BREAN | *Capital*

An Introduction to SBA 7(a) Loans and Pools

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Table of Contents:

1. Introduction to the Small Business Administration
2. About the 7(a) Program
3. Secondary Market
4. Pooled Securities Structure
5. Payment Rules
6. Prepayments: Fixed CPR and Vectors
7. Sample Pool and Yields
8. Building an SBA Pool Portfolio
9. Who Buys SBA Pools
10. Actively Traded Market for Non-poolable 7(a) Loans
11. Questions

Introduction to the Small Business Administration

- Formed in 1953, as an Agency of the Federal government, to assist the needs of Small Business in the U.S.
- A small business is defined as an independent business having fewer than 500 employees.
- The SBA has grown significantly in terms of total assistance provided and the number of programs tailored to encourage small businesses in all areas.
- Programs include financial and federal contract procurement assistance, management assistance, and specialized outreach to women, minorities and armed forces veterans.
- SBA provides loans to victims of natural disasters, specialized advice and assistance to international trade.
  - Star Program: Tri-state area(NY/NJ/CT) loan program for effected small businesses following 9/11/2001
  - Disaster relief programs like what followed Hurricane Katrina
  - CARES Act Beginning April 2020 in response to COVID – 19
    - Section 1112 was initiated to cover all P&I on all outstanding SBA 7(a) loans
      - Initially for six months
      - Expanded for an additional three to six months depending on the business type with a cap of $9,000 in monthly support.
      - Expires April to June 2021. The longer date is for specific businesses. Restaurants as an example.
- Job Growth: Reporting the jobs retained and jobs created for every SBA loan funded is the source of all job growth data referenced by every US President.

Source: SBA.gov

About the 7(a) Program

- 7(a) loans are the largest component of the SBA's business loan programs making up more than 80% of the overall lending programs. The name 7(a) come from that section of the Small Business Act which authorizes the Agency to provide business loans to the American small businesses.

- 7(a) loans are only available on a guaranteed basis. Up to 85% of the 7(a) loan is guaranteed for loans less then $150k and 75% for loans greater than $150k, with the remaining portion as non-guaranteed and typically retained by the originating lender. The SBA and the lender share the risk Pari Passu.

- 7(a) loans have a maximum amount of $5 million. This would provide for a maximum exposure to the SBA of $3.75mm.

- SBA 7(a) loans are made by a commercial bank or one of the fourteen licensed non bank lenders. The loan is not made by the Agency. In order to obtain an SBA loan the small business must go through one of these channels and not directly to the SBA.

- The 7(a) program is a cash flow lending loan program. The cash flow from the business is the primary factor in the lender and SBA loan decision process. While the collateral value is part of the underwriting it's the cash flow of the business which is most important.

- The SBA has industry-specific criteria (ie revenue size) to be eligible for an SBA loan.

Source: SBA.gov

About the 7(a) Program cont.

- Loan coupons can be both fixed or floating and have maturities that range from 5 to 25 years.

- Maturities are determined in accordance with prudent economic value of the assets being financed subject to the following maximums:
  - Working Capital and inventory 7-10 years
  - Machinery and equipment: 10-15 years
  - Building and construction or purchase of real estate: 15.01 -25 years

- The majority of 7(a) loans are floating rate coupons that do not have periodic or lifetime caps.

- Guaranteed rates on floaters may not exceed the Wall Street Journal Prime rate by more the 225bp for loans with a maturity of less than 7 years, or 275bp for loans with a maturity greater than 7 years. For smaller loans under $50,000, the SBA allows an additional interest rate spread of 200bp.

- Effective 1/1/2009, the SBA allowed 1 month Libor to be used as a pricing index. With the sunsetting of Libor as an index the agency is evaluating a transition back to the Wall Street Journal Prime rate or the PEG Rate.

Source: SBA.gov

About 7(a) Program Borrower Eligibility

Eligible Business Must:

- Operate for profit
- Be engaged in or purpose to business in, the United States or its possession
- Have reasonable owner equity to invest.
- Use alternative financial resources, including personal assets, before seeking financial assistance.

Types of Businesses that are Not Eligible:

- Real Estate Investments
- Speculative Activities
- Lending Activities
- Gambling Activities
- Charitable, Religious or other non-profit

Source: SBA.gov

Secondary Market

- The secondary market for guaranteed portions of SBA Loans was created in 1974.
- In 1984 The Secondary Market Improvement Act provided for central registration and servicing of loans by a single fiscal and transfer agent (FTA). More importantly, the legislation allowed for pooling of SBA Loans.
- Colson Services Corp (A wholly owned sub of BNY Mellon), based in New York is the current FTA. www.colsonservices.com
- Guidehouse, effective March 2020, has been awarded the FTA contract. The effective control transfer date has not been set but is targeting Q3 2021. www.guidehouse.com
- Since the inception of the Act in 1984, over $127 Billion in SBA 7a pools have been issued.
- SBA Pool Assemblers must:
  - Meet minimum financial requirements
  - Be in good standing with SBA
  - Be regulated by the agency or a financial regulatory institution.
  - Submit to governmental background checks
  - Pay an application fee

Source: SBA.gov

Secondary Market Liquidity Providers

- There are currently fourteen licensed pool assemblers.

- There are two more nearing approval but unsure if they will be awarded pooling licenses until they are.
  - Piper Sandler
  - Carty

- Brean Capital's application is in process.

- There are several dealer, funds and banks who are active in the non-poolable guaranteed loan market and don't require a pooling license to participate.

SBA Pool Investment Characteristics

Coupons

- Coupon Pool rates are tied to Wall Street Journal Prime Rate and adjust monthly or quarterly

- Variable-rate loans reset monthly on the first of each month or quarterly on the first of the calendar quarter in January, April, July and October. Coupons on these securities are usually quoted in the terms of their spread to the Prime Rate index rather than their current coupon.

- The loans referred to as “full coupon” are the highest margin a borrower would pay are Prime + 275bp. This, under normal times and fee rates, offers the investor a net rate of Prime + 107.5bp. Currently the SBA is waving its 55bp guarantee fee making the investor rate Prime + 162.5bp.

- Most SBA Pools do not have caps (life or periodic) or floors making these attractive to investors and offer an attractive spread to other short duration government securities.

SBA Pool Investment Characteristics, cont.

Maturities

- SBA pools have terms ranging from seven to twenty five years.
- Pools with terms shorter than seven years are typically available from seasoned pools.
- SBA Loans must have similar terms and features in order to be pooled with one another. All loans must pay monthly principal and interest.
- Certain maturities have become less standard for SBA Pools. As an example: 7 year, 15 year, 18yr, 20yr or terms other than 10 year and 25 year.
- To be pooled the loans within the security must have a variance between the shortest and longest loan of 89%. This maturity ratio is evaluated each year and is updated beginning October 1st.

Delay days

- Floating rate pools have an eighty-four day delay. Collection month plus 54 with payment being made on the 25th of each month.
- Fixed rate pools have a seventy-five day delay. Collection month plus 45 with the payment being made on the 15th of each month.

SBA Pool Investment Characteristics, cont.

	Standard Prime/LIBOR Pool	WAC POOL
Index	Coupon rate adjusts monthly or quarterly based on Wall Street Journal Prime Rate	Coupon rate adjusts monthly or quarterly based on Wall Street Journal Prime Rate
Coupon Rate	Index + Margin	Coupon rate set at the weighted average net interest rate of all the loans in the pool.
Max Difference in Gross Coupon Rate	2%	2%
Max Difference in Net Coupon Rate	n/a	75 basis point
Max Maturity Difference	11%	11%
Maturity Ratio	89%	89%
Min Number of Loans	4	10
Minimum Dollar Size	$1,000,000	$1,000,000
Individual Loan Limit	25% of the entire original pool	10% of the entire original pool
Maturity Date	The 25th of the month following the maturity of the longest loan	The 25th of the month following the maturity of the longest loan
Interests	Purchased in minimum denominations of $25,000 with additional increments of $5,000	Purchased in minimum denominations of $25,000 with additional increments of $5,000

Notes:

1) WAC on pool certificates will reset monthly based on the balance on the pool's underlying loans, which will be affected by principal repayments, voluntary or involuntary on the underlying loans.
2) No stripped loans are permitted in WAC Pools.

Source: SBA.gov

Payment Rules

Following the Secondary Market Improvement Act of 1984 the initial payment rules were:

- The first payment to the registered holder is interest only
- Beginning with the second payment and continuing over the life of the pool the Registered Holder receives principal and interest.
- When a loan is prepaid in full, the amount passed through is the principal and interest received at the time of prepayment. Any excess amortization associated with loans in the pool where paid out over time through the remaining life of the pool.
- If a borrower makes partial prepayment, the amount paid is deposited in the master reserve fund (MRF) and is paid over the life of the pool

Source: SBA.gov, Colson Services

Payment Rules, cont.

In 2004 a payment rule change was made by the SBA in an effort to stabilize the MRF.

- The first payment to the Registered Holders will consist of principal and interest.
- When a loan in a pool is prepaid in full, the amount passed through to the Registered Holders will be the principal and interest received at the time of prepayment plus any amortization excess made over the life of the loan and held in the pool structure.
- If a borrower makes a partial prepayment, the principal and interest will be passed through to the Registered Holders with the next scheduled payment.

Source: SBA.gov, Colson Services

Payment Rules, cont.

For pools formed between October 1, 2004 and September 1, 2017, SBA reallocated the outstanding Pool balances pro rata across the remaining loans within a pool.

- Amortization excess may include differences due to principal prepayments on loans that were less than or equal to 20% of the outstanding principal balance of that loan.

- In the 2004 payment rule change, the SBA revised the program to pass through amortization excess once the a loan in a pool was prepaid. In certain circumstances, however, amortization excess resulted in the principal paid into the pool structure remaining in the MRF and paid out over the life of the pool or until all loans were paid off.

Source: SBA.gov, Colson Services

Payment Rules, cont.

Effective October 1, 2017, all guaranteed portions of loans in a pool will be required to have a minimum maturity ratio of at least 94% for standard and WAC Pools.

- Prior to 2017, the minimum maturity ratio for Standard pools was 80% and 76% for WAC Pools.
- This change reduces the differences in amortization rates of the loans in a pool.
- The cash flows from the guaranteed portions of loans in the pool will more closely match the amortization schedule of the pool.
- Each October 1 the SBA sets the minimum maturity ratio for that year. It is currently set at 89% for both Standard and WAC Pools.

Source: SBA.gov, Colson Services

Prepayments

- The SBA market consists mostly of floating rate pools. Because of this there is less incentive for the borrowers to refinance when rates drop. All loans with a term of fifteen years or longer have a prepayment penalty of 5,3,1 from the note date of the loan. The Borrower would pay 5% of the unpaid balance in the first year, etc. The borrower can pay up to 20% of the unpaid balance per year with out being subject to the penalties.

- The prepayment penalty does not pass through to the investor in the pool or registered holder of the loan but it does act as a deterrent to prepayment. Because the penalty is retained by the SBA the lender does not have an incentive to refinance their loan and the SBA does not permit a borrower to refinance from one SBA 7(a) loan into another 7(a) loan.
    - Most recent legislative change the SBA has made it possible for SBA 7(a) loans to be refinanced into SBA 504 loans. The secondary market committee within the trade group National Association of Government Guaranteed Lenders, NAGGL, is watching this closely to identify if churning of loans happens.

- When modeling SBA Pooled securities cash flows, voluntary and involuntary payments are considered the same since the principal is fully guaranteed and the timing of the payment is the same under either payoff scenario.

- There is not a “street consensus” prepayment speed like used in the MBS market. Pool Assemblers and investors will use historical data to model pools on either a fixed CPR basis or for new pools will build a CPR vector using the term of the pool and the associated historical prepayments for that term pool structure.

- Historical pool CPRs can be found on Bloomberg by typing PSBA <go>

Prepayment, Cont.

SBA Pools Page 2 of 19

Latest Factor: Apr 2021

ALL Variable Rate Pools

Iss. Date	Num Pool	$Mil Cur	$Mil Orig	YTD Life	YTD 2021	Calendar Year Historical CPR 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
2021	77	2287	2310	1.2	1.2										
2020	241	7058	7504	3.1	3.8	2.0									
2019	265	6425	7874	5.5	7.1	4.9	4.6								
2018	292	5729	8492	8.5	9.3	9.3	8.1	3.8							
2017	298	4630	8948	12.3	12.1	14.0	16.2	7.9	3.3						
2016	293	2921	7760	15.0	10.3	15.4	24.7	15.7	6.5	2.3					
2015	289	1766	6476	16.3	10.7	15.8	24.7	22.7	12.8	6.7	3.1				
2014	258	1165	5704	17.1	14.0	17.7	26.4	23.8	16.4	10.4	5.8	3.6			
2013	222	781	4557	16.8	13.1	18.3	25.8	25.0	13.4	13.5	10.5	6.6	2.7		
2012	239	612	4265	16.2	15.1	15.3	25.6	24.4	13.9	10.5	14.1	11.0	5.4	2.4	
2011	276	568	4270	16.0	12.7	17.5	23.0	23.8	11.6	7.9	12.2	12.2	10.2	4.6	1.8
Total	2750	33942	68157	14.5	8.6	10.9	17.1	15.9	10.5	8.6	8.9	8.7	6.8	4.0	1.8

Source: Bloomberg, Colson Services

Prepayment, Cont.

SBA Pools — Page 3 of 19

Latest Factor: Apr 2021

Variable Rate: Orig WAM <8yr

Iss. Date	Num Pool	$Mil Cur	$Mil Orig	YTD Life	YTD 2021	Calendar Year Historical CPR 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
2021	5	36	37	0.2	0.2										
2020	9	26	30	2.3	1.8	2.6									
2019	16	18	29	10.1	7.0	8.8	12.7								
2018	20	32	66	9.5	11.1	8.2	10.5	6.1							
2017	26	38	140	17.3	25.2	14.2	19.5	14.2	7.0						
2016	30	31	163	17.2	17.5	14.4	23.7	13.7	13.6	4.6					
2015	27	10	120	21.3	27.7	18.7	28.1	21.8	14.5	13.5	6.9				
2014	34	6	190	29.0	40.1	35.8	32.7	20.8	14.6	15.0	9.8	12.0			
2013	32	0	153	28.7	32.9	65.4	32.7	22.4	12.3	11.6	13.8	11.3	9.2		
2012	41	0	163	28.6		58.6	65.5	46.2	17.0	11.1	13.2	15.0	9.3	7.6	
2011	46	0	167	24.8		24.9	37.5	66.2	19.1	11.9	9.9	10.2	11.8	12.6	3.6
TOT	286	197	1257	24.4	15.6	15.6	22.8	18.9	13.6	11.9	11.0	12.2	10.2	11.1	3.6

Source: Bloomberg, Colson Services

Prepayments, Cont.

SBA Pools Page 4 of 19
Latest Factor: Apr 2021
Variable Rate: Orig WAM 8-11yr

Iss. Date	Num Pool	$Mil Cur	$Mil Orig	Life	YTD 2021	YTD 2020	Calendar Year Historical CPR 2019	2018	2017	2016	2015	2014	2013	2012	2011
2021	32	884	898	2.2	2.2										
2020	114	2857	3149	4.5	5.7	2.8									
2019	123	2653	3497	6.3	8.1	6.1	4.4								
2018	139	2050	3481	9.3	8.8	10.1	9.5	5.4							
2017	106	1568	3432	12.4	11.0	13.2	16.7	9.3	4.4						
2016	87	944	2744	14.1	12.7	14.6	21.4	15.3	7.7	3.3					
2015	114	577	2414	15.0	13.6	13.8	22.3	19.0	12.8	7.9	4.5				
2014	87	280	1686	15.4	13.4	16.7	24.8	19.3	14.1	10.6	7.2	3.3			
2013	68	127	1209	16.3	17.8	16.9	28.4	22.7	12.0	11.3	12.1	8.9	3.8		
2012	73	83	1229	16.5	16.2	21.6	24.8	23.2	12.5	9.5	11.2	12.1	7.7	4.0	
2011	68	31	1192	21.1	53.5	32.6	27.0	23.7	9.6	6.0	10.9	11.1	12.5	7.6	3.6
Total	1011	12053	24930	14.3	9.1	10.4	15.7	14.1	10.0	8.2	8.8	9.2	8.8	6.5	3.6

Source: Bloomberg, Colson Services

Prepayments, Cont.

SBA Pools Page 5 of 19
Latest Factor: Apr 2021
Variable Rate: Orig WAM 11-16yr

Iss. Date	Num Pool	$Mil Cur	$Mil Orig	Life	YTD 2021	Calendar Year Historical CPR 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
2021	4	73	73	0.0	0.0										
2020	13	177	189	4.3	1.6	7.0									
2019	20	226	277	5.4	8.3	4.2	3.6								
2018	17	169	241	6.8	9.6	6.2	5.5	6.0							
2017	22	181	351	12.2	9.1	10.8	13.2	12.5	6.3						
2016	26	157	403	13.8	14.9	14.2	18.5	15.7	5.4	1.1					
2015	20	66	200	13.6	3.7	16.5	21.6	17.8	8.6	3.5	1.7				
2014	20	62	266	13.8	8.6	12.6	20.1	18.8	16.1	8.8	7.0	4.0			
2013	20	39	234	15.0	13.5	20.0	18.6	19.6	14.8	12.0	10.0	9.9	0.7		
2012	14	29	190	14.6	20.3	23.1	13.0	20.8	15.6	12.9	16.0	8.1	1.9	0.4	
2011	22	23	203	14.8	3.4	18.7	21.4	23.8	14.6	7.3	12.2	8.0	8.7	8.1	1.3
TOT	198	1201	2628	13.3	8.6	10.8	14.2	16.0	10.2	7.5	9.8	8.1	4.1	6.4	1.3

Source: Bloomberg, Colson Services

Prepayments, Cont.

SBA Pools Page 6 of 19
Latest Factor: Apr 2021
Variable Rate: Orig WAM 16-21yr

Iss. Date	Num Pool	$Mil Cur	$Mil Orig	Life	YTD 2021	YTD 2020	Calendar Year Historical CPR 2019	2018	2017	2016	2015	2014	2013	2012	2011
2021	4	43	44	0.0	0.0										
2020	12	145	156	6.6	10.1	0.0									
2019	12	100	114	3.2	6.0	2.8	0.0								
2018	12	129	186	9.0	18.0	5.7	10.7	0.0							
2017	11	76	140	12.1	15.8	15.8	15.1	4.7	0.0						
2016	13	46	121	17.2	9.8	20.3	21.0	10.6	10.1	9.3					
2015	12	43	157	17.1	2.6	23.7	17.8	20.5	16.5	8.5	11.6				
2014	16	33	163	19.2	16.8	17.9	31.0	18.0	16.0	11.8	5.6	9.3			
2013	11	30	155	18.1	3.7	16.7	34.5	18.3	6.8	14.9	10.8	8.2	4.1		
2012	15	25	142	15.7	2.6	24.7	24.0	19.4	9.0	10.8	12.8	9.8	10.3	0.2	
2011	22	41	222	11.8	10.4	14.3	15.8	20.1	9.4	9.3	14.1	6.8	12.5	3.1	0.0
TOT	140	711	1600	14.8	10.8	12.2	18.1	13.6	11.0	10.8	10.8	8.3	10.5	2.6	0.0

Source: Bloomberg, Colson Services

Prepayments, Cont.

SBA Pools — Page 7 of 19

Latest Factor: Apr 2021

Variable Rate: Orig WAM >21yr

Iss. Date	Num Pool	$Mil Cur	$Mil Orig	YTD Life	YTD 2021	Calendar Year Historical CPR 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
2021	32	1252	1258	0.7	0.7										
2020	93	3853	3980	1.7	2.1	1.1									
2019	94	3428	3957	4.9	6.2	4.0	4.8								
2018	104	3350	4518	7.9	9.3	9.0	7.0	2.7							
2017	133	2767	4884	12.0	12.6	14.7	16.0	6.6	2.3						
2016	136	1724	4276	15.5	8.5	16.0	27.1	16.1	5.6	1.6					
2015	116	1071	3585	17.1	9.6	16.6	26.5	25.2	12.8	5.8	1.7				
2014	101	784	3399	17.5	14.2	18.1	27.2	26.4	17.5	10.2	4.9	2.9			
2013	91	585	2806	16.5	12.4	18.1	24.9	26.6	14.1	14.3	9.8	5.0	2.0		
2012	96	475	2541	15.6	15.2	12.4	26.6	25.0	14.5	10.7	15.2	10.6	4.0	1.5	
2011	117	462	2448	13.6	9.1	14.9	23.0	24.0	12.2	8.4	12.8	13.6	8.8	2.4	1.1
Total	1113	19749	37652	14.3	8.1	11.1	17.9	16.9	10.8	8.6	8.7	8.3	5.5	2.1	1.1

Source: Bloomberg, Colson Services

SBA Pool 510776 Description page

SBA 510776 115-01 114-19 1/8 / 115-15 Yield 2.305/2.238 Coupon 3.575% BVAL
As of 16 Apr Prepay 0CPR Small Business Administ

SBA 510776 Mtge | Export | Page 1/5 Security Description

US POOL 3.575(298)1 CUSIP 83164M6M6 Pool Level 95) Buy 96) Sell

Summary | ARM Info | Resets | First Payments | Comments

Pool	SBA 510776	Idx+Margin	PRIME +0.325
Type	(STANDARD)		
Traits	30/360		
11) Seller	BMO CAPITAL MARKE…	Issuer	SBA
Cap Structure	-/-/-		

As Of	04/2021
Issue Date	03/01/2021
Maturity Date	03/25/2046
WA Mo to Reset	3

12) Pool Information | PDI

Coupon	3.575	WAC	3.575	Orig WAC	3.575
Orig Coupon	3.575 /	WARM	298	Orig WAM	298
		WALA	1	Cum PP Prin	0

Balance	
Factor	0.99792216
Orig Amt	31,227,655
Curr Amt	31,162,769

13) Collateral Information | CLC

Curr # Loans	27
Orig # Loans	27

Prepay	CPR	PSA
1 Month	0.0	0
3 Month		
6 Month		
1 Year		
Life	0.0	0

Delay 84 (54)

18) States	%UPB
No Data	100.0

TRACE Eligible

15) Paydown Information | PDI PERF *Value calculated by Bloomberg

Prepay History	Apr21	Mar21
1 Month CPR	0.0	
3 Month CPR		
6 Month CPR		
12 Month CPR		

Source: Bloomberg, Colson Services

Yield Analysis SBA Pool 510776

Enter all values and hit <GO>

SBA 510776 Mtge | Actions | Export | Settings | Yield Table

US POOL 3.575(298)1 CUSIP 83164M6M6 Pool Level As of 04/2021

4/2021	0P	0.0C	B	Traits	STANDARD, 30/360	Coupon 3.575%	Maturity 3/25/46
3Mo	--	--	--	03/01/2021	31,227,655	LTV/HLTV --/--	Accrual 4/1-4/30
6Mo	--	--	--	05/25/2021	31,162,769	MAXLS --	Next Pay 6/25/21
12Mo	--	--	--	Factor	0.99792216	WACLS --	
Life	0	0.0	--	# Loans	27	PRIME +0.325% Cap Flr	Mths to Reset 3

1) Price-to-Yield Current PRIME 3.2500

Settle	04/21/21	CF	CF	CF	CF	CF	CF	CF
Indices		C	C	C	C	C	C	C
Vary	0	100 V1	0 CPR	6 CPR	8 CPR	10 CPR	14 CPR	18 CPR
Price	115-15	1.2851	2.2377	1.5847	1.3402	1.0838	0.5389	-0.0443
Avg Life		7.50	14.36	8.91	7.76	6.82	5.41	4.41
Spread Duration		6.76	11.29	7.78	6.97	6.28	5.20	4.39
Prin Win		6/21-3/46	6/21-3/46	6/21-3/46	6/21-3/46	6/21-3/46	6/21-3/46	6/21-3/46
Discount Margin		-197	-102	-167	-191	-217	-271	-329

	Apr21	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May
0P	--	--	--	--	--	--	--	--	--	--	--	--
0.0C	--	--	--	--	--	--	--	--	--	--	--	--

GOVT(I)	6M	1Y	2Y	3Y	5Y	7Y	10Y	30Y
9:51	0.04	0.06	0.16	0.34	0.83	1.26	1.58	2.26

Disc 30/360 7Y 99-30 10Y 95-28

Vector: 0 cpr – 3mo; 2 cpr – 3mo; 4 cpr – 6 mo; 6 cpr – 12 mo; 8 cpr – 12 mo; 10 cpr – 12 mo; 15 cpr – 12 mo; 10 for life.

Source: Bloomberg, Colson Services

Building and SBA Portfolio

When building a new portfolio of SBA pools or continuing to invest in SBA pools, it is important to consider the following:

- ***Loan type:*** SBA 7(a) loan terms are structured based on the purpose of the funding. Purpose range from inventory, working capital, plant & equipment and real estate. Diversifying based on loan type to ensure a better prepay behavior and avoid concentration risk.
- ***Vintage:*** SBA loan prepayments accelerate as the loans season typically between 24 and 48 months then tapers off on the backside of the bell shaped prepay curve. Diversification of vintage can reduce acceleration of prepay timing within the entire portfolio.
- ***Number of Loans:*** SBA pools are issued with an average loan count between 25 to 50 loans. While this average has been increasing over time, well built SBA portfolios will consist of exposure across many line items to further diversify the prepayment risk.
- ***Premium:*** SBA 7(a) loans trade at very high premiums. With recent CAREs Act appropriations and fee wavers by the Agency, premiums have hit all time high's of $122.70. While the perception that there is more value with the higher premium pools they also carry greater prepayment/premium risk. This makes loan count, vintage, loan type and term even more important. A portfolio that is diversified by premium exposure should offer a more balanced risk/reward profile.
- ***Loan Concentration:*** As part of the pre-purchase analysis each pools collateral pool of loans should be evaluated for concentration risk and those pools who don't have appropriate diversification should be avoided or if the pool is a new issue, the collateral composition changed. This loan concentration should be monitored on an ongoing basis and pools whose loan concentration has deteriorated over time should be sold out of the portfolio where higher premium exists. A helpful metric used to monitor this concentration is Average Premium risk per loan measured in both dollars and percentage.

Who buys SBA Pools?

- **Depository institutions:**
  - Community Banks
  - Credit Unions.
    - Corporate Credit Unions have been big buyers of pools.

- **Yankee Banks:**
  - Historically have been very big buyers
    - Play arbitrage between Prime(SBA Base Index) and Libor(Cost of Funds Index)
    - Consistency of historical spread. (see next slide for comparison) This should hold true with Libor replacement as well.

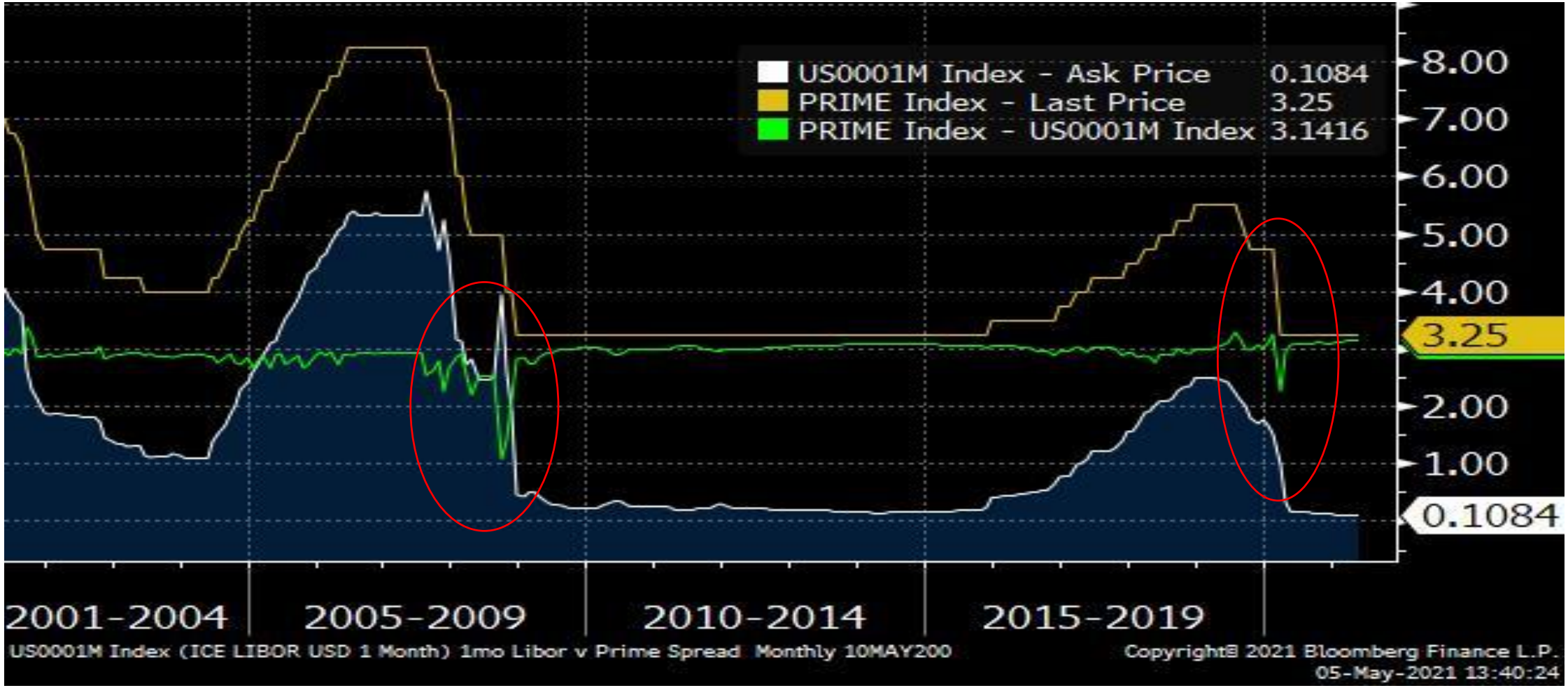
- **Floating rate security buyers:**
  - Relative value vs CMO Floaters, ARMs or other Agency or Full Faith and Credit floating rate or short duration securities.
  - Looking to diversify portfolio floating rate index from solely being 100% LIBOR or CMT
  - Like the uncapped feature of SBA Pools
  - Ultra-short duration government funds. Have sold par pools to 2a7 funds.

- **Municipalities**
  - Typically PAR Buyers
  - Some municipalities want to support small businesses from within their state and will buy state specific loan pools. State of California is a big buyer of 100% CA pools at PAR.

- **CRA Funds or Banks looking for loans/pools for CRA Investment test credit.**

- **Other:**
  - Because of the customizable ability of SBA pools as to the specific loans, the coupon and the premium, the full faith and credit along with the uncapped floating rate features of these pools investors will use them for various collateral purposes.
  - GIC issuers used them for government security pledging.
  - Hedge Funds for the carry trade.

1 month Libor vs Prime Rate historical spread 20yr / Monthly



Source: Bloomberg

Non-poolable loans 7(a); USDA; FSA and B&I

- **Small Business Administration(SBA) and the Rural Development Program of the United States Department of Agriculture (USDA) are federal agencies whose common goal is to help small domestic businesses.**

- **Both agencies guaranteed loan programs enable eligible businesses to obtain affordable funding for working capital, machinery, equipment, and real estate.**

- **Many lenders who make these loans have found tremendous benefits in buying of the guaranteed portions of other lenders loans.**
  - Fully perfect guarantee. No credit risk.
  - Pledgeable
  - Booked as loans with a 20% risk weighting offers attractive risk adjusted returns. The risk weighting is 20% because of ultimate payment of P&I vs timely payment enjoyed in SBA pool form.
  - Used for asset/liability management
  - CRA credit

- **Robust secondary market for non-poolable loans**
  - Non-monthly paying loans
    - Seasonal, annual, quarterly or other
  - Odd adjusting loan
    - Reset date other than monthly or calendar quarter
    - Index for reset other than Prime or Libor.
  - Liquid

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Offer Sheet

11/3/2022

SBA 530244
Par SBA Pool

Notes
Backed by Working Capital Loans

BREAN | Capital

Enter all values and hit <GO>

SBA 530244 Mtge | Actions | Export | Settings | Yield Table

US POOL 3.875(185)0 CUSIP 8316A0HW3 Pool Level As of 10/2022

10/2022	P	--C	B	Traits	STANDARD, Quart…	Coupon	3.875%	Maturity	4/25/38
3Mo	--	--	--	10/01/2022	22,111,049	LTV/HLTV	--/--	Accrual	11/1-11/30
6Mo	--	--	--	11/25/2022	22,111,049	MAXLS	--	Next Pay	1/25/23
12Mo	--	--	--	Factor	1.0	WACLS	--		
Life	--	--	--	# Loans	15	PRIME	+-2.37…	Cap Flr	Mths to Reset 3

1) Price-to-Yield — Current PRIME 7.00000

Settle	11/17/22	CF	CF	CF	CF	CF	CF	CF
Indices		C	C	C	C	C	C	C
Vary	0	8 CPR	12 CPR	125 V75	100 V75	75 V75	15 CPR	20 CPR
Price	100-00	4.5059	4.4781	4.4917	4.5047	4.5176	4.4558	4.4158
Avg Life		5.85	4.90	5.27	5.76	6.33	4.33	3.57
Spread Duration		4.79	4.10	4.41	4.76	5.16	3.67	3.09
Prin Win		1/23-4/38	1/23-4/38	1/23-4/38	1/23-4/38	1/23-4/38	1/23-4/38	1/23-4/38
	I Spread	18	10	14	17	22	0	-15

Oct22	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	GOVT(I)	6M	1Y	2Y	3Y	5Y	7Y	10Y	30Y
--P	--	--	--	--	--	--	--	--	--	--	--	12:26	4.59	4.76	4.71	4.65	4.37	4.27	4.14	4.16
--C	--	--	--	--	--	--	--	--	--	--	--	Disc 30/360	5Y 98-29¼	7Y 98-13						

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SBA 530244 Mtge | Actions | Export | Settings | Yield Table

US POOL 3.875(185)0 CUSIP 8316A0HW3 Pool Level As of 10/2022

10/2022	P	--C	B	Traits	STANDARD, Quart…	Coupon	3.875%	Maturity	4/25/38
3Mo	--	--	--	10/01/2022	22,111,049	LTV/HLTV	--/--	Accrual	11/1-11/30
6Mo	--	--	--	11/25/2022	22,111,049	MAXLS	--	Next Pay	1/25/23
12Mo	--	--	--	Factor	1.0	WACLS	--		
Life	--	--	--	# Loans	15	PRIME	+-2.37…	Cap Flr	Mths to Reset 3

1) Price-to-Discount Margin — Current PRIME 7.00000

Settle	11/17/22	CF	CF	CF	CF	CF	CF	CF
Indices		C	C	C	C	C	C	C
Vary	0	8 CPR	12 CPR	125 V75	100 V75	75 V75	15 CPR	20 CPR
Price	100-00	-251	-258	-252	-251	-250	-255	-258
Avg Life		5.85	4.90	5.27	5.76	6.33	4.33	3.57
Spread Duration		4.79	4.10	4.41	4.76	5.16	3.67	3.09
Prin Win	Date	1/23-4/38	1/23-4/38	1/23-4/38	1/23-4/38	1/23-4/38	1/23-4/38	1/23-4/38
	I Spread	18	10	14	17	22	0	-15

Oct22	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	GOVT(I)	6M	1Y	2Y	3Y	5Y	7Y	10Y	30Y
--P	--	--	--	--	--	--	--	--	--	--	--	12:27	4.59	4.76	4.71	4.65	4.37	4.27	4.14	4.16
--C	--	--	--	--	--	--	--	--	--	--	--	Disc 30/360	5Y 98-29¼	7Y 98-13						

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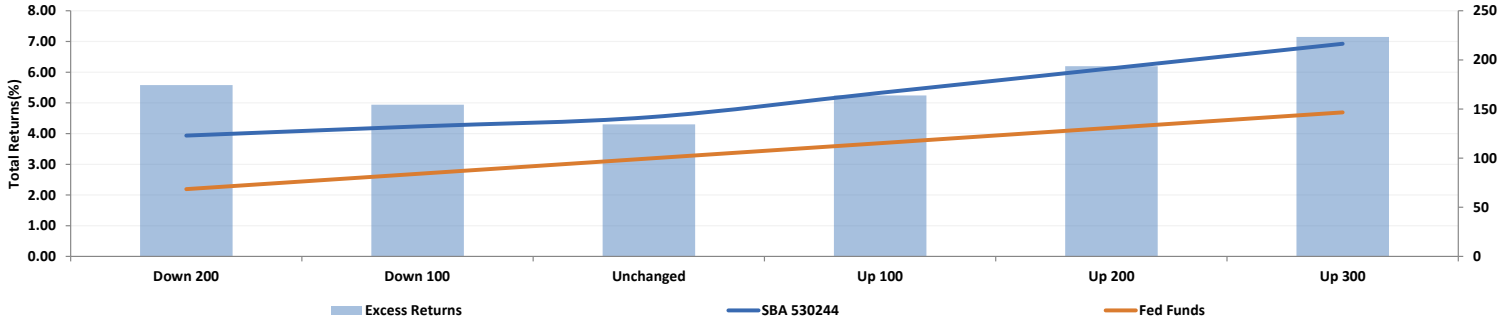
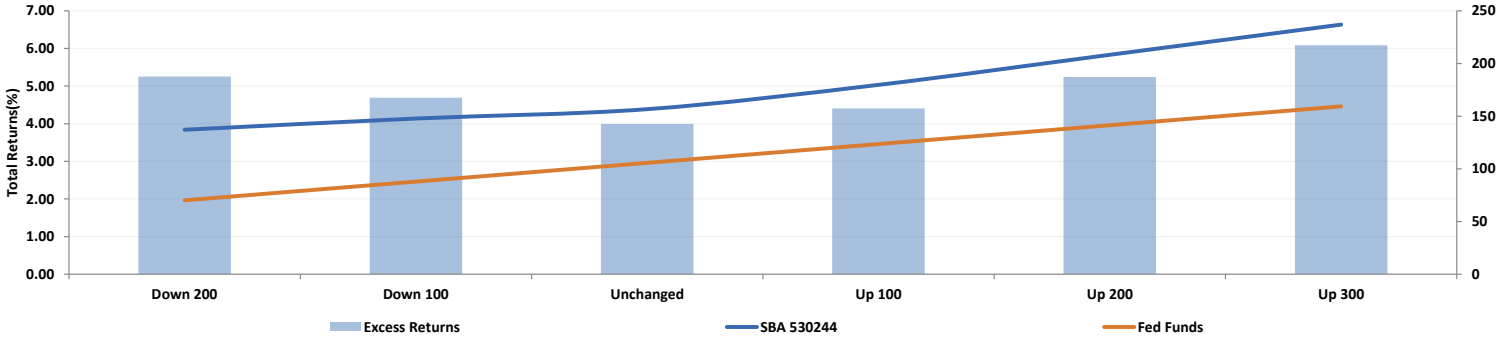
3 year Horizon - Parallel Yield Curve Shift

Security Description	Book Yld	Average Life	Down 200	Down 100	Unchanged	Up 100	Up 200	Up 300
SBA 530244	4.65	4.85	3.94	4.23	4.53	5.33	6.12	6.93
Fed Funds	3.15	.08	2.19	2.69	3.19	3.69	4.19	4.69



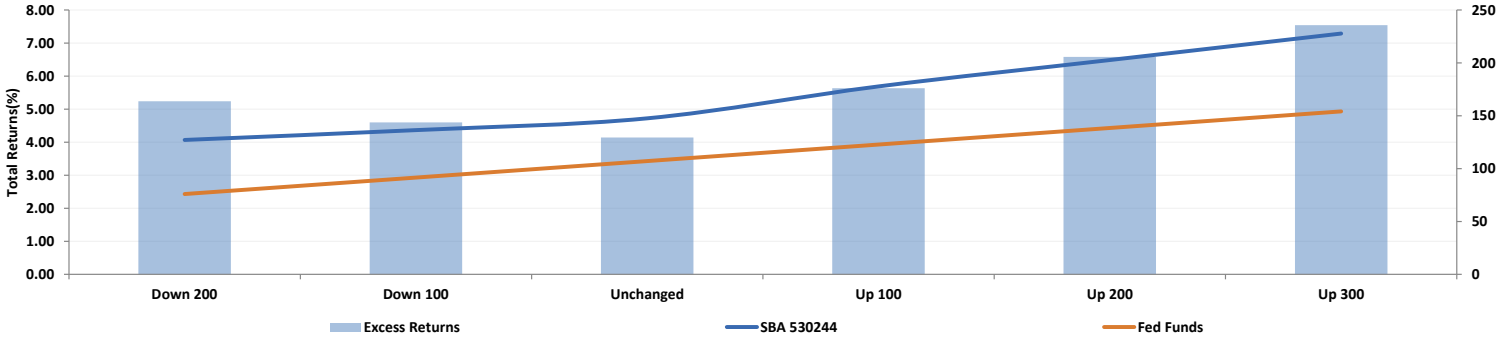
3 year Horizon - Steepen Yield Curve Shift

Security Description	Book Yld	Average Life	Down 200	Down 100	Unchanged	Up 100	Up 200	Up 300
SBA 530244	4.33	4.83	3.84	4.14	4.39	5.03	5.83	6.63
Fed Funds	3.15	.08	1.96	2.46	2.96	3.46	3.96	4.46



3 year Horizon - Flatten Yield Curve Shift

Security Description	Book Yld	Average Life	Down 200	Down 100	Unchanged	Up 100	Up 200	Up 300
SBA 530244	4.97	4.86	4.07	4.36	4.72	5.69	6.49	7.29
Fed Funds	3.15	0.08	2.43	2.93	3.43	3.93	4.43	4.93



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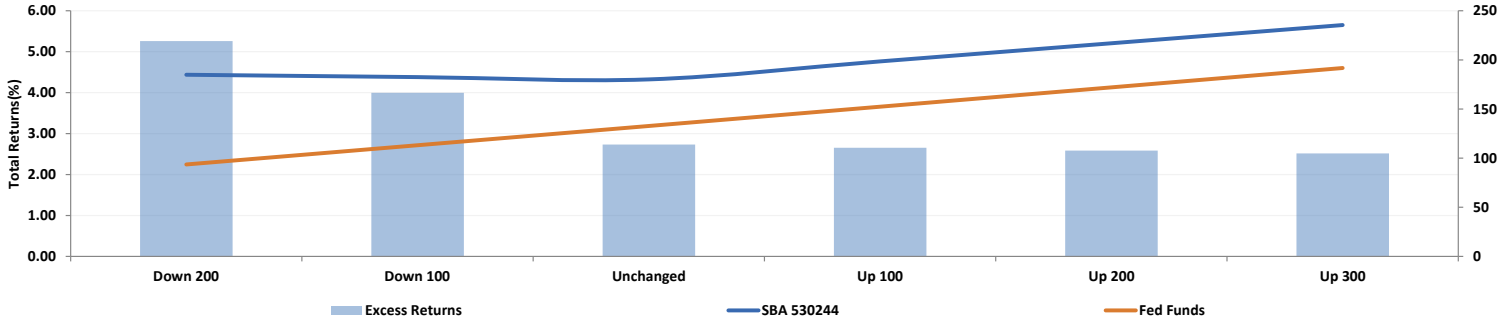
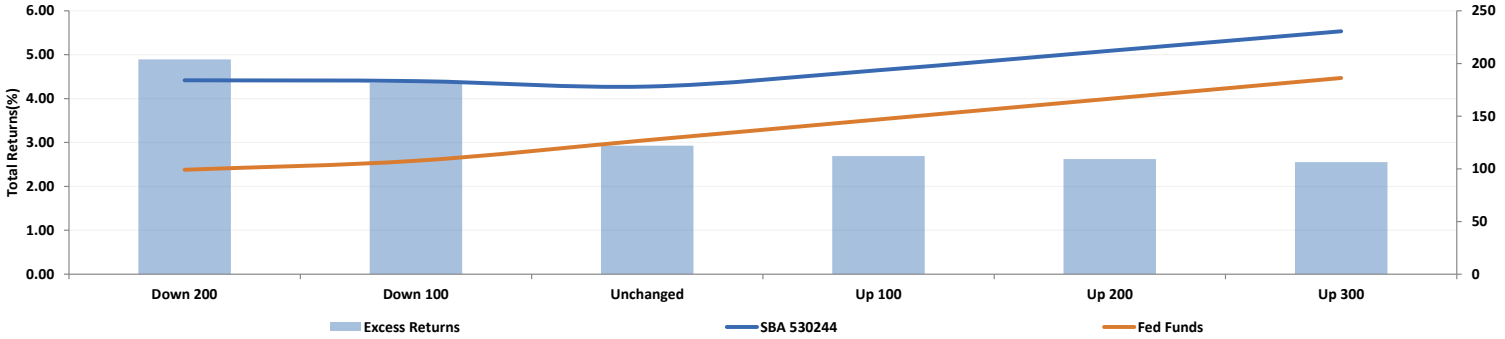
1 year Horizon - Parallel Yield Curve Shift

Security Description	Book Yld	Average Life	Down 200	Down 100	Unchanged	Up 100	Up 200	Up 300
SBA 530244	4.65	4.85	4.44	4.38	4.32	4.76	5.21	5.65
Fed Funds	3.15	.08	2.25	2.72	3.19	3.66	4.13	4.60



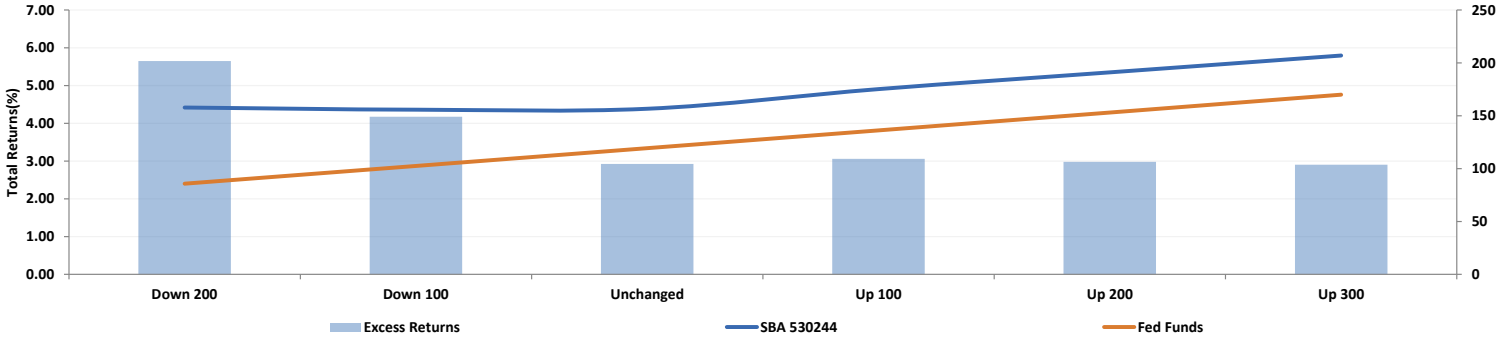
1 year Horizon - Steepen Yield Curve Shift

Security Description	Book Yld	Average Life	Down 200	Down 100	Unchanged	Up 100	Up 200	Up 300
SBA 530244	4.40	4.83	4.42	4.40	4.27	4.65	5.09	5.53
Fed Funds	3.15	.08	2.38	2.58	3.05	3.53	4.00	4.47



1 year Horizon - Flatten Yield Curve Shift

Security Description	Book Yld	Average Life	Down 200	Down 100	Unchanged	Up 100	Up 200	Up 300
SBA 530244	4.94	4.86	4.42	4.36	4.38	4.90	5.35	5.79
Fed Funds	3.15	0.08	2.40	2.87	3.34	3.81	4.28	4.76



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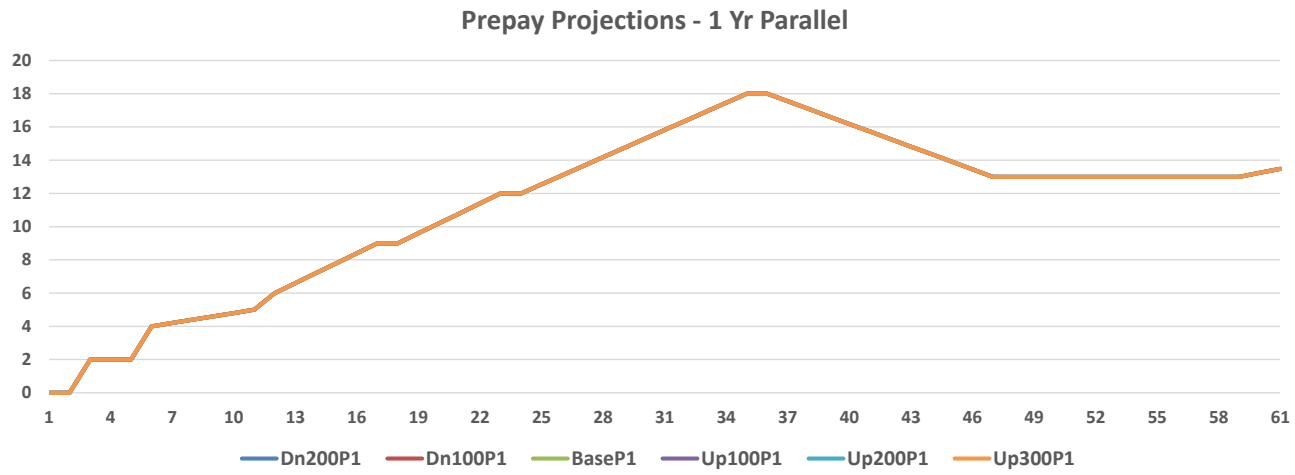
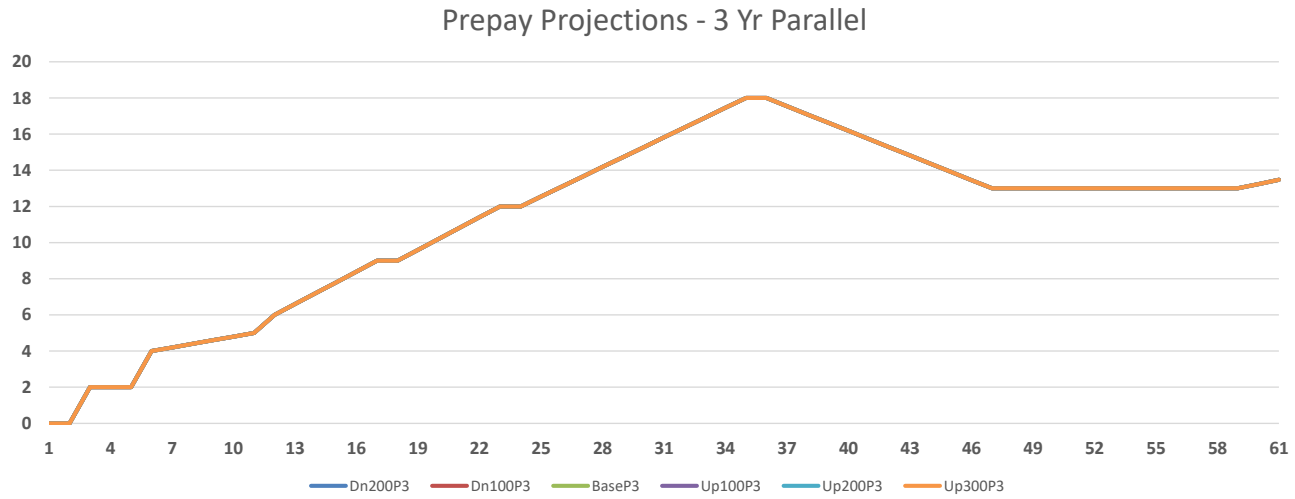


Scenario	Prepayments(CPR)							Ending Factor					
	1M	3M	6M	12M	36M	60M	Life	1M	3M	6M	12M	36M	60M
Dn200P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.986	0.968	0.921	0.621	0.393
Dn100P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.986	0.968	0.922	0.626	0.400
BaseP1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.986	0.968	0.922	0.632	0.407
Up100P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.987	0.969	0.924	0.638	0.415
Up200P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.987	0.970	0.926	0.644	0.422
Up300P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.987	0.970	0.928	0.650	0.429



Scenario	Prepayments(CPR)							Ending Factor					
	1M	3M	6M	12M	36M	60M	Life	1M	3M	6M	12M	36M	60M
Dn200P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.986	0.968	0.922	0.626	0.397
Dn100P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.986	0.968	0.922	0.629	0.402
BaseP1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.986	0.968	0.922	0.632	0.407
Up100P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.987	0.969	0.924	0.638	0.414
Up200P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.987	0.969	0.926	0.644	0.421
Up300P1	0.0	0.7	1.7	3.3	9.6	11.4	30.7	0.996	0.987	0.970	0.927	0.649	0.428

ENTER ALL FIELDS AND HIT <GO>.

2) YT
3) GRAPH
4) TABLE
5) ALL PSV

CREATE PSV: Number 75

User:27855958 SRIKANTH BATCHU

Start: L

L=LOAN ORG
O=CURR
1=PROJ
D=DATE

LAST UPDATE 0/ 0/00 00:00

Type	Rate	Mths	Rate	Mths	Rate	Mths	Rate	Mths	Rate	Mths	Rate	Mths
CPR	0	6S	4	6S	6	12S	10	12S	15	12S	10	....

(MTHS: R=RAMP, S=STEP)

OPTIONAL PSV Name: #sba_ni (optional alias...recommended!)

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SBA 530244 Mtge | Export | Page 1/5 Security Description

US POOL 3.875(185)0 CUSIP 8316A0HW3 | Pool Level | 95) Buy | 96) Sell

Summary | ARM Info | Resets | First Payments | Comments

Pool	SBA 530244	Idx+Margin	PRIME -2.375	As Of	10/202
Type	(STANDARD)			Issue Date	10/01/202
Traits	Quarterly Reset, 30…			Maturity Date	04/25/203
11) Seller	Brean Capital	Issuer SBA	Cap Structure -/-/-	WA Mo to Reset	

12) Pool Information | PDI

Coupon	3.875	WAC	3.875	Orig WAC	3.875
Orig Coupon	3.875 /	WARM	178	Orig WAM	178
		WALA	0	Cum PP Prin	0

Balance	
Factor	1.00000000
Orig Amt	22,111,04
Curr Amt	22,111,04

13) Collateral Information | CLC

Curr # Loans	15		
Orig # Loans	15	Green Bond	N

Prepay	CPR	CSA
1 Month		
3 Month		
6 Month		
1 Year		
Life		

Delay 84 (54)

18) States	%UPB
No Data	100.0

TRACE Eligible

15) Paydown Information | PDI PERF *Value calculated by Bloomberg

Prepay History	Oct22
1 Month CPR	
3 Month CPR	
6 Month CPR	
12 Month CPR	

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SBA 530244 - Horizon Stats/Assumptions

1 Year Parallel Horizon Stats						
	-200	**-100**	**Unchanged**	**+100**	**+200**	**+300**
Total Return(Bond Equivalent)	4.44	4.38	4.32	4.76	5.21	5.65
Horizon Price	100.47	100.23	100.00	99.80	99.59	99.39
Horizon Yield	2.43	3.45	4.48	5.51	6.55	7.59
Horizon Z Spread	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon OAS	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon Spread to Weighted Average Life	-8.45	-5.10	-1.26	2.98	7.53	12.54
Horizon Weighted Average Life	4.13	4.18	4.23	4.28	4.33	4.38
Horizon Effective Duration	.34	.34	.33	.33	.33	.33
Horizon Remaining % of Original Current	92.10	92.16	92.21	92.43	92.64	92.83
Horizon Book Price	100.00	100.00	100.00	100.00	100.00	100.00
Horizon Book Yield	3.00	3.83	4.65	5.58	6.52	7.46
Horizon Return	4.49	4.43	4.37	4.82	5.27	5.73
Coupon Income Percentage	4.06	4.22	4.38	5.02	5.66	6.30
Horizon Book Gain/Loss Percentage	0.43	0.22	(0.00)	(0.19)	(0.38)	(0.56)
Gain Loss in Dollars Per 1mm invested	4,328	2,155	-1	-1,892	-3,772	-5,641
Interest Income Per Million Invested	40,606	42,187	43,768	50,163	56,581	63,023
Total Return Dollars Per $1MM Invested	**44,934**	**44,342**	**43,767**	**48,271**	**52,809**	**57,382**

1 Year Steepener Horizon Stats						
	-200	**-100**	**Unchanged**	**+100**	**+200**	**+300**
Total Return(Bond Equivalent)	4.42	4.40	4.27	4.65	5.09	5.53
Horizon Price	100.40	100.30	100.06	99.85	99.65	99.45
Horizon Yield	2.72	3.16	4.19	5.22	6.26	7.30
Horizon Z Spread	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon OAS	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon Spread to Weighted Average Life	26.59	-40.38	-37.01	-33.21	-28.99	-24.44
Horizon Weighted Average Life	4.15	4.17	4.22	4.27	4.32	4.37
Horizon Effective Duration	.34	.34	.34	.33	.33	.33
Horizon Remaining % of Original Current	92.12	92.14	92.17	92.37	92.58	92.78
Horizon Book Price	100.00	100.00	100.00	100.00	100.00	100.00
Horizon Book Yield	3.24	3.59	4.40	5.32	6.26	7.20
Horizon Return	4.47	4.45	4.32	4.70	5.15	5.61
Coupon Income Percentage	4.10	4.18	4.27	4.84	5.49	6.13
Horizon Book Gain/Loss Percentage	0.37	0.28	0.06	(0.14)	(0.32)	(0.51)
Gain Loss in Dollars Per 1mm invested	3,709	2,769	571	-1,359	-3,243	-5,117
Interest Income Per Million Invested	41,024	41,770	42,697	48,436	54,854	61,295
Total Return Dollars Per $1MM Invested	**44,733**	**44,539**	**43,268**	**47,077**	**51,610**	**56,178**

1 Year Flattener Horizon Stats						
	-200	**-100**	**Unchanged**	**+100**	**+200**	**+300**
Total Return(Bond Equivalent)	4.42	4.36	4.38	4.90	5.35	5.79
Horizon Price	100.39	100.16	99.93	99.73	99.53	99.33
Horizon Yield	2.76	3.79	4.82	5.85	6.89	7.93
Horizon Z Spread	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon OAS	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon Spread to Weighted Average Life	8.13	11.78	15.92	20.39	25.26	30.46
Horizon Weighted Average Life	4.15	4.20	4.25	4.30	4.35	4.39
Horizon Effective Duration	.34	.34	.33	.33	.33	.33
Horizon Remaining % of Original Current	92.12	92.18	92.26	92.50	92.70	92.89
Horizon Book Price	100.00	100.00	100.00	100.00	100.00	100.00
Horizon Book Yield	3.27	4.10	4.94	5.89	6.83	7.77
Horizon Return	4.47	4.41	4.43	4.97	5.42	5.88
Coupon Income Percentage	4.11	4.27	4.51	5.22	5.87	6.51
Horizon Book Gain/Loss Percentage	0.36	0.14	(0.07)	(0.25)	(0.44)	(0.63)
Gain Loss in Dollars Per 1mm invested	3,611	1,444	-665	-2,510	-4,386	-6,250
Interest Income Per Million Invested	41,112	42,693	45,052	52,229	58,653	65,099
Total Return Dollars Per $1MM Invested	**44,723**	**44,137**	**44,387**	**49,720**	**54,267**	**58,849**

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SBA 530244 - Horizon Stats/Assumptions

3 Year Parallel Horizon Stats						
	-200	**-100**	**Unchanged**	**+100**	**+200**	**+300**
Total Return(Bond Equivalent)	3.94	4.23	4.53	5.33	6.12	6.93
Horizon Price	100.32	100.12	99.92	99.72	99.53	99.34
Horizon Yield	2.43	3.45	4.48	5.51	6.55	7.59
Horizon Z Spread	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon OAS	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon Spread to Weighted Average Life	-16.72	-13.64	-10.36	-6.38	-1.44	3.61
Horizon Weighted Average Life	3.53	3.57	3.60	3.64	3.68	3.71
Horizon Effective Duration	.34	.34	.33	.33	.33	.33
Horizon Remaining % of Original Current	62.64	62.90	63.16	63.77	64.36	64.92
Horizon Book Price	100.00	100.00	100.00	100.00	100.00	100.00
Horizon Book Yield	3.45	4.05	4.65	5.55	6.46	7.37
Horizon Return	12.40	13.39	14.39	17.08	19.84	22.66
Coupon Income Percentage	12.22	13.34	14.47	17.28	20.17	23.12
Horizon Book Gain/Loss Percentage	0.20	0.07	(0.05)	(0.18)	(0.30)	(0.43)
Gain Loss in Dollars Per 1mm invested	2,008	739	-531	-1,772	-3,025	-4,289
Interest Income Per Million Invested	122,212	133,382	144,650	172,848	201,686	231,178
Total Return Dollars Per $1MM Invested	**124,220**	**134,121**	**144,120**	**171,076**	**198,661**	**226,889**

3 Year Steepener Horizon Stats						
	-200	**-100**	**Unchanged**	**+100**	**+200**	**+300**
Total Return(Bond Equivalent)	3.84	4.14	4.39	5.03	5.83	6.63
Horizon Price	100.42	100.21	100.01	99.81	99.62	99.43
Horizon Yield	1.95	2.97	4.00	5.03	6.07	7.11
Horizon Z Spread	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon OAS	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon Spread to Weighted Average Life	-65.54	-63.12	-60.55	-57.17	-53.29	-48.33
Horizon Weighted Average Life	3.51	3.55	3.59	3.62	3.66	3.70
Horizon Effective Duration	.34	.34	.34	.33	.33	.33
Horizon Remaining % of Original Current	62.51	62.78	63.00	63.49	64.09	64.66
Horizon Book Price	100.00	100.00	100.00	100.00	100.00	100.00
Horizon Book Yield	3.17	3.77	4.33	5.14	6.04	6.95
Horizon Return	12.08	13.07	13.90	16.08	18.82	21.63
Coupon Income Percentage	11.84	12.96	13.92	16.22	19.09	22.02
Horizon Book Gain/Loss Percentage	0.26	0.13	0.01	(0.12)	(0.24)	(0.37)
Gain Loss in Dollars Per 1mm invested	2,598	1,328	53	-1,197	-2,446	-3,707
Interest Income Per Million Invested	118,436	129,590	139,176	162,231	190,912	220,245
Total Return Dollars Per $1MM Invested	**121,034**	**130,917**	**139,229**	**161,034**	**188,466**	**216,538**

3 Year Flattener Horizon Stats						
	-200	**-100**	**Unchanged**	**+100**	**+200**	**+300**
Total Return(Bond Equivalent)	4.07	4.36	4.72	5.69	6.49	7.29
Horizon Price	100.22	100.02	99.82	99.63	99.44	99.25
Horizon Yield	2.92	3.94	4.97	6.00	7.04	8.09
Horizon Z Spread	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon OAS	-259.41	-259.41	-259.41	-259.41	-259.41	-259.41
Horizon Spread to Weighted Average Life	-1.96	1.23	5.05	9.37	14.66	19.97
Horizon Weighted Average Life	3.55	3.58	3.62	3.66	3.69	3.73
Horizon Effective Duration	.34	.34	.33	.33	.33	.33
Horizon Remaining % of Original Current	62.77	63.03	63.33	64.06	64.63	65.17
Horizon Book Price	100.00	100.00	100.00	100.00	100.00	100.00
Horizon Book Yield	3.74	4.34	4.97	5.99	6.90	7.80
Horizon Return	12.84	13.83	15.02	18.32	21.10	23.95
Coupon Income Percentage	12.72	13.84	15.16	18.58	21.49	24.47
Horizon Book Gain/Loss Percentage	0.14	0.01	(0.11)	(0.24)	(0.36)	(0.49)
Gain Loss in Dollars Per 1mm invested	1,400	131	-1,134	-2,370	-3,628	-4,896
Interest Income Per Million Invested	127,161	138,370	151,597	185,836	214,945	244,712
Total Return Dollars Per $1MM Invested	**128,561**	**138,501**	**150,463**	**183,467**	**211,317**	**239,816**