Date: August 11, 2011

To: Certified Development Companies

From: Steve Van Order, DCFLLC Fiscal Agent

Subject: August 2011 SBA 504 Debenture Offering

On August 17, 2011, 575 twenty-year debentures totaling $334,006,000 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
2011-20H (08/09/11)	2.375%	+21.00 BP	70.50 BP	3.29%	91.50 BP
2011-20G (07/05/11)	3.142%	+12.00 BP	47.80 BP	3.74%	59.8 BP
Change	- 76.7 BP	+ 9.00 BP	+22.70 BP	-45 BP	31.7 BP

- The September offering will consist of *10- and 20-year debentures.*
- The ***cutoff date*** to submit loans to Colson for this offering is **Tuesday, August 23.**
- A ***request to remove a submitted loan*** from a financing must be made through Colson Services by close of business **Thursday, September 1**. In advance of that all CDCs are required to determine "no adverse change" for each loan before submitting it to SBA.[1]
- ***Pricing and pooling date*** is **Tuesday, September 6**, on which the debenture interest rates will be set and the pool legally formed and closed. Loans may not be pulled from the financing after the debenture interest rate has been set and the pool legally formed.
- The debentures will be funded on **Wednesday, September 14.**

The August debenture offering was conducted during some of the most volatile financial market conditions in recent years. Before the deal was announced US leaders agreed and passed legislation raising the debt ceiling. So the specter of a delayed offering while Treasury ran out of cash vanished. Be sure, however, that during the prior week SBA's fiscal and selling agent, DCFLLC, pulled its contingency plans off the shelf and held discussions on how to manage in a scenario without a debt ceiling increase. But, fortunately, those plans went back on the shelf. What could possibly be next after that near miss?

Well, after the debt ceiling problem we then encountered severe global financial markets selloffs around the globe. This was triggered by wholesale dumping of the bank stocks and debt of Italy

[1] Per NADCO General Counsel Jan Garlitz: SOP 50-10(5)(C), page 331, subparagraph C.6.III.A.3., all CDCs must do a "no adverse change" determination no earlier than 14 calendar days before the file is shipped by the SLPC to the SBA District Counsel and the CDC submits its closing package to that SBA District Counsel. Non-ALP CDCs must submit their determination with the financial statements to the SLPC and receive SBA's concurrence. ALP CDCs and PCLP CDCs must document their determination with the financial statements in the Loan file.

and Spain which started panic like selling of riskier assets in global markets. After a false start that actually made things worse, the European Central Bank stepped in to stabilize the euro area government debt market. But markets remained very volatile and stocks tended to plunge. We announced the debenture offering on schedule.

Then, last Friday morning the rumor circulated in the bond market that S&P would finally get around to the US rating cut it warned of in July. The action came that Friday night. Credit markets were very well-prepared for the S&P action. Over the weekend federal regulators, the Fed and the key clearing house corporations announced no change in the treatment of US government-guaranteed securities for investment or loan collateral purposes. Domestic investors had already reviewed their guidelines and determined if what if any action was required. Foreign central banks, major owners of treasuries, reiterated commitments to keep investing in them.

The government-guaranteed debt markets have operated smoothly and efficiently during the recent turmoil. Treasury yields fell sharply in reaction to a dimmed outlook for economic growth and broad market turmoil. A global flight to safety (i.e. liquidity) occurred and treasuries, with over $9 trillion publicly available and the deepest market in the world, were the destination of the flight.

That broad market turmoil did require a wider requited spread to pricing benchmarks in the August debenture offering. During a flight to liquidity in tumultuous markets spreads of all other market sectors will widen to treasuries and government-guaranteed agency obligations, including SBA's, are no exception. Spreads on mortgage-backed securities such as SBA's are also adversely affected by falling treasury yields, flattening yield curve and higher interest rate option price volatility – all measurements that moved quite sharply over the last few weeks.

Borrowers, however, benefited from the very sharp drop in benchmark ten-year treasury yield and interest rate swap rate. The 3.29% debenture interest rate was the fourth lowest on record. Only the December 2009 and the pre-QE2 rally-related rates in September and October 2010 were lower. Looking ahead, all we can reasonably predict is the potential for acute and perhaps persistently higher volatility. Program participants should remain prepared for material month-over-month (higher or lower) changes in the debenture interest rate.

In this difficult market environment it is imperative we ensure that all debenture offerings go off cleanly. All loans must be fully confirmed as without adverse change before submission for the pool. **Please double check for trouble the week before the pricing date.** Loans subject to borrower adverse change must be removed from the pool by the September 1 deadline posted above. Once the debenture interest rate is set and the pool legally formed there cannot be any problem loans discovered after the fact. **The funding date is not what matters here.** Again, the date that matters is September 1, the deadline to request a loan be pulled from the pool as posted above.

Thank you for your cooperation during challenging markets.