Development Company Finance LLC

Date: June 14, 2011

To: Certified Development Companies

From: Steve Van Order, DCFLLC Fiscal Agent

Subject: June 2011 SBA 504 Debenture Offering

On June 15, 2011, 595 twenty-year debentures totaling $320,853,000 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
2011-20F (06/07/11)	3.040%	+12.75 BP	50.25 BP	3.67%	66.0 BP
2011-20E (05/03/11)	3.264%	+7.50 BP	45.10 BP	3.79%	52.6 BP
Change	-22.4 BP	+5.25 BP	+5.15 BP	-12 BP	+10.4 BP

- The July offering will consist of *20- and 10-year debentures*.
- The ***cutoff date*** to submit loans to Colson for this offering is **Tuesday, June 21.**
- A ***request to remove a submitted loan*** from a financing must be made through Colson Services by close of business **Thursday, June 30**. Well 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, July 5**, 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 closed.
- The debentures will be funded on **Wednesday, July 13.**

In recent weeks financial markets have exhibited greater volatility and a price downtrend in key markets such as stocks and high yield bonds. Conditions roughly rhyme with this time last year when the US economy slowed, the eurozone debt crisis intensified, and emerging markets tightened monetary policies. Overall, however, conditions do not seem as dire as a year ago although risks remain. Since the last debenture sale, treasury yields fell as investors demanded safety and liquidity amid greater uncertainty but spreads to treasury widened in all US bond

[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.

market sectors (including for SBA). This treasury rally was despite the delay in raising the US debt ceiling.

Of Debt Ceiling and Default. Let's quickly review the issue as there is some lack of clarity out there on the details. Treasury projects (as of June 1) it will run out of borrowing authority, therefore room to *raise new money* by issuing net new debt, on August 2. It will not default on that date. It would be able to roll over maturing debt and remain under the debt ceiling.

But, according to top private sector estimates, without a debt ceiling raise Treasury will run out of cash to pay US obligations (assuming obligations remain un-prioritized) no later than the middle of August. It might just be able to make the big debt interest and Social Security payments due August 15. After that it would be tapped out of cash.

From there, assuming no debt ceiling raise, to make the August 31 interest payment Treasury would have to prioritize payment obligations by ranking payments on the debt first. Entitlements and government operations, including the military, would have to rank behind. Apparently, Treasury never before prioritized its obligations. Once faced with the inability to make the Social Security payment due August 17, however, Congress very likely would take some action. In past protracted debt ceiling battles when the risk of missing a Social Security payment became clear, Congress acted.

Despite all of the rhetoric out there, odds are strong that Congress will raise the debt ceiling by at least some amount by the end of July to allow Treasury to meet August US obligations. We then might subject to a series of short-term debt ceiling hikes as parties wrangled over a budget compromise with a longer-term debt ceiling hike.[2] This could be nerve-wracking to the markets.

[2] Remember the series of continuing resolution to keep the government open earlier this year?