

Investing in Par-Priced SBA Guaranteed Loans / SBA Guaranteed Loan Pools (Securities)

Full Faith & Credit US Government Guaranteed – Floating Rate Assets

for Credit Unions

GOVERNMENT GUARANTEED LOANS AND POOLS

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Why Par-Priced SBA Loans?

Given increasing regulatory focus and favorable characteristics, purchasing Par-Priced SBA Guaranteed Loans in the secondary market can be a winning, low-risk strategy for Credit Unions to conservatively grow loans. Historically, Premium Risk (risk of losing premium paid for the loan over the par-value) has deterred investors from participating in this asset class. The ingenuity of Brean Capital is stripping premium coupon risk to achieve a par dollar price for regulated institutions and selling the premium coupon risk to sophisticated investors with a higher-risk profile. Investors that buy Par-Priced loans can maintain a conservative risk-profile and grow loan portfolios while achieving the following benefits...

- ✓ Fully guaranteed principal & accrued interest by the Full Faith & Credit of the US Government.
- ✓ All cash flows are distributed by the SBA's Fiscal Transfer Agent (FTA). Monthly P&I for a portfolio of multiple loans are satisfied by a single monthly remittance from the FTA. A monthly report provides full accounting details for each loan.
- ✓ In the event of borrower default, the investor follows a simple procedure to submit the loan to SBA for prompt repayment of the then outstanding principal plus accrued interest.
- ✓ Most loans have variable, PRIME based interest rates that adjust frequently and have no periodic or lifetime interest rate caps. This an important consideration for managing interest rate risk.
- ✓ Loans generate attractive, floating spreads to comparable short-term rates, such as the Fed Funds Target Rate.

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Why Par-Priced SBA Pools?

SBA Pools are government guaranteed pass-through securities that are assembled using the guaranteed portion of SBA 7a guaranteed loans. Par-priced SBA Pools are booked in the investment portfolio, and feature the following characteristics:

- ✓ Monthly P&I payments are guaranteed on a timely basis by the full faith & credit of the US Government.
- ✓ SBA Pools are modeled on Bloomberg and are actively traded in the market. Par-priced SBA's offer superior liquidity versus premium-coupon pools.
- ✓ Portfolio sector diversification.
- ✓ Great asset for managing interest rate risk (short-end of maturity ladder with variable interest rates reset on a quarterly basis/no caps).
- ✓ Investors own a fractional and undivided interest in every loan in the SBA Pool to diversify investments over a large base of underlying loans.

SBA Loans & SBA Pools: What They Are

Loans:

SBA 7a Guaranteed Loans are actively originated and sold in the secondary market, where lenders sell the guaranteed portions of 7a originations often at substantial premium dollar prices. All SBA 7a loans sold into the secondary market go through the SBA's Fiscal and Transfer Agent (FTA). Once the initial sale into the secondary market is completed, SBA issues an SBA Guaranteed Interest Certificate (GIC), which will represent beneficial ownership of the guaranteed portion of a specifically identified loan. ALL SBA loans sold into the secondary carry a GIC. SBA Guaranteed Interest Certificates (GICs) are unconditionally guaranteed as to principal and interest by the full faith & credit of the US Government, but timely payments are not guaranteed. Purchased SBA GICs are booked in the loan portfolio.

Pools/Securities:

The majority of SBA 7a loans sold into the secondary market are used to create SBA Guaranteed Loan Pool securities. To form a pool, the pool assembler submits a number of qualifying GICs along with its pooling application. Immediately upon being issued, the SBA Pool security is deposited into the DTC system. SBA Pools are fully guaranteed securities by the US Government and booked in the investment portfolio. In contrast to loans, monthly P&I payments are guaranteed on a timely basis by the full faith & credit of the US government.

Both SBA Loans (GICs) and SBA Pools are permissible investments for credit unions.

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Hold the Premiums, Please...

Brean Capital is the leading SBA approved pool assembler in the nation. We were the #1 SBA loan pool assembler in 2022 with \$1.96-billion in new issues, and have continued the momentum into 2023, holding the #1 spot with \$2.19-billion in new issues through October.

The ingenuity of Brean Capital is stripping out the premium risk exposures & offering clients SBA loans/pools at a dollar price of par (100). For example, we lead this market expertise and 100% of our SBA Pool production for 2022 was priced to the investor at or below par. We also offer moderate premium alternatives as needed to meet our clients objectives.

We have also stripped an additional volume of individual SBA guaranteed loan portions (GICs) that have been purchased by our clients at or near par.

Regulatory Permissibility

Federal Credit Union Act (Loans and Pools):

Authorizes an FCU to invest in... “obligations, participations, securities, or other instruments of, or issued by, or fully guaranteed as to principal and interest by any... agency of the United States.” 12 U.S.C. §1757(7)(E).

For Loans (Legal Opinions- December 4, 2003, Re. Investment in Portions of Loans Guaranteed by U.S. Department of Agriculture):

“We note that, although this investment could be characterized as a loan participation, we conclude that it is not subject to the statutory and regulatory restrictions applicable to FCU loan participations. 12.U.S.C. §1757(5)(E); 12 C.F.R. §701.22. The existence of the government guarantee provides separate authority for an FCU’s investment, qualifying the guaranteed portion of the loan as a permissible investment, apart from and FCU’s authority to engage in loan participations. Accordingly, the requirements in the Act and NCUA’s regulations governing permissible FCU investment in loan participations are not applicable.”

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Comparison of SBA Loan / SBA Pool Investment Characteristics

	SBA Loans (GICs)	SBA Pools
Credit Quality:	Full Faith & Credit US Govt Gty as to principal and accrued interest.	Full Faith & Credit US Govt Gty as to TIMELY principal & interest payments.
Format:	Physical Delivery. SBA Guaranteed Interest Certificate (GIC).	Trades in DTC form.
Rate Structure:	Predominantly Variable Rate, Quarterly & Monthly Adjust. Other rate structures also available. Most floating rate structures have no interest rate caps.	Quarterly Adjusting, Prime based Variable Rates with No Interest Rate Caps.
Regulatory Considerations: - RBC (if applicable)	0% to 20% Risk-Weighting; seeking further clarification/specification on Part 702.	0% Risk-Weighting.
- Call Report Treatment (Per 5300 Instructions)	Booked in the Loan Portfolio: See next page	Booked in the Investment Portfolio: See next page
Monthly P&I Cash-Flow:	A single remittance from the FTA pays all monthly P&I payments for a specific portfolio consisting of any number of purchased SBA GICs. A monthly report provides full accounting details for each loan.	Wired directly into investor's DTC account monthly.
Interest Rate Risk:	Varies depending on structure, but typically low effective duration and price risk	Consistently low effective duration and price risk
Liquidity and Pledging:	While most investors buy and hold, there is an active secondary market for the loans.	Actively traded in the secondary market and acceptable collateral at many FHLBs and FRB.

Call Report Treatment (Loans and Pools)

Per 5300 Instructions, Schedule A, Section 1 Loans & Leases, 17.a.:

“...Include SBA 7(a) Guaranteed Interest Certificates but do not include SBA 7(a) Guaranteed Loan Pool Certificates or similarly structured products with guaranteed payment in this line item.

- Report the unconditionally US government guaranteed (for example SBA 7(a) Guaranteed Interest Certificate), USDA Business and Industry and FSA Farm Ownership & Operating participation loans or similar purchased in the secondary market as commercial loans on the Loans & Leases schedule of the call report and in this line.
- Report SBA 7(a) Loan Pool Certificate securities and similar products from other agencies as Agency/GSE Debt Instruments (not backed by mortgages) in the Investment subsection of the Statement of Financial Condition and as Agency/GSE Debt Instruments (not backed by mortgages) in Schedule B Investments, Supplemental Information schedule.”

Call Report Treatment (Loans Only)

Per 5300 Instructions, Schedule A, Loans and Leases:

12. COMMERCIAL LOANS/LINES OF CREDIT REAL ESTATE SECURED (ACCOUNTS 525, 900K4, AND 718A5)

Include the rate, number, and outstanding balance of all commercial loans defined in §723.2 and secured by real estate. Commercial loan means any loan, line of credit, or letter of credit and any interest a credit union obtains in such loans made by another lender, to individuals, sole proprietorships, partnerships, corporations, or other business enterprises for commercial, industrial, agricultural, or professional purposes, but not for personal expenditure purposes.

13. COMMERCIAL LOANS/LINES OF CREDIT NOT REAL ESTATE SECURED (ACCOUNTS 526, 900P, AND 400P)

Include the rate, number, and outstanding balance of all commercial loans defined in §723.2 and not secured by real estate.

Other Policy and Procedure Considerations

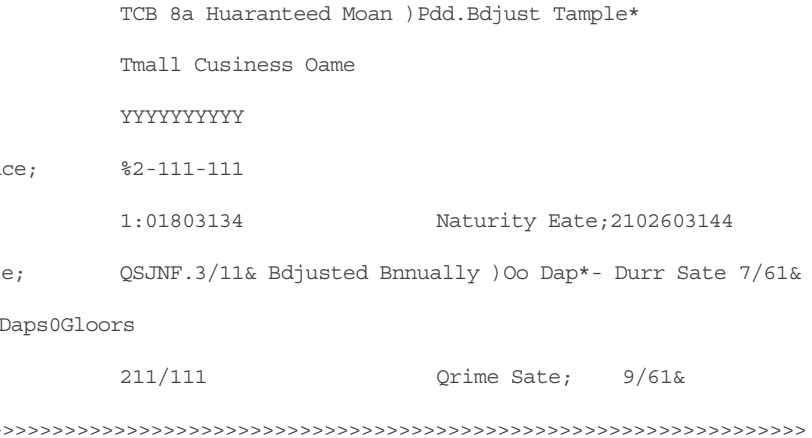
Policy:

- If not already addressed, include/expand relevant section(s) of loan and/or investment policy to authorize par-priced SBA GIC or Pool purchases, aggregate limits, and any desired interest rate risk or liquidity parameters. Obtain board approval on permissible B/D's and include in policy as warranted.

Policy/Procedures:

- Delineate individual(s) with purchase authorizations and \$ amounts. Specify purchase and ongoing due-diligence reporting and review requirements. Ensure accurate terms and conditions of individual purchases are provided to appropriate risk monitoring functions (IRR/liquidity, etc.) as warranted.

SBA Guaranteed Interest Certificate



Prepayment Methods

- * **CPR (Constant Prepayment Rate)** measures the affect principal prepayments have on yield.
 - * **CPR 0:** calculates yield if amortized normally with no prepaid principal dollars.
 - * **CPR 10:** calculates yield assuming 10% of outstanding principal dollars are prepaid over and above the normal amortization on an annualized basis.
- * **PPL (Prepaid Life):** calculates effective yield assuming the asset is paid-off at par in its entirety after the specified period of time has elapsed.

SBA Guaranteed Interest Certificates Monthly Reporting

The monthly P&I payments for a portfolio consisting of any number of SBA GICs are satisfied by a single monthly remittance from the FTA.

On the 15th of the month, investors holding SBA GICs receive:

- Electronic notification of payment activity for the prior month via email (PDF and CSV).
- Payments via ACH.

Late payments are remitted as received by FTA.

Sample Monthly Statement

CSV File

MONTHLY STATEMENT - Account Number: 14250 - Statement Month: 10/2023												
Loan No.	Statement Date	Maturity Date	Guar. Portion Opening Balance	Interest Rate	Guar. Portion Interest	Guar. Portion Principal	Total From FTA	Interest From Date	Interest To Date	# Of Days	Calendar Basis	Guar. Portion Closing Balance
5197449104	10/16/2023	07/18/2033	\$2,416,781.83	7.25	\$14,881.42	\$0.00	\$14,881.42	08/18/2023	09/18/2023	31	365	\$2,416,781.83
4812429107	10/16/2023	02/10/2033	\$240,215.48	7.25	\$1,015.91	\$1,203.72	\$2,219.63	08/22/2023	09/13/2023	21	360	\$239,011.76
4228599102	10/16/2023	08/07/2033	\$536,250.00	9.135	\$0.00	\$37,500.00	\$37,500.00	09/20/2023	09/20/2023	0	365	\$498,750.00
4286809102	10/16/2023	03/10/2033	\$428,397.05	7.25	\$0.00	\$0.01	\$0.01	09/20/2023	09/20/2023	0	365	\$428,397.04
4091069105	10/16/2023	11/30/2032	\$336,063.70	7.25	\$0.00	\$0.01	\$0.01	09/22/2023	09/22/2023	0	365	\$336,063.69
5084129106	10/16/2023	06/30/2033	\$122,033.51	7.25	\$460.55	\$482.44	\$942.99	08/17/2023	09/05/2023	19	365	\$121,551.07
5096479103	10/16/2023	06/30/2033	\$257,001.62	7.25	\$969.92	\$1,053.66	\$2,023.58	08/17/2023	09/05/2023	19	365	\$255,947.96
5088949102	10/16/2023	10/17/2033	\$374,850.00	9.875	\$912.73	\$0.00	\$912.73	08/23/2023	09/01/2023	9	365	\$374,850.00
5091719104	10/16/2023	07/19/2033	\$86,700.00	7	\$149.65	\$316.91	\$466.56	08/23/2023	09/01/2023	9	365	\$86,383.09
5160309104	10/16/2023	08/04/2033	\$102,850.00	10.125	\$256.77	\$543.74	\$800.51	08/23/2023	09/01/2023	9	365	\$102,306.26
5182969104	10/16/2023	07/31/2033	\$62,050.00	7.25	\$98.60	\$251.62	\$350.22	08/24/2023	09/01/2023	8	365	\$61,798.38
5214559105	10/16/2023	07/31/2033	\$174,750.00	7.25	\$277.68	\$708.42	\$986.10	08/24/2023	09/01/2023	8	365	\$174,041.58
5135919108	10/16/2023	07/24/2033	\$1,437,149.64	7.35	\$8,849.30	\$7,201.78	\$16,051.08	08/15/2023	09/15/2023	31	365	\$1,429,947.86
5064369100	10/16/2023	08/15/2033	\$693,750.00	7	\$991.34	\$0.00	\$991.34	08/31/2023	09/07/2023	7	365	\$693,750.00
5207219110	10/16/2023	08/07/2048	\$2,700,000.00	7.825	\$4,051.85	\$1,820.14	\$5,871.99	08/31/2023	09/07/2023	7	365	\$2,698,179.86
5228339110	10/16/2023	08/23/2048	\$2,850,000.00	7.575	\$4,140.31	\$1,444.52	\$5,584.83	08/31/2023	09/07/2023	7	365	\$2,848,555.48
5067869103	10/16/2023	06/07/2048	\$992,349.50	7.575	\$2,677.30	\$716.82	\$3,394.12	08/28/2023	09/10/2023	13	365	\$991,632.68
4709559102	10/16/2023	01/17/2033	\$707,421.69	7.25	\$1,545.67	\$2,993.85	\$4,539.52	08/31/2023	09/11/2023	11	365	\$704,427.84
3002639104	10/16/2023	03/30/2049	\$2,493,165.73	8.825	\$20,779.84	\$0.00	\$20,779.84	07/27/2023	09/01/2023	34	360	\$2,493,165.73
5233109105	10/16/2023	08/11/2033	\$300,000.00	10.125	\$998.63	\$0.00	\$998.63	08/23/2023	09/04/2023	12	365	\$300,000.00
5140079110	10/16/2023	08/14/2033	\$375,000.00	8.875	\$182.36	\$2,103.25	\$2,285.61	09/26/2023	09/28/2023	2	365	\$372,896.75
5115189106	10/16/2023	06/28/2033	\$2,557,666.44	9.575	\$20,408.05	\$11,944.49	\$32,352.54	08/01/2023	09/01/2023	30	360	\$2,545,721.95
5170749100	10/16/2023	07/17/2048	\$2,539,182.51	7.575	\$3,688.77	\$3,762.24	\$7,451.01	09/22/2023	09/29/2023	7	365	\$2,535,420.27
5217829109	10/16/2023	07/28/2033	\$225,000.00	7.25	\$893.84	\$774.12	\$1,667.96	08/16/2023	09/05/2023	20	365	\$224,225.88
5039939103	10/16/2023	02/01/2035	\$2,744,109.12	7.25	\$16,351.88	\$9,474.66	\$25,826.54	09/01/2023	10/01/2023	30	365	\$2,734,634.46
4947269104	10/16/2023	05/31/2033	\$332,653.29	7.25	\$1,387.57	\$1,702.35	\$3,089.92	09/08/2023	09/29/2023	21	365	\$330,950.94
5206299110	10/16/2023	08/04/2048	\$528,750.00	9.575	\$2,912.83	\$0.00	\$2,912.83	08/11/2023	09/01/2023	21	365	\$528,750.00
5088539108	10/16/2023	08/15/2048	\$1,501,875.00	9.325	\$3,836.98	\$0.00	\$3,836.98	08/22/2023	09/01/2023	10	365	\$1,501,875.00

Q & A

Have questions or would like further discussion or information? Please contact:

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