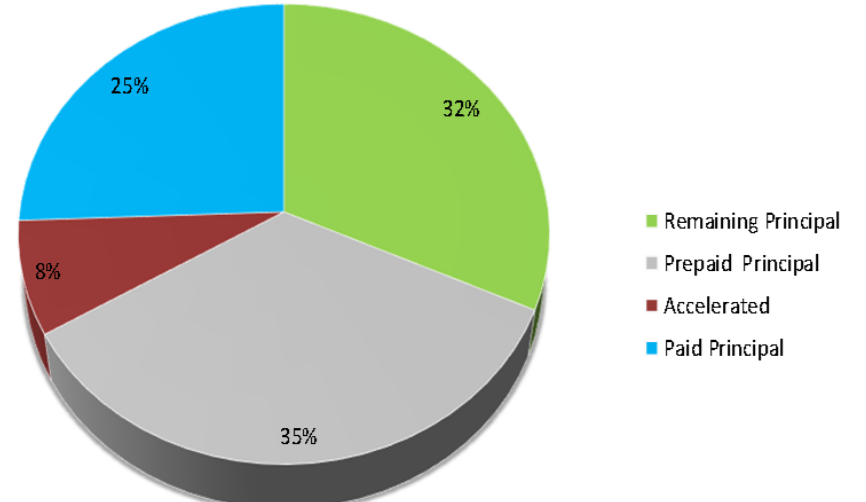
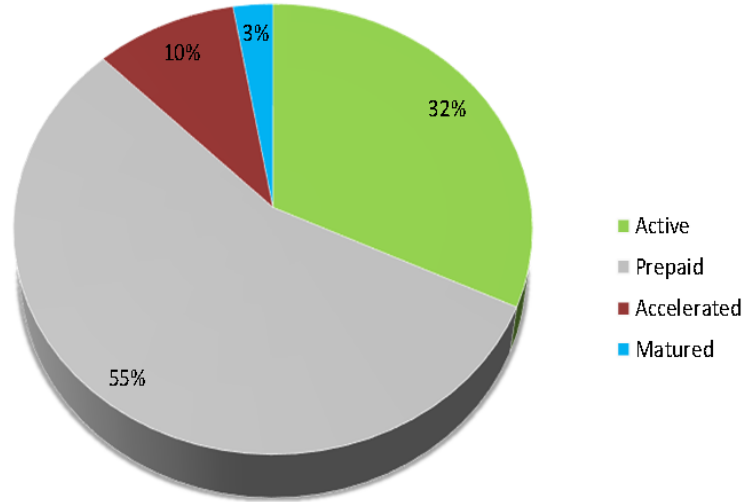
SBA 504 Funding Calendar Example: October 2024



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



SBA 504 Portfolio Summary



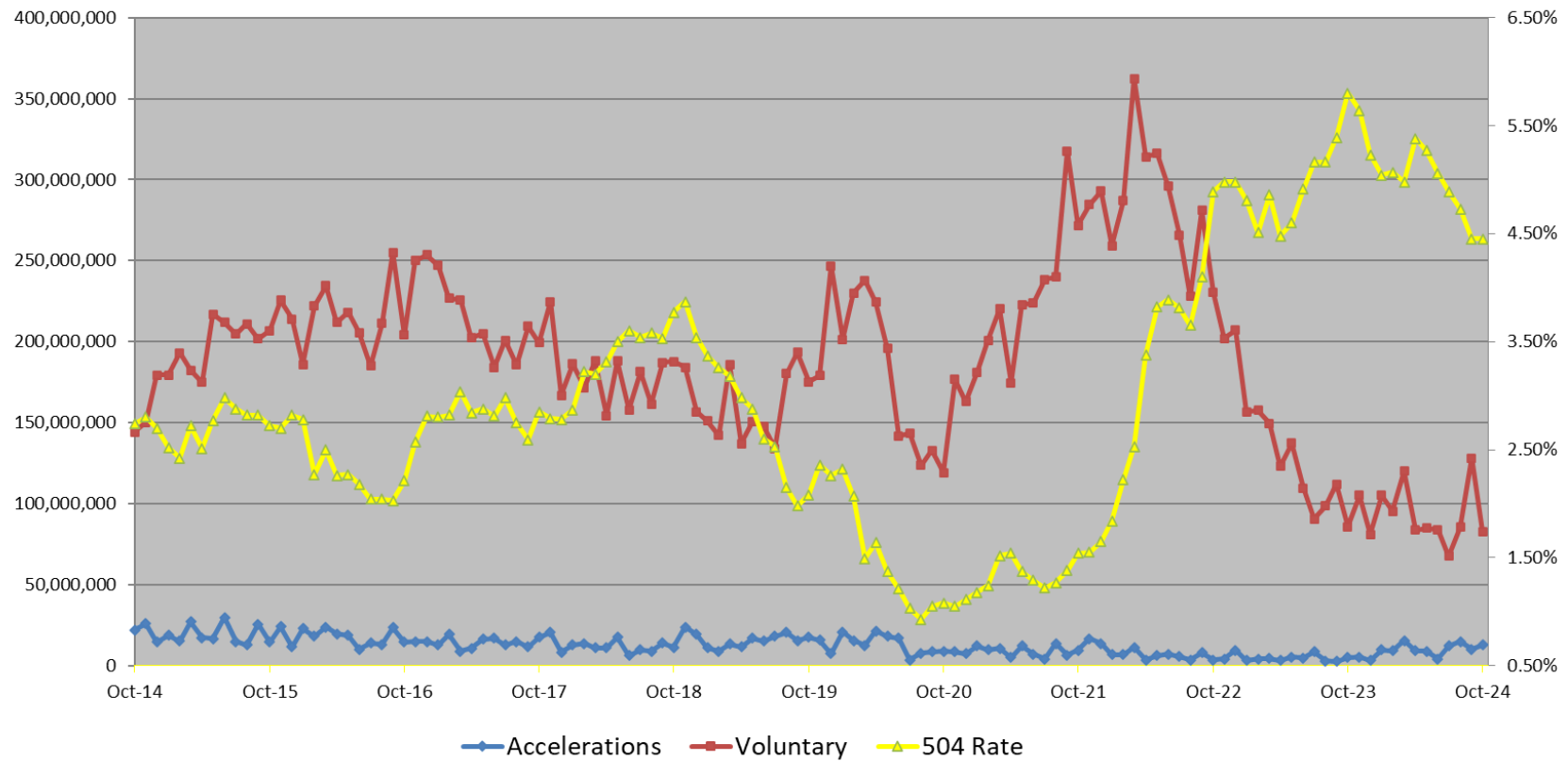
	Debentures	10-Year Maturity		20-Year Maturity		25-Year Maturity			Portfolio Amount	10-Year Maturity		20-Year Maturity		25-Year Maturity	
		Count	%	Count	%	Count	%			Amount	%	Amount	%	Amount	%
Active	59,066	1,072	2%	32,411	55%	25,583	43%	Remaining Principal	\$34,631,729,415.61	\$374,420,324.19	1%	\$12,560,481,640.16	36%	\$21,696,827,451.26	63%
Prepaid	102,379	3,466	3%	97,220	95%	1,693	2%	Prepaid Principal	\$37,785,735,770.63	\$688,361,691.75	2%	\$35,692,435,436.33	94%	\$1,404,938,642.55	4%
Accelerated	17,849	857	5%	16,888	95%	104	1%	Accelerated	\$8,652,662,609.13	\$280,530,448.34	3%	\$8,264,508,033.17	96%	\$107,624,127.62	1%
Matured	5,005	1,793	36%	3,212	64%	0	0%	Paid Principal	\$27,880,336,204.63	\$1,743,828,535.72	6%	\$24,428,222,890.34	88%	\$1,708,284,778.57	6%
Total	184,299	7,188	4%	149,731	81%	27,380	15%	Total	\$108,950,464,000.00	\$3,087,141,000.00	3%	\$80,945,648,000.00	74%	\$24,917,675,000.00	23%

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 linearly 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?

- Backed by the full faith and credit of the United States Government = Highest quality.
- Absolute yield with a wide selection of coupons and prices.
- Spread over U.S. 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



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Eagle Compliance, LLC 2024

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