



**Date:** December 12, 2008  
**To:** Certified Development Companies  
**From:** Steve Van Order, DCFC Fiscal Agent  
**Subject:** Dec. 2008 504 Debenture Offering (2008-20L)

On December 17, 2008, 669 twenty-year debentures totaling \$397,153,000 will be funded through the sale of certificates guaranteed by SBA. Below are debenture pricing details that were set on December 9:

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
<b>2008-20L (12/9/08)</b>	2.731%	23.75 BP	325.15 BP	6.22%	348.9 BP
<b>2008-20K (11/4/08)</b>	3.904%	52.00 BP	234.60 BP	6.77%	286.6 BP
<b>Change</b>	-117.3 BP	-28.25	+90.55	-55 BP	+62.3 BP

- The January offering will consist of 20- and 10- year debentures.
- The *cutoff date* to submit loans to Colson for this offering is Tuesday **December 23**.
- A *request to remove a submitted loan* from a pool must be made through Colson Services by close of business Wednesday, **December 31**.
- *Pricing date* is Tuesday **January 6**, on which the debenture interest rates will be set.
- The debentures will be funded on Wednesday, January 14.

Despite the 18-month long credit markets crisis SBA 504 debenture pools remained sizeable. This month was a record for a December pool. The interest rate declined 55 BP from November, capturing about half of the move in the 10-year treasury yield. Treasury and agency debt and single family MBS benefited from actual or potential government action to directly buy them out of the market. The Fed announced a program to buy up to \$600 billion of agency debt and single family MBS. The Treasury may propose to buy MBS backed by 4.5% 30-year mortgages, thus capping the rate on the mortgages. The Fed may directly buy treasury securities next year as part of monetary policy.

Having the government as a direct buyer reduced the interest rates for those targeted securities. That's a reason why just looking at spread to treasury on SBA debentures does not tell you nearly enough about what's going on. SBA's benefit from the government guarantee but are not targeted for purchase by the government. In fact, except for Fannie, Freddie and Ginnie MBS and Fannie, Freddie and Home Loan debt, no other agency programs are targeted. For example, the multifamily debt of Fannie and Ginnie is not targeted and those yields remained in line with SBA interest rates.

So as we prepare for 2009 in the U.S. market for long term credit there are the "super-haves" that benefit from government guarantees with actual or potential targeted purchases by the government. They are treasury, single family agency MBS and some agency debt. Then there are the "haves," those benefiting from a government guarantee like the older agencies such as SBA and newer entrants such as bank debt issuers under the FDIC TLGP program. The considerable rest of the universe of long term debt issuers are "have-nots" including municipalities, non-bank corporate debt issuers and private label asset-backed debt issuers. Look at the levels and change in interest rates for securities for super-haves, haves and have-nots from January to December:

**"Super-Haves," "Haves" and "Have-Nots" Ranked by Yield Change  
Change**

<b>Benchmark</b>	<b>Jan-08</b>	<b>Dec-08</b>	<b>(BP)</b>	<b>Category</b>
<b>10-year Treasury</b>	3.88	2.60	-128	super have
<b>30-year conforming mortgage</b>	6.07	5.47	-60	super have
<b>SBA 504 debenture</b>	5.17	6.22	105	have
<b>Agency multifamily-backed</b>	5.11	6.22	111	have
<b>Tax-exempt municipal g.o.</b>	4.32	5.85	153	have-not
<b>Investment grade corporate</b>	6.47	8.70	223	have-not
<b>AAA commercial MBS</b>	5.37	11.97	660	have-not
<b>High yield corporate</b>	10.08	22.33	1225	have-not

An awareness of the cost of funds in different sectors of the credit markets is critical to understanding how the 504 program continues to provide relatively attractive long term fixed rate funding during the worst credit crisis since the 1930's. More important is the monthly access to money for small business borrowers using junior liens in a commercial real estate financing. Strong investment grade corporate issuers of senior debt do not expect the window to be open every single month in tumultuous markets. Further, segments of the credit markets remain essentially closed, including the market for securitized pools of large commercial real estate mortgages (CMBS).

In this environment DCFC and underwriters continued to make strides in marketing and selling the SBA product to a larger number of investors. The December deal featured a record forty-plus buy tickets written by underwriters. The average order was under \$10 million with many in the \$1-5 million range. Investors interested in purchasing the 504 securities (called Development Company Participation Certificates) may call Credit Suisse (212-325-4240, Marc Yannaco) or Merrill Lynch (212-449-3860, Sean Cochran) for more information. These securities are best suited for institutional investors.