



Development Company Finance LLC

Date: June 15, 2010
To: Certified Development Companies
From: Steve Van Order, DCFLLC Fiscal Agent
Subject: June 2010 SBA 504 Debenture Offering (2010-20F)

On June 16, 2010, 536 twenty-year debentures totaling \$294,041,000 will be funded through the sale of certificates guaranteed by SBA. Below are debenture pricing details:

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2010-20F (06/08/10)	3.170%	11.00 BP	60.00 BP	3.88%	71.0 BP
2010-20E (05/04/10)	3.619%	1.00 BP	48.10 BP	4.11%	49.1 BP
Change	-44.9 BP	+10.00 BP	+11.90 BP	-23 BP	+21.9 BP

- The July offering will consist of 20- and 10year debentures.
- The *cutoff date* to submit loans to Colson for this offering is Tuesday **June 23**
- A *request to remove a submitted loan* from a pool must be made through Colson Services by close of business Thursday, **July 1**.
- *Pricing date* is Tuesday **July 6**, on which the debenture interest rates will be set.
- The debentures will be funded on Wednesday, July 14.

The July SBA 504 interest rate was a new record low for a 20-year maturity, edging out the former low from October 2009. Spread to treasury and swap widened month-over-month as a result of investor demand for liquidity amid higher volatility as the European EMU crisis shook up global financial markets. While SBA certificates share a full faith and credit guarantee with treasuries the amount of SBA 504 outstanding is \$23 billion compared to \$7,934 billion in publicly-held treasuries. The SBA 504 market, therefore, is less than 3% of the size of the treasury market. The interest rate swap derivatives market has \$437 *trillion* in notional contract amount outstanding and is very liquid even compared to treasuries.

As noted above, a flight to quality includes a strong preference for liquidity so yields on treasuries will always fall the most. In addition, because treasuries have no prepayment option they are very resistant to current and expected interest rate volatility. Securities with prepayment options such as residential mortgage-backed securities and SBA 504 are less volatility-resistant. A rise in volatility increases uncertainty over the expected timing of payments to be received on those securities. So investors demand more spread to treasury/swap pricing benchmarks to compensate for that higher uncertainty.

While out 22 BP on the month, however, the +71 BP spread to treasury came off a run of record lows, was just a bit wider than the +67 BP 12-month average, and was well below the +91 BP long-run average.