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504 Funding Process

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If COLSON calls about an error

Correcting errors on documents crucial to funding

Note: If any document arrives at COLSON with errors, incomplete information, or missing signatures, it could prevent the funding from occurring for that loan.

Documents forwarded to COLSON as part of the funding process must be complete and accurate. That responsibility belongs to:

- The CDC
- The CDC Closing Counsel
- The SBA District Office Legal Counsel

COLSON will make every effort to work with the CDC and SBA District Counsel to help correct the problem in order to meet the debenture funding.

COLSON will send an “Urgent Funding Alert” fax in most instances to let CDCs know when a problem arises and the nature of the problem. In some instances, the CDC and/or SBA District Counsel may receive a call or e-mail to let them know about a problem, the nature of the problem, time sensitivity of the issue, and corrective action needed. Immediate action will be needed to ensure documentation arrives at COLSON to be included in the month’s funding.

It is the CDC’s responsibility to make certain any error is corrected **IMMEDIATELY** and to follow COLSON’s instructions for getting the corrected document to Colson prior to the deadline for the funding.

This may mean that a copy can be faxed and the original mailed. Or, it may mean that the original must be sent by overnight delivery in order to be included in the following month’s funding.

Reminder: If you have any loans to be funded during vacation or holiday season, it is important that the CDC person handling the transaction check voice mail regularly or assign the responsibility to staff who will be at the CDC to handle any problems that might need to be corrected in order for funding to proceed on the loan.

If COLSON calls about an error

Correcting errors on documents crucial to funding (continued)

Here are some general guidelines:

- **Missing Signature(s):** The document needs to be re-executed. You may need to get a borrow signature or a CDC signature or both and forward to COLSON by the deadline. Have the individual(s) sign in dark blue ink so that Colson knows that it is an original signature.
- **Errors in fee calculations:** The fee calculations in the document must be correct and forwarded with the corrected document to COLSON by the deadline.

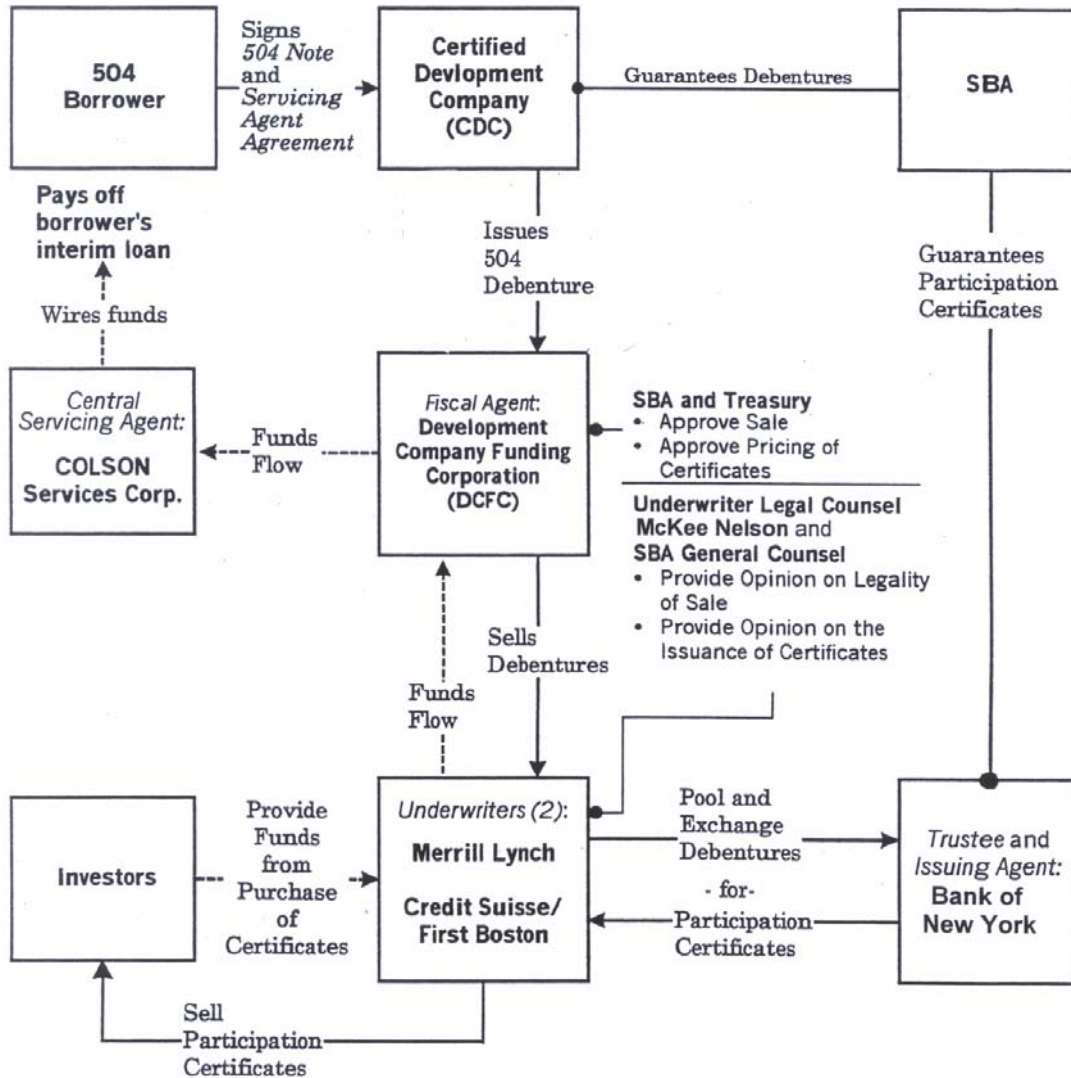
Deadline for corrections:

Final corrections, including any corrected documentation, must be **RECEIVED** by COLSON

- **No later than 12:00 Noon Eastern Time**
- **On Friday before the scheduled pricing date**

Parties involved in the funding process

How 504 loans get from the closing to paying off the interim loan



Responsibilities in the funding process

504 Borrower

Satisfies requirements of the *Authorization for Debenture Guarantee* and any others imposed for closing at the time the 504 loan is closed with the CDC. The borrower signs the *504 Note* and *Servicing Agent Agreement* obligating repayment of the 504 loan to the Certified Development Company.

Certified Development Company (CDC)

Closes the 504 loan and provides legal documentation evidencing satisfaction of the requirements in the *Authorization for Debenture Guarantee* and other terms imposed for closing. The CDC signs the *Debenture* obligating it to repay the *Debenture*, assigns the *504 Note* and other collateral to the SBA, and forwards documents for the debenture funding.

U.S. Small Business Administration (SBA)

SBA District Counsel reviews closing documentation for legal sufficiency. Once satisfied, the Counsel is satisfied, he/she notifies the CSA via e-mail that the 504 Loan is ready to fund. SBA provides a guarantee of timely payment of principal and interest on the *Debenture* and the timely distribution of principal and interest to holders of the participation certificates.

Fiscal Agent: Development Company Funding Corporation

The fiscal agent acts as agent for the SBA, the CDC and the borrower in the funding of the 504 Loan. It negotiates the rate of interest in the monthly sales of 504 debentures with the underwriters and obtains the approval of the terms and timing of the sales from the SBA and the Treasury of the United States. It participates in and approves the production of the Offering Circulars and participates as a principal in the closing process where the participation certificates are exchanged for the funds that flow to the borrower. DCFC reports the funding results to the CDCs and the DCFC Board of Directors.

Underwriters: Merrill Lynch & Credit Suisse First Boston

The underwriters purchase the *Debentures*, aggregate the *Debentures* into a pool and simultaneously exchange them for participation certificates. The participation certificates are sold to investors in the private bond market as fractional undivided interests in a pool of debentures issued by CDCs who are certified by SBA.

Responsibilities in the funding process

Trustee and Issuing Agent: Bank of New York

As Trustee, the Bank of New York serves in a fiduciary capacity for the 504 debenture program and holds legal title to the debentures and other assets constituting the asset pool. It participates in the monthly sale of debentures and ensures timely payment of the principal and interest to Development Company Participation Certificates (DCPCs) investors via the terms of the Trust Agreement. The Bank of New York calculates and disburses the semi-annual debenture payments that include amortized principal and interest, any prepayment principal and applicable prepayment premium, and any accelerated principal.

As Issuing Agent, the Bank of New York serves in an agency capacity for the 504 debenture program and is responsible for the issue/cancel of the DCPCs and maintaining records of registered DCPC investors.

Underwriter Legal Counsel: McGee Nelson LLP and the SBA General Counsel

McKee Nelson, serving as legal counsel to the underwriters, and the SBA General Counsel provide opinions as to the legality of the sale and the issuance of DCPCs.

Investors

Purchasers of DCPCs. They are typically institutional investors like pension funds, trust departments of financial institutions, etc.

Central Servicing Agent: COLSON Services Corp.

The Central Servicing Agent (CSA) for the 504 loan program reviews certain documents critical for the funding to occur and provides a list and tally of debentures to be funded, and forwards the *Debentures* to the Trustee. Following the debenture funding, it disburses proceeds from the funding, completes certain documents, prepares the amortization schedules for the *504 Notes*, and provides related documentation to the SBA and the CDC.

Timing for debenture funding

Table 4-1: Funding Dates

Dates in Relation to when Closing Package is Submitted to SBA	Dates for Submitting Documents to Colson Services by the Funding Date, Debenture Pricing, Net Proceeds Wired and Colson Services Follow-up
35 days before or the date, closing package is submitted to SBA	<p>Note: Your SBA District Office has specific deadlines for submitting the package.</p> <p>Closing package due at SBA District Office</p>
22 days before	Closing documents from CDC are due at COLSON
8 days before	Debenture priced
Wednesday of the 2 nd full week of the month	Net Proceeds Wired
1 day after	Balance of fees disbursed and balance to borrower mailed by CSC to borrower.
7 days before	Completed closing documents downloaded

The timing for the debenture pricing and funding is also expressed as:

- Pricing – usually the Tuesday following the first Sunday of the month
- Funding – usually the Wednesday following the second Sunday of the month

Note: Every year DCFC and SBA publishes a list of pricing and funding dates.

Documents sent after debenture funding

Certain documents are sent to the SBA District Counsel and CLSC after the debenture funding occurs and are available to CDCs through the CDCOnline website. Here is a list of documents, who sends the documents, how many copies are sent and who receives the documents.

Trustee: Bank of New York

- Two (2) “conformed” copies of the *Debenture* are sent to the SBA District 1 Counsel. The Bank of New York keeps the original *Debenture* in its vault. If the *Debenture* is prepaid, or reaches maturity, the original *Debenture* is marked PAID IN FULL and sent to the CDC after the full payment has been made by the Bank of New York to the DCPC investors at the semi-annual debenture payment date.
- Two (2) copies of the *Debenture Amortization Schedule* are sent to the CDC.

A “conformed copy” is a computer-generated page of a document. The appearance of a conformed copy page is different from the original. The *Debenture*, *504 Note*, and *Servicing Agent Agreement* will have conformed copy pages that are sent after the debenture funding.

This allows the Bank of New York (*Debenture*) and COLSON (*504 Note and Servicing Agent Agreement*) to generate the conformed copy pages from their databases to complete the documents and minimize errors. The conformed copies of the *504 Note* and *Servicing Agent Agreement* should be attached to the document and given to the borrower.

- One (1) copy of the *Debenture Prepayment Premium Schedule* is sent to the SBA District Office Legal Counsel and three (3) copies to COLSON. The CDC may access a conformed copy via the CDCOnline website. The CDC is responsible for sending one copy to the borrower.

Central Servicing Agent: COLSON Services Corp.

- One (1) conformed copy of page 1 of the *504 Note* is sent to the SBA District Office Legal Counsel. The CDC may access a conformed copy via the CDCOnline website. The CDC forwards one (1) copy to the borrower. The SBA Commercial Loan Servicing Centers (CLSC) retain the original *504 Note*.

Documents sent after debenture funding

- One (1) copy of the *Note Amortization Schedule* is sent to the SBA District Office Legal Counsel. The CDC may access a conformed copy via the CDCOnline website. CDC. The CDC forwards one (1) copy to the borrower.
- One (1) conformed copy of pages 3 and 4 of the *Servicing Agent Agreement* to the SBA District Office Legal Counsel. The CDC may access a conformed copy via the CDCOnline website. The CDC forwards one (1) copy to the borrower. COLSON retains the original *Servicing Agent Agreement* in its files.
- The CDC may access a conformed copy of the Debenture Prepayment Premium Schedule via the CDCOnline website. The CDC should retain one (1) copy for its files and forward one (1) copy to the borrower.

	Sent by →	Sent to →
	Bank of New York	Colson Services Corp. SBA CLSC CDC Borrower
<i>Debenture</i> (conformed copy)	2 copies-----	1 copy
<i>Debenture Amortization Schedule</i>	1 copy----- 2 copies-----	1 copy
<i>Debenture Prepayment Premium Schedule</i>	1 copy----- 3 copies-----	SBA 2 copies----- 1 copy----- Borrower
<i>504 Note</i> (conformed copy)		1 copy----- SBA 2 copies----- 1 copy----- Borrower
<i>Note Amortization Schedule</i>		1 copy----- SBA 2 copies----- 1 copy----- Borrower
<i>Servicing Agent Agreement</i> (conformed copy)		1 copy----- SBA 2 copies----- 1 copy----- Borrower

Sample conformed copy

Page 3 of the Servicing Agent Agreement

Below is a sample conformed copy of page 3 of the Servicing Agent Agreement:

3. DEBENTURE & NOTE TERMS

Date of SBA approval: September 20, 2007

	A. Debenture	B. Note (or Lease)
a. Principal Amount *	\$ 93,000.00	\$ 93,000.00
b. Date	January 14, 2008	November 10, 2007
c. Interest Rate **	(1) 6.12500 %	(2) 6.18500 % **
d. Maturity Date *	January 1, 2027	January 1, 2027
e. Payment Amount	(3) \$ 4056.10 (Semi-Annual)	(4) \$ 676.02 (Monthly) ***
f. Payment Dates	Semi-Annual	The first of each month beginning February 2008

* Item in Column A must be identical to item in Column B

** The Note Rate is the interest rate charged on the Debenture, adjusted to reflect monthly amortization.

*** Servicing fees are added to monthly principal and interest payments to arrive at Borrower's total monthly payment.

4. PAYMENT

a. Borrower agrees to:

- (1) Make timely monthly payments to CSA by Automatic Clearing House (ACH) or Federal Fund wire transfer if ACH is not available, or as approved by CSA in writing.
- (2) Pay all fees and closing costs owed by borrower as described in this Agreement.

b. If the borrower fails to make timely payments, the CDC agrees to collect and send the delinquent payments it collects from the borrower to the CSA.

5. UNDERWRITERS' FEE

The offering of the Certificates to Investors through one or more Underwriters has been arranged.

The Underwriters' fee for this service is one half of one (.5%) percent of the total Debenture proceeds stated in Section 6.

(For calculation of Underwriters' fee, see Section B.1 of the 504 Authorization.)

Sample conformed copy

Explanation of page 3 of the Servicing Agent Agreement

The “conformed” (i.e., computer-generated) copies of the pages of the *Servicing Agent Agreement* contain details of the interest rate and payments that were left blank on the original form. The page is a restatement of page 3 of the *Servicing Agent Agreement*.

Here’s what is completed by COLSON on page 3 of the Servicing Agent Agreement:

Table 4-2: How Colson Completes Servicing Agent Agreement, page 3	
Reference Number	Servicing Agent Agreement – Form 1506 Explanation of Information Completed by Colson Services Corp.
(1)	The <i>Debenture</i> interest rate. This is the rate of return the investors receive on their investment in the Development Company Participation Certificates (DCPCs).
(2)	The <i>504 Note</i> interest rate. This is the note rate the borrower pays without the fees added into the rate of interest.
(3)	The amount of the semi-annual payment on the <i>Debenture</i> .
(4)	The monthly principal and interest payment on the 504 loan. This payment amount EXCLUDES the SBA ongoing guarantee fee and the servicing fees that are added to the monthly payment. The <i>504 Amortization Schedule</i> will list each fee per payment and will show the monthly payment the borrower must make that includes the servicing fees.

How do the Servicing Centers received conformed copies?

The trustee sends the conformed copies to the CLSC.

Note Amortization Schedule

Example

- BWR = Name of borrower
 - OC = OC if EPC/OC loan
 - ISS = Date debenture is issued
 - ID#
 - CDC number
 - SBA loan number
 - CDC Name abbreviated
 - AMT = Loan amount
 - RATE = Note rate
 - ESC = Monthly escrow
 - TERM = Term of loan
- Monthly payments each five years providing the loan is current on its five-year anniversary date.

COLSON SERVICES CORP

AMORTIZATION SCHEDULE (FFLD220C)

MONTHLY/5 YRS

BWR:	ACE REAL ESTATE, LLC	AMT:	374,000.00	1-5	3,407.49
OC:		RATE:	8.091%	6-10	3,374.21
ISS:	May 13, 2007	ESC:	3,142.57	11-15	3,325.30
ID #:	01001 9876544000 CDC NAME	TERM:	20 YEARS	161-20	3,252.09

MNTH	YR	NO	INTEREST	PRINCIPAL	BALANCE	SBA	CDC	CSA	PAYMENTS
JUN	07	1	1,681.13	1,461.44	372,538.56	38.96	194.79	31.17	3,368.53
JUL	07	2	2,511.84	630.73	371,907.83	38.96	194.79	31.17	3,368.53
AUG	07	3	2,507.59	634.98	371,272.85	38.96	194.79	31.17	3,368.53
SEP	07	4	2,503.31	639.26	370,633.59	38.96	194.79	31.17	3,368.53
OCT	07	5	2,499.00	643.57	369,990.02	38.96	194.79	31.17	3,368.53
NOV	07	6	2,494.66	647.91	369,342.11	38.96	194.79	31.17	3,368.53
DEC	07	7	2,490.29	652.28	368,689.83	38.96	194.79	31.17	3,368.53
JAN	08	8	2,485.89	656.68	368,033.15	38.96	194.79	31.17	3,368.53
FEB	08	9	2,481.46	661.11	367,372.04	38.96	194.79	31.17	3,368.53
MAR	08	10	2,477.01	665.56	366,706.48	38.96	194.79	31.17	3,368.53
APR	08	11	2,472.52	670.05	366,036.43	38.96	194.79	31.17	3,368.53

↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Month/Yr Payment is due	Pmt #	Payment applied to interest & principal	Principal balance after application of monthly principal payment	SBA Fee	CDC Fee	CSA Fee	Total monthly payment		

Note Amortization Schedule

What you should know about the Note Amortization Schedule

The interest on 504 loans is calculated based on a 30/360 basis

- This means that a loan payment is applied to fees, interest and principal (in that order) from the preceding month.

Example: The debenture funded on May 14, 2007. On June 1, the borrower's payment was applied to fees, interest, and then principal from the **preceding** month.

- The monthly loan payments made by the borrower remain the same for five-year periods. The amount paid in fees remains the same for five-year periods.
- Interest for the first month is charged from the day the debenture was sold through the 30th of the month. Since the borrower's payment remains the same each month for the first five years applied to principal, the first month's split in payment between principal and interest is a larger sum than for the next month.

Since there are fewer days of interest, the amount of the monthly payment applied to interest is a smaller sum and the amount applied to principal is a larger sum than that of the next month.

The first month's payment will always be a partial month of interest. Therefore, the first payment made on a 504 loan will always show a higher principal payment.

Example: June's payment was applied to principal and accrued interest in May.

Since May is a partial month of interest (from the 14th through the 30th), principal for the first month is \$1,461.44 compared to the second month's principal payment of \$630.73.

The interest for June is \$1,681.13 compared to \$2,511.84 for the next month.

Where does the identifying information come from?

This will match information on the *Servicing Agent Agreement*.

Will monthly payments always follow the amortization schedule at the 5-year anniversary date of the loan?

Not necessarily. If the borrower is not current at its 5-year anniversary date, COLSON must recalculate the monthly payments using the **ACTUAL** outstanding *Note* principal balance to calculate fee payments. As a result, the borrower's payment will be higher than what is on the *Note Amortization Schedule* for the next five years because fees are calculated on a higher principal balance.

Development Company Debenture

Example of a conformed copy

DEVELOPMENT COMPANY 504 DEBENTURE

CONFORMED
COPY

Date of Issuance: **June 1, 2007**
Date of Maturity: **June 1, 2020**
Original Principal Amount: **\$55,000.00**

YOUR CDC NAME (the "Company")
YOUR CDC ADDRESS

For value received, the Undersigned Company promises to pay Bank of New York, as Trustee under that certain Trust Agreement, dated as of December 1, 1986, at such location as may be directed, the principal of **FIFTY-FIVE THOUSAND and 00/100 DOLLARS (\$55,000.00)**, together with interest on the unpaid principal computed from the Date of Issuance hereof based on a 360-day year made up of twelve (12) thirty (30) day months, until paid at the rate of **SIX AND THIRTY ONE-HUNDRETHS PERCENT (6.3100%)** per annum.

(1)

Payment on this Debenture is made as follows:

Twenty (20) consecutive semi-annual payments of **TWO THOUSAND FOUR HUNDRED THIRTY DOLLARS AND EIGHTY-FIVE CENTS (\$2,430.85)** each June 1 and December 1 (the "Payment Dates") beginning on January 1, 2008 and ending on the Date of Maturity hereof.

(2)

This Debenture is guaranteed by SBA, pursuant and subject to Section 503 of the Small Business Investment Act of 1958, as amended, (the "Act") (15U.S.C. 697).

The proceeds of the sale of this Debenture will be used to fund a loan or to finance property subject to a lease (such as a loan **or** lease is referred to herein as a "loan") by the Company to the following small business concern:

Small Business Project: **NAME OF BORROWER** (The "Small Business Concern")

Debenture Number: 2003-20F/07-371-34122 (3) Loan Number: 1763774006

Each payment made on this Debenture shall be applied first to the payment of interest and then to the payment of principal and shall be in such funds as are then legal tender for the payment of debts due to the United States.

The unpaid principal balance of this Debenture together with accrued interest, shall become immediately due and payable upon acceleration of the Note; provided however, that the termination of a lease on property financed from the proceeds of this debenture shall not require the acceleration of this debenture as long as the Company continues to pay principal and interest when due hereunder, or as long as SBA in its sole discretion makes such payments of principal and interest to the holder of this debenture.

-1-

CONFORMED
COPY

SBA Form 1504 (11-86) Previous Editions Are Obsolete

Development Company Debenture

Explanation of a conformed copy

This is a CDC document. It is not sent to the borrower. The Bank of New York, as Trustee and Issuing Agent, generates the “conformed copy” of the Debenture face page following the funding. It then sends the computer-generated face page, or “conformed copy,” to the SBA District Legal Counsel who then is responsible for sending a copy to the CDC for its files.

The lines that were left blank when the CDC prepared the Debenture are completed.

Number	Instructions
(1)	The Debenture Interest Rate from the debenture funding is entered here. This is the rate of interest the investors earn on the <i>Development Company Participation Certificates (DCPCs)</i> . This interest rate is also found on the <i>Debenture Amortization Schedule</i> and the <i>Debenture Prepayment Premium Schedule</i> .
(2)	The semi-annual payment amount due on the Debenture is entered in text followed by numerical value.
(3)	The Debenture Number is added. This number is also found on the <i>Debenture Amortization Schedule</i> and the <i>Debenture Prepayment Premium Schedule</i> .

What does the Debenture Number mean?

Example: 2007-20F/07-371-34122

Coding of Debenture Number	Debenture Number Coding Explanation
2007	Year the debenture is issued
20	Term of the Debenture (20-year or 10-year)
F	Month of issue For 20-year pools: A=Jan, B=Feb, C=Mar, etc. For 10-year pools issued before March 1995: A=Jan, B=Apr, C=Jul & D= Oct For 10-year pools issued after March 1995: A=Jan, B=Mar, C=May, D=Jul, E=Sep & F=Nov
07	SBA Region Number
371	CDC Number
34122	Sequential Debenture Number. Both 10 and 20-year Debentures started at 1

Debenture Prepayment Premium Schedule

Example of a schedule

U.S GOVERNMENT GUARANTEED		
6.3000% DEVELOPMENT COMPANY PARTICIPATION CERTIFICATES		(1)
SERIES 2007-20F		(2)
DEBENTURE PREPAYMENT PREMIUM SCHEDULE		
SMALL BUSINESS CONCERN: <i>Name of Borrower</i>		(3)
ISSUER: <i>Your CDC Name</i>		(4)
DEBENTURE NUMBER: 2007-20F/07-371-34122		(5)
SBA LOAN NUMBER: 1763774006		(6)
DEBENTURE PRINCIPAL: \$55,000.00		(7)
PAYMENT DATE	PREMIUM AMOUNT (see Note 1)	PREPAYMENT Rate (INT%)
(8) Dec 1, 2007	3411.30 (9)	6.30000
Jun 1, 2008	3365.61	6.30000
Dec 1, 2008	2986.64	5.67000
Jun 1, 2009	2942.89	5.67000
Dec 1, 2009	2575.79	5.04000
Jun 1, 2010	2534.41	5.04000
Dec 1, 2010	2180.26	4.41000
Jun 1, 2011	2141.74	4.41000
Dec 1, 2011	1801.72	3.78000
Jun 1, 2012	1766.59	3.78000
Dec 1, 2012	1441.96	3.15000
Jun 1, 2013	1410.81	3.15000
Dec 1, 2013	1102.94	2.52000
Jun 1, 2014	1076.43	2.52000
Dec 1, 2014	786.81	1.89000
Jun 1, 2015	765.65	1.89000
Dec 1, 2015	495.88	1.26000
Jun 1, 2016	480.87	1.26000
Dec 1, 2016	232.70	0.63000
(10) Jun 1, 2017	224.71	0.63000
Note 1: Premium amount is based on Debenture balance. No prepayment premium after the tenth year.		

Debenture Prepayment Premium Schedule

Explanation of the schedule

Table 4-5: Debenture Prepayment Premium Schedule	
Number	Explanation of Debenture Prepayment Premium Schedule
(1)	Debenture Interest Rate
(2)	Year Debenture Issued Term of the Debenture
(3)	Name of the 504 Borrower
(4)	Name of CDC as Issuer of the Debenture
(5)	Debenture Number
(6)	SBA 504 Loan Number
(7)	Debenture Amount
(8)	Semi-annual payment dates
(9)	Prepayment Premium to be paid
(10)	Last semi-annual payment date that a prepayment penalty applies

This table shows the prepayment premium due the investors at each semi-annual debenture payment date if the borrower elects to prepay its 504 loan during the first half of the debenture term. The premium starts at the “full coupon” (debenture interest rate) and declines ratably over the first half of the term.

- For a 20-year note/debenture a prepayment premium is due from the borrower if the borrower prepays within the first 10 years.
- For a 10-year note/debenture a prepayment premium is due from the borrower if the borrower prepays within the first 5 years.

After the first half of the debenture term there is no prepayment penalty. Only the remaining principal balance is required to prepay the debenture. This is called prepaying at par.

How is the prepayment premium calculated?

The debenture interest rate determines the amount of the prepayment premium. The premium begins in year one. It is calculated by multiplying the debenture rate of interest by the principal balance on the debenture. The premium then declines by 1/10th of the debenture rate annually on a 20-year debenture for the first 10 years. After that, the premium is 0%. On a 10-year debenture, the premium declines by 1/5th of the debenture rate annually for the first five years. After that, the premium is 0%.

Example for a 20 Year Debenture: Interest rate = 6.30%; annual decrease = $6.30\% \div 10 = .63\%$

Year 01: 6.30% X Principal Balance
Year 02: $6.30\% - .63\% = 5.67\%$ X Remaining Principal Balance
Year 03: $5.67\% - .63\% = 5.04\%$ X Remaining Principal Balance
Year 04: $5.04\% - .63\% = 4.41\%$ X Remaining Principal Balance
Year 05: $4.41\% - .63\% = 3.78\%$ X Remaining Principal Balance
Year 06: $3.78\% - .63\% = 3.15\%$ X Remaining Principal Balance
Year 07: $3.15\% - .63\% = 2.52\%$ X Remaining Principal Balance
Year 08: $2.52\% - .63\% = 1.89\%$ X Remaining Principal Balance
Year 09: $1.89\% - .63\% = 1.26\%$ X Remaining Principal Balance
Year 10: $1.26\% - .63\% = 0.63\%$ X Remaining Principal Balance
Year 11: $0.63\% - .63\% = 0.00\%$ X Remaining Principal Balance

Example for a 10 Year Debenture: Interest rate = 6.30%; annual decrease = $6.30\% \div 5 = 1.26\%$

Year 01: 6.30% X Principal Balance
Year 02: $6.30\% - 1.26\% = 5.04\%$ X Remaining Principal Balance
Year 03: $5.04\% - 1.26\% = 3.78\%$ X Remaining Principal Balance
Year 04: $3.78\% - 1.26\% = 2.52\%$ X Remaining Principal Balance
Year 05: $2.52\% - 1.26\% = 1.26\%$ X Remaining Principal Balance
Year 06: $1.26\% - 1.26\% = 0.00\%$ X Remaining Principal Balance

Debenture Amortization Schedule

Example of a schedule

<p>(1) US GOVERNMENT GUARANTEED 6.3000% DEVELOPMENT COMPANY PARTICIPATION CERTIFICATES SERIES 2007-20F</p> <p>DEBENTURE AMORTIZATION SCHEDULE</p> <p>SMALL BUSINESS CONCERN: <i>Name of Borrower</i> (2) DEBENTURE NUMBER: 2007-20F/07-371-34122 (3)</p> <p>ISSUER: <i>Your CDC Name</i> (4) SBA LOAN NUMBER: 176377-4006 (5)</p> <p>DEBENTURE PRINCIPAL: \$55,000.00 (6)</p> <p>(7)</p>									
Payment Date	Amt Paid	Interest Paid	Semi-annual Payment	Remaining Principal Amount	Payment Date	Amt Paid	Interest Paid	Semi-annual Payment	Remaining Principal Amount
Dec 1, 2007 Jun 1, 2008	852.35 725.20	1578.50 1705.65	2430.85 2430.85	54147.65 53422.45	Dec 1, 2017 Jun 1, 2018	1307.29 1348.47	1123.56 1082.38	2430.85 2430.85	34361.22 33012.75
Dec 1, 2008 Jun 1, 2009	748.04 771.61	1682.81 1659.24	2430.85 2430.85	52674.41 51902.80	Dec 1, 2018 Jun 1, 2019	1390.95 1434.76	1039.90 996.09	2430.85 2430.85	31621.80 30187.04
Dec 1, 2009 Jun 1, 2010	795.91 820.98	1634.94 1609.87	2430.85 2430.85	51106.89 50285.91	Dec 1, 2019 Jun 1, 2020	1479.96 1526.58	950.89 904.27	2430.85 2430.85	28707.08 27180.50
Dec 1, 2010 Jun 1, 2011	846.84 873.52	1584.01 1557.33	2430.85 2430.85	49439.07 48565.55	Dec 1, 2020 Jun 1, 2021	1374.55 1624.27	856.19 806.58	2430.85 2430.85	25605.84 23981.57
Dec 1, 2011 Jun 1, 2012	901.04 929.42	1529.81 1501.43	2430.85 2430.85	47664.51 46735.09	Dec 1, 2021 Jun 1, 2022	1675.43 1728.21	755.42 702.64	2430.85 2430.85	22306.14 20577.93
Dec 1, 2012 Jun 1, 2013	958.69 988.89	1472.16 1441.96	2430.85 2430.85	45776.40 44787.51	Dec 1, 2022 Jun 1, 2023	1782.65 1838.80	648.20 592.05	2430.85 2430.85	18795.28 16956.48
Dec 1, 2013 Jun 1, 2014	1020.04 1052.17	1410.81 1378.68	2430.85 2430.85	43767.47 42715.30	Dec 1, 2023 Jun 1, 2024	1896.72 1956.47	534.13 474.38	2430.85 2430.85	15059.76 13103.29
Dec 1, 2014 Jun 1, 2015	1085.32 1119.51	1345.53 1311.34	2430.85 2430.85	41629.98 40510.47	Dec 1, 2024 Jun 1, 2025	2018.10 2081.67	412.75 349.18	2430.85 2430.85	11085.19 9003.52
Dec 1, 2015 Jun 1, 2016	1154.77 1191.15	1276.08 1239.70	2430.85 2430.85	39355.70 38164.55	Dec 1, 2025 Jun 1, 2026	2147.24 2214.88	283.61 215.97	2430.85 2430.85	6856.28 4641.40
Dec 1, 2016 Jun 1, 2017	1228.67 1267.37	1202.18 1163.48	2430.85 2430.85	36935.88 35668.51	Dec 1, 2026 Jun 1, 2027	2284.65 2356.75	146.20 74.24	2430.85 2430.85	2356.75 0.00

Debenture Amortization Schedule

Explanation of the schedule

Table 4-6: Debenture Amortization Schedule	
Number	Explanation of Items on Schedule
(1)	Debenture Interest Rate
(2)	Name of the 504 Borrower
(3)	Year Debenture Issued Term of the Debenture
(4)	Name of CDC as Issuer of the Debenture
(5)	SBA 504 Loan Number
(6)	Debenture Amount
(7)	Semi-annual payment dates on this debenture

This is the schedule that shows the amortization of the Debenture that was issued by the CDC. The report received by the CDC will be in landscape format.

Each *Debenture Amortization Schedule* will reference the corresponding 504 loan. In the heading part of the document, it will name:

- the name of the Borrower as typed on the Debenture);
- the SBA Loan Number; and
- the Debenture Principal (this amount will be identical to the 504 Loan amount).

The *Debenture Amortization Schedule* begins with the first semi-annual payment due date and the amount due at the time. The *Debenture Amortization Schedule* in the example on the previous page shows that the first semi-annual payment is due December 1, 2007. The Debenture was funded in June, 2007.

How are the Debenture payments made?

The monthly note payments made by the borrower are placed in an interest-bearing account and paid out semi-annually to the Trustee. The Trustee calculates the semi-annual payment amounts due on the debentures and upon receipt of these funds from COLSON, makes the principal and interest payments due to the *Development Company Participation Certificate (DCPC)* investors for the semi-annual payment period. Therefore, principal and interest payments made by the borrower on the Note over a six-month period repay the semi-annual payment required on the Debenture.

The Trustee sends the *Debenture Amortization Schedule* to borrower.

Understanding interest rates in 504 loans

Interest rate definitions

Benchmark Treasury Interest Rate + **Spread Over Treasury** = **Debenture Interest Rate**

Debenture Interest Rate (semi-annual payments) $\xrightarrow{\text{reconciled with}}$ **Monthly Payments Required on the 504 Note** = **Note Interest Rate** + **Fees calculated monthly & adjusted at 5-year intervals** = **Effective Interest Rate**

1. **Benchmark Treasury Interest Rate.** The pricing of the debenture begins with a rate of interest that is considered a “benchmark” or a logical place to begin. This is commonly called a “Treasury Rate” but it is not one single rate.

The U.S. Treasury issues a wide variety of securities ranging from 30 days to 30 years. These issues are widely traded and are the premier credit in the world. As a result, the interest rates on Treasury securities are used as a benchmark from which to judge most other issues in our capital markets.

Treasury interest rates typically used for this benchmark are those representing current market trading on the most recent issues in the maturity range of the security being compared.

Following are definitions that pertain:

- a. Treasury Rate. Rates on marketable U.S. Treasury securities used as a benchmark by most issuers in our domestic capital market. The rates are a point of reference and a means of communicating to potential investors and other interested parties as to where a particular security ranks in an array of available issues with a wide variety of designs, size of issue and credit ranking.
- b. Issuer. A borrower or a pool of borrowers (for example, CDCs in the 504 program) who exchange a security (a promise of future repayment) for current funds or money. Such securities are sold in the public markets and agents representing the issuer may be employed.
- c. Issue of Securities. A single unit of borrowing with distinct terms distinguishing it from other borrowings by the same or other issues. With the 504 loan program, CDCs are issuing securities for 20-year debentures monthly. Every other month, CDCs are issuing separate securities for 10-year securities.

Understanding interest rates in 504 loans

Interest rate definitions

- d. **Design of issues.** Each issue has its own design characteristics. In the case of the 20-year 504 debentures, which are amortized, the current market rate on the most recent 10-year Treasury issue is used as the benchmark. Similarly, the 5-year Treasury issue is used for the 10-year 504 debenture. An issue of 10-year Treasury notes is a promise to repay in a single payment 10 years from the borrowing date. An issue of a 10-year 504 debenture is a promise to repay on an amortized schedule with the final repayment 10 years from the borrowing date. Both issues pay interest on the unpaid balance semi-annually.
2. **Spread over Treasury.** This refers to the number of basis points (percentage points) negotiated between the Fiscal Agent and the Underwriters. The spread is determined by market factors, historical 504 Loan performance in voluntary prepayments and purchases, volume of the offering, etc.
3. **Debenture Interest Rate.** This is the investor's rate of return on his/her purchase of the *Development Company Participation Certificates (DCPCs)* and the interest rate that determines the CDC's semi-annual obligation on the debenture. The debenture interest rate is fixed for the life of the loan. This rate is found on the *Debenture*, the *Debenture Prepayment Schedule* and the *Debenture Amortization Schedule*.
4. **Note Rate.** This rate is found on the *504 Note* and on the *504 Note Amortization Schedule*. It is the rate the borrower pays on its Note before fees are added. The Note rate is calculated by COLSON and is the result of reconciling the semi-annual debenture payments and the monthly Note payments. The Note rate is fixed for the life of the loan.
5. **Effective Interest Rates.** This is the rate of interest the borrower pays when the fees are calculated into the monthly payments of principal and interest. The method for calculating this rate was changed in mid-1999. The new method uses the opening principal balance for each month (matching the borrower's actual payment of principal assuming the borrower is current on his/her loan payments), then solves for the interest rate required to generate the necessary interest and fees for each monthly period. This generates a different effective rate for each month. A weighted-average of all the monthly effective rates within each 5-year period supplies the periodic rates.
6. **Overall Effective Interest Rate.** The weighted-average of all monthly effective rates supplies the overall effective rate. The effective interest rate is found on the letter sent monthly by DCFC to the CDC industry. There are two key points to remember about the effective interest rate:
 - a. Fees are calculated on the outstanding principal balance of the *504 Note*. If the borrower is current at each 5-year anniversary date of the loan, the borrower's

monthly payments will follow the *504 Note Amortization Schedule*. If the borrower is NOT current at his/her 5-year note anniversary date, the monthly payments for the next 5 years will be higher than what is shown on the amortization schedule.

- b. The effective interest rate will depend upon the fees in place at the time the Loan was approved. These fees are:
 - 1) CDC Fee. The CDC fee is a minimum of 0.625%, with 0.125% being paid to SBA for approvals on or after October 1, 1996. The fee may be higher in rural areas and under other circumstances that are management decisions of the CDC with approval by SBA. The regulatory ceiling for CDC fees is 2%. However, no servicing fee higher than 1.5% in a rural area or 1% everywhere else will be allowed without being fully justified and only upon written approval from the SBA Associate Administrator for Financial Assistance, or designee.
 - 2) SBA On-Going Guarantee Fee. The fee in place for approvals on or after October 13, 1995. This fee is changed at the start of each Federal government fiscal year since then and is used to offset the subsidy rate on the 504 loan program.
 - 3) Central Servicing Agent (CSA) Fee. The CSA fee is 0.100%. This fee does not go directly to COLSON since COLSON's income is determined by the CSA contract with the SBA.

Notification of interest rates on 504 loans

DCFC monthly letter to the CDC industry

Shortly after the monthly funding, each CDC receives a letter from the Development Company Finding Corporation (DCFC). This letter discusses market influences that have an effect on debenture interest rates. Interest rates are provided on the back of the letter. Details are given for that month's funding and a 12-month history of interest rates is provided.



Date: June 13, 2007
To: Certified Development Companies
From: Steve Van Order, DCFC Fiscal Agent
Subject: June 2007 504 Debenture Offering (2007-20F)

On June 13, 2007, 662 twenty-year debentures totaling \$386,444,000 were funded through the sale of certificates guaranteed by SBA. Below are the debenture rates and pricing results set June 5:

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2007-20F (6/5/07)	4.976%	57.25 BP	16.15 BP	5.71%	73.4 BP
2007-20E (5/8/07)	4.624%	53.75 BP	14.85 BP	5.31%	68.6 BP
Change	+35.2 BP	+3.50 BP	+1.30 BP	+40 BP	+4.80 BP

Bondland TKO. Global government interest rates rose sharply during the week of pricing and have steadily risen since late April. In the overseas session on Friday, June 8 the ten-year T-note yield touched 5.25%, the last bear cycle high. Last Thursday's 16 BP daily rise in the treasury ten-year note yield was about a 2.5 standard deviation event, very rare. The June debenture rate, set last Tuesday, was the highest since last July. The 40 BP month-over-month rise was the biggest in three years.

How Come? Growing awareness that more central banks are poised to tighten has been a key fundamental factor driving global yields higher. Global growth is strong and inflation in a number of countries is rising or stuck at a level unacceptable to central banks. The last folks out there seemed to have abandoned hope for Fed rate cuts this year. Buy-side accounts reduced duration. Heavy supply of corporate, CMBS and government bonds over the last month put on technical pressure. The steady rise in yields since April finally forced mortgage hedgers to take some action. The last few reasons make me wonder if the oversold condition in Bondland has peaked, at least for now. We spent so long in the lower end of the trading range in place over the last year that a treasury coupon curve all above 5% yield looked exotic. But we last had one in July, not last decade. Also of interest was a return to a normally-sloped treasury yield curve, something last spotted in May 2006 before the last Fed hike.

For you historians out there, the 20-year debenture rate high for the last interest rate cycle was 6.07% set last July. For the prior cycle it was 8.03% in May 2000. The most recent 12-month low was 5.12%. This June's 5.71% interest rate sits a bit above the 12-month midpoint of 5.60%. Over the life of the program the average debenture rate was 7.08%. Unless long term interest rates have moved in to a new bear cycle, last July's cycle high should hold.

The July offering will consist of 10- and 20-year debentures. The cutoff date to submit loans to Colson Services for this offering is June 19. A request to remove a loan from this offering must be made through Colson Services by the Thursday before pricing date. DCFC will reject a request made too close to the pricing date. Pricing date is July 3, on which the debenture interest rates will be set. The debentures will be funded on July 11.

Notification of interest rates on 504 loans

DCFC monthly letter to the CDC industry-table of interest rates

January 2009 Interest Rates																						
Issue Date	Amount of Debentures (\$)	Debenture Rate (%)	Note Rate (%)	Treasury Market Rate (%)	Spread Over Treasury Rate (%)	CDC Fee (Percent Fee CSA Fee)	0.625		1.000		1.625		2.000		2.625							
							0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100	0.100		
							10-Year Debentures															
Sep-06	22,336	5.37	5.5553	4.72	0.66	N/A	N/A	N/A	N/A	N/A	N/A	7.16	N/A	7.01	N/A	6.87	7.41					
Nov-06	22,745	5.23	5.4117	4.61	0.62	N/A	N/A	N/A	N/A	N/A	N/A	7.56	6.87	8.03	6.73	7.27						
Mar-07	9,298	5.05	5.2264	4.46	0.59	N/A	N/A	N/A	N/A	N/A	N/A	6.69	7.23	6.55	7.09	6.30	6.84					
May-07	14,473	5.11	5.2884	4.53	0.58	N/A	N/A	N/A	N/A	N/A	N/A	6.90	N/A	6.61	7.15	6.36	6.90					
Jul-07	12,373	5.59	5.7809	4.91	0.68	N/A	N/A	N/A	N/A	N/A	N/A	7.23	N/A	7.09	7.63	6.85	7.38					
Sep-07	21,608	5.25	5.4317	4.25	1.00	N/A	N/A	7.08	N/A	N/A	N/A	6.89	N/A	6.75	7.29	6.50	7.04					
Nov-07	19,706	5.12	5.2984	3.99	1.14	N/A	N/A	N/A	N/A	N/A	N/A	6.76	N/A	6.62	7.16	6.37	6.91					
Jan-08	19,652	4.55	4.7121	3.21	1.34	N/A	N/A	N/A	6.92	N/A	N/A	6.18	N/A	6.04	6.58	5.79	6.33	5.79	N/A			
Mar-08	29,252	4.58	4.7424	2.51	2.08	N/A	N/A	N/A	6.92	N/A	N/A	6.36	N/A	6.20	6.07	6.61	5.82	6.36	5.82	6.36		
May-08	23,973	4.86	5.0309	3.09	1.77	N/A	N/A	N/A	6.92	N/A	N/A	6.36	N/A	6.20	6.04	6.35	6.89	5.82	6.64	6.11	6.65	
Jul-08	23,525	5.34	5.5249	3.18	2.16	N/A	N/A	N/A	N/A	N/A	N/A	7.52	N/A	N/A	6.59	7.13	6.60	7.14				
Sep-08	17,124	5.11	5.2886	2.97	2.14	N/A	N/A	N/A	N/A	N/A	N/A	6.61	N/A	6.61	7.15	6.36	6.90	6.36	6.91			
Nov-08	22,310	5.85	6.0481	2.71	3.14	N/A	N/A	N/A	N/A	N/A	N/A	7.36	NA	7.11	7.65	7.12	7.65					
Jan-09	12,907	5.07	5.2470	1.18	3.31	N/A	N/A	N/A	N/A	N/A	N/A	6.57	N/A	6.57	7.11	6.32	6.86	6.32	6.86	N/A	6.83	
							20-Year Debentures															
Jan-07	349,731	5.32	5.39570	4.66	0.66	N/A	N/A	6.78	7.23	N/A	7.21	6.74	7.19	6.62	7.07	6.50	6.95	6.29	6.74			
Feb-07	309,789	5.49	5.56690	4.81	0.68	N/A	N/A	6.95	7.40	N/A	7.21	6.91	N/A	6.78	7.24	6.67	7.12	6.46	6.91			
Mar-07	378,043	5.23	5.30474	4.52	0.72	N/A	N/A	6.69	7.14	N/A	6.65	7.10	6.52	6.98	6.41	6.86	6.20	6.65				
Apr-07	378,405	5.32	5.39531	4.65	0.67	N/A	N/A	6.78	N/A	N/A	6.74	7.19	6.61	7.06	6.50	6.95	6.29	6.74				
May-07	435,025	5.31	5.38554	4.62	0.69	N/A	N/A	6.77	N/A	6.75	6.73	7.18	6.61	7.06	6.49	6.94	6.28	6.73				
Jun-07	386,444	5.71	5.78856	4.98	0.73	N/A	N/A	7.17	7.62	N/A	7.60	7.13	7.58	7.00	7.45	6.89	7.34	6.68	7.13			
Jul-07	368,153	5.82	5.89926	5.01	0.81	N/A	N/A	7.28	N/A	N/A	7.24	7.69	7.11	7.56	7.00	7.45	6.79	7.24				
Aug-07	466,081	5.78	5.85923	4.74	1.04	N/A	N/A	N/A	N/A	N/A	7.69	7.20	7.65	7.08	7.53	6.96	7.41	6.75	7.20			
Sep-07	430,684	5.56	5.63733	4.55	1.01	N/A	N/A	7.02	N/A	N/A	6.98	N/A	6.85	7.30	6.74	7.19	6.53	6.98				
Oct-07	413,601	5.57	5.64776	4.61	0.96	N/A	N/A	7.03	N/A	N/A	6.87	N/A	6.87	7.32	6.75	7.20	6.54	6.99				
Nov-07	402,496	5.51	5.58708	4.36	1.15	N/A	N/A	N/A	N/A	N/A	6.93	7.38	6.80	7.26	6.69	7.14	6.48	6.93				
Dec-07	394,884	5.29	5.36513	3.87	1.42	N/A	N/A	N/A	6.73	N/A	6.71	7.16	6.58	7.03	6.47	6.92	6.26	6.71	6.26	6.71		
Jan-08	409,820	5.17	5.24434	3.89	1.28	N/A	N/A	N/A	7.08	6.61	6.59	7.04	6.47	6.92	6.35	6.80	6.14	6.59	6.14	6.60		
Feb-08	311,118	5.16	5.23410	3.54	1.62	N/A	N/A	N/A	N/A	6.62	N/A	N/A	6.45	6.91	6.34	6.79	6.13	6.58	6.13	6.58		
Mar-08	389,178	5.49	5.56677	3.56	1.93	N/A	N/A	6.95	N/A	N/A	6.91	7.36	6.78	7.23	6.67	7.12	6.46	6.91	6.46	6.91		
Apr-08	492,462	5.37	5.44608	3.54	1.83	N/A	N/A	N/A	N/A	N/A	6.79	N/A	6.67	7.12	6.55	7.00	6.34	6.79	6.34	6.80		
May-08	419,056	5.49	5.56689	3.83	1.66	N/A	N/A	N/A	N/A	N/A	6.91	7.36	6.78	7.24	6.67	7.12	6.46	6.91	6.46	6.91		
Jun-08	414,522	5.68	5.75819	4.01	1.67	N/A	N/A	N/A	N/A	N/A	7.10	N/A	6.97	7.42	6.86	7.31	6.65	7.10	6.65	7.10		
Jul-08	467,925	5.87	5.95001	3.90	1.97	N/A	N/A	N/A	N/A	N/A	7.29	N/A	7.17	7.62	7.05	7.50	6.84	7.29	6.85	7.30		
Aug-08	367,453	6.02	6.10085	3.97	2.05	N/A	N/A	N/A	N/A	N/A	7.44	N/A	7.31	7.76	7.19	7.65	6.99	7.44	6.99	7.44		
Sep-08	437,079	5.60	5.67800	3.66	1.94	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6.90	7.35	6.78	7.23	6.57	7.02	6.57	7.03		
Oct-08	311,548	5.63	5.70009	3.52	2.11	N/A	N/A	N/A	N/A	N/A	7.50	6.93	7.38	6.81	7.26	6.60	7.05	6.60	7.05			
Nov-08	366,967	6.77	6.85561	3.90	2.86	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.06	8.51	7.95	8.40	7.74	8.19	7.75	8.19		
Dec-08	397,153	6.22	6.30255	2.73	3.49	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.52	7.97	7.40	7.85	7.19	7.64	7.20	7.65	7.17	7.62
Jan-09	270,464	5.72	5.79871	2.57	3.15	N/A	N/A	N/A	N/A	N/A	7.14	N/A	7.01	N/A	6.90	7.35	6.69	7.14	6.69	7.14	6.67	7.12