Development Company Finance LLC

Date: September 15, 2010

To: Certified Development Companies

From: Steve Van Order, DCFLLC Fiscal Agent

Subject: September 2010 SBA 504 Debenture Offering

On September 15, 2010, 620 twenty-year debentures totaling $318,807,000 and 62 ten-year debentures totaling $28,385,000 were funded through the sale of certificates guaranteed by SBA. Below are debenture pricing details:

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2010-20I (09/07/10)	2.645%	-4.00 BP	60.50 BP	3.21%	56.5 BP
2010-20H (08/03/10)	2.900%	-2.75 BP	64.75 BP	3.52%	62.0 BP
Change	-25.5 BP	-1.25 BP	-4.25 BP	-31 BP	-5.5 BP

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2010-10E (09/07/10)	1.439%	18.00 BP	35.10 BP	1.97%	53.1 BP
2010-10D (07/06/10)	1.813%	27.25 BP	35.45 BP	2.44%	62.7 BP
Change	-37.4 BP	-9.25 BP	-0.35 BP	-47 BP	-9.6 BP

- The October offering will consist of *20-year debentures.*
- The ***cutoff date*** to submit loans to Colson for this offering is Tuesday **September 21**
- A ***request to remove a submitted loan*** from a pool must be made through Colson Services by close of business Thursday, **September 30**.
- ***Pricing date*** is Tuesday **October 5**, on which the debenture interest rates will be set.
- The debentures will be funded on Wednesday, October 13.

Both interest rates were the lowest on record and the ten-year rate was the first in program history below 2%. Treasury yields rally on bad economic news and fear which lowers our debenture rates. Of course, when fear subsides and the news is better yields move higher. Markets are a jumble of confusion these days. Treasury yields imply a material probability of meaningful price deflation in the next few years. In contrast, gold, which historically rallied on inflation fears, set record highs. So which is it?

In addition central banks continue to take policy actions which cause longer-term interest rates to gyrate (short rates can’t as the central banks peg them near zero). Just in the last month there was the Fed decision to replace maturing agency debt with treasuries, meaning it may buy up to $400 billion treasuries over the next 18 months – assuming the policy lasts that long. Today the Bank of Japan intervened in the currency market buying billions of US dollars and selling its own currency to try and curb yen strength. The BoJ parks the proceeds of dollar interventions in treasuries creating another strong buying force in that market. While China has let its US treasury holdings roll off, Japan has pretty much covered the difference. Foreign buyers as a class may hold fewer treasuries as a percent of outstanding, but still own close to half of them. The enthusiasm still is strong.

Then there are domestic US buyers – the Fed, households and banks that together were net buyers of $2.2 trillion in US government bonds (i.e. treasuries and agencies) since 2007. Households are trying to escape near-zero yielding savers' rates and avoid stocks after a decade of bad returns. Boomers are setting up to retire and buying more bonds. Banks are taking advantage of the Fed-engineered steep yield curve to earn yield and benefit from a zero capital charge for holding treasuries. We mentioned the Fed's treasury buying earlier.

Such additional strong buying power in treasuries coming from central banks and US investors drowns out fundamentals and is helping to keep yields materially lower than even today's weak fundamental suggest. Fair value for the ten-tear T-note, assuming a lower-than-average inflation rate of 1.5%, would be around 3.5% to 4%. Today's 2.75% yield sits well-below fair value a sign in particular of the impact in the credit markets from major central bank polices. While this lasts small business borrowers should continue to benefit from super-low debenture rates.