Development Company Finance LLC

Date: May 13, 2015

To: All Certified Development Companies

From: Frank Keane, DCF LLC Fiscal Agent

Subject: May 2015 504 Debentures

On May 13, 2015, 403 twenty-year debentures totaling $312,757,000 and 38 ten-year debentures totaling $17,472,000 will be funded through the settlement of certificates guaranteed by SBA. Below are the May 7 debenture pricing details:

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2015-20E (05/07/15)	2.21%	+ 8 bps	48bps	2.77%	56bps
2015-20D (04/09/15)	1.92%	+ 9 bps	50bps	2.51%	59bps
Change	+ 29bps	- 1 bps	-2bps	+ 26bps	-3bps

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2015-10C (05/07/15)	1.58%	+ 15bps	+ 12bps	1.85%	27 bps
2015-10B (03/08/15)	1.58%	+ 15bps	+ 15bps	1.88%	30 bps
Change	0 bps	0 bps	- 3 bps	- 3 bps	- 3 bps

- The **June** offering will consist of *20-year debentures.*
- The ***Cutoff date*** to submit loans to the CSA for this offering is **Thursday, May 28.**
- A ***request to remove a submitted loan*** from a financing must be made through the CSA by close of business **Monday, June 8**. 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 **Thursday, June 11**, on which day 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, June 17**

What has changed since March? - before talking about other factors that affect the rates borrowers pay for 504 loans, just look at the two grids above for the change in Treasury rates since our previous ten-year debenture sale. This month's ten-year debenture was priced 3 bps lower than March, while the twenty-year debenture was priced 26 bps higher; reflecting a steeper Treasury curve where long-term

[1] Per SOP 50-10 5(H), page 307, subparagraph C.6.III.A.3., "CDCs must issue an opinion that to the best of its knowledge there has been no unremedied substantial adverse change in the Borrower's (or Operating Company's) ability to repay the 504 loan since its submission of the loan application to SBA ("finding"). For all 504 loans except ALP and PCLP, CDCs must provide its finding to the SLPC along with copies of the financial statements current within 120 days supporting that finding. The CDC's finding of no adverse change must be made no more than 14 calendar days prior to submission to the SLPC at the time the CDC is requesting that SLPC transmit the file to District Counsel for debenture closing. The SLPC either will notify the CDC of its approval or, if SBA disagrees with the CDC's determination of no adverse change, the debenture will not close until SBA has been satisfied that any adverse change has been remedied. ALP and PCLP CDCs must make a finding of no unremedied substantial adverse change 14 calendar days prior to submission of the closing package to District Counsel and retain the finding and copies of the financial statements on which they relied in' their files. If the debenture closing is not consummated in the month following the finding, all CDCs must make and submit (except PCLP and ALP CDCs which must retain the finding in the file) a new finding of No Adverse Change and request for transmission of the file including SLPC's approval of the new finding to District Counsel."

rates have risen more than short-term rates. You can throw a dart at the board to select a reason for this, because when the Fed officially ends this historic easy-money policy, it is reasonable to expect short-term rates to rise more because that is the sector most affected by policy. A probable explanation for the spike in long-term rates is the exaggerated valuation of European sovereign debt that had made U.S. rates look cheap. While we have seen ten-year rates increase 29 bps German rates have had an 89 bps swing in just the last two-weeks; going from 0.07% to 0.75%, to close Friday at 0.54%. Fed Chairwoman Yellen has cautioned about stocks being "quite high," and that was before the DJIA rallied 267 points last Friday. Another reason for caution on long-term rates is that although the QE3 buying program has ceased, the Fed continues to buy fixed-rate debt with proceeds from its investment portfolio of $4 trillion. That exercise is expected to end once they commence a tighter monetary policy and thus will remove support for longer-term rates. So, once again, we have a push/pull dynamic with good job growth and slightly improved wage growth vs. low inflation and a 1Q15 GDP of just 0.2%.It seems less likely that we will see a policy move from the Fed at their June meeting, but the market is not totally discounting it.