

## Development Company Finance LLC

**Date:** May 12, 2010  
**To:** Certified Development Companies  
**From:** Steve Van Order, DCFLLC Fiscal Agent  
**Subject:** May 2010 SBA 504 Debenture Offering (2010-20E, 2010-10C)

On May 12, 2010, 500 twenty-year debentures totaling \$292,258,000 and 40 ten-year debentures totaling \$14,869,000 were funded through the sale of certificates guaranteed by SBA. Below are debenture pricing details:

<u>Sale/Sale Comparison</u>	<u>Treasury</u>	<u>Swap Spread</u>	<u>Spread</u>	<u>Rate</u>	<u>T plus</u>
<b>2010-20E (05/04/10)</b>	3.619%	1.00 BP	48.10 BP	4.11%	49.1 BP
<b>2010-20D (04/06/10)</b>	3.951%	1.25 BP	39.65 BP	4.36%	40.9 BP
<b>Change</b>	-33.2 BP	-0.25 BP	+8.45 BP	-25 BP	+8.20 BP

<u>Sale/Sale Comparison</u>	<u>Treasury</u>	<u>Swap Spread</u>	<u>Spread</u>	<u>Rate</u>	<u>T plus</u>
<b>2010-10C (05/04/10)</b>	2.385%	23.00 BP	25.50 BP	2.87%	48.5 BP
<b>2010-10B (03/09/10)</b>	2.337%	27.50 BP	24.80 BP	2.86%	52.3 BP
<b>Change</b>	+4.8 BP	-4.50 BP	+0.70 BP	+1 BP	-3.8 BP

- The June offering will consist of *20-year debentures*.
- The *cutoff date* to submit loans to Colson for this offering is Tuesday **May 25**
- A *request to remove a submitted loan* from a pool must be made through Colson Services by close of business Thursday, **June 3**.
- *Pricing date* is Tuesday **June 8**, on which the debenture interest rates will be set.
- The debentures will be funded on Wednesday, June 16.

SBA 504 interest rates and spreads remain at extremely low levels. Over the last 12 months the 20-year debenture rate averaged 4.26%. That rolling average is about 50 BP below the prior all time low from 2004. In May the spread to treasury was under 50 BP for the third straight month. Prior to this run the spread was under 50 BP three times from 1986-2009.

We were quite fortunate to price two days before the global financial markets convulsed in reaction to the crisis in the European *economic and monetary union* (EMU). When 51% of marketable US government debt is held overseas, and financial institutions remain highly interconnected, global events are at least as significant as domestic for US markets and therefore the market for SBA-guaranteed securities. Witness how the shock wave out of Europe overwhelmed the better news in the April US employment report.

Credit and mortgage spreads were shocked sharply wider the Thursday and Friday after pricing. In reaction to the European Central Bank (ECB) liquidity pledge, the ECB decision to outright buy the debt of the troubled peripheral eurozone countries (such as Greece), and the announced €720 billion eurozone bailout program, however, global financial markets including spreads snapped back to a large degree. Government-backed bond spreads such as those on SBA, GNMA and the GSE's popped wider on the turmoil but now are only somewhat wider than they were on pricing date. Lower quality credit spreads, however, remain a good bit wider. Last week's events

brought actual and potential volatility back into the financial markets and, coming off record tight spreads and conscious that SBA securities are much less liquid than treasuries, investors may require more spread to participate. That said, while spreads may move somewhat wider, the absolute debenture rate looks to stay low by historical standards.