Development
Company
Finance LLC

Date: July 12, 2013

To: Certified Development Companies

From: Frank Keane, DCF LLC Fiscal Agent

Subject: July 2013 SBA 504 Debenture Offering

On July 17, 2013, 590 twenty-year debentures totaling 398,994,000 and 53 ten-year debentures totaling $34,982,000 will be funded through the settlement of certificates guaranteed by SBA. Below are the July 11 debenture pricing details:

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2013-20G (07/11/13)	2.59%	+.21bps	.35bps	3.15%	.56bps
2013-20F (06/06/13)	2.10%	+.19bps	.16bps	2.45%	.35bps
Change	+.49 bps	+.02 bps	+.19bps	+.70bps	+.21bps

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2013-10D (07/11/13)	1.41%	+.18bps	.30bps	1.89%	.48bps
2013-10C (05/09/13)	0.74%	+.16bps	.20bps	1.10%	.36bps
Change	+.67bps	+.02 bps	+.10bps	+.79bps	+.12 bps

- The August offering will consist of *20-year debentures.*
- The ***cutoff date*** to submit loans to the CSA for this offering is **Monday, July 29.**
- A ***request to remove a submitted loan*** from a financing must be made through the CSA by close of business **Monday, August 5**. 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, August 8**, 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, August 14.**

Last month's commentary began with the phrase "Student Body Left" in reference to the power sweep made famous by USC's football team. We noted how liquidity had diminished, bid/ask spreads had widened, and there was a definite sell bias in the market. That trend enhanced itself with gusto in late June after Fed comments on QE3 tapering, and a decent jobs report added

[1] Per NADCO General Counsel Jan Garlitz: SOP 50-10(5)(E), page 341, 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.

pressure to a thin market. Ten-year note rates have risen 89 bps since we priced on May 9th (and 120 bps since April 2012) as the market believes reduced participation from the Fed is imminent and higher rates are to be expected. Coupled with $60 billion of outflows from bond funds and negative portfolio returns YTD, investors are defensive and see no need to commit to this market. So, where are rates headed? The answer will be determined by job growth, averaging a monthly gain of 202,000 YTD and while that is decent it has done little to reduce the Unemployment rate, now at 7.6%. The FOMC has set targets of 7.25% by year-end and 7% by mid-2014 as targets for reducing its $85 billion QE3, monthly purchase of securities, the activity that helped rates reach historic lows and also helped the 504 program fund its twenty-year debentures at an average rate of 2.26%, and Effective Rate of 4.33%, for the last twelve months.
Measure that average against this month's debenture at 3.15% and approximate Effective rate of 5.22% and we're again reminded of how quickly the mood of this market has changed. In addition to Unemployment, GDP growth and the Euro zone economy will also contribute to the direction of interest rates and while I thought ten-year rates would have found support before now I still think we will stabilize in this area, awaiting economic data that will dictate direction.

Though our 20-year debenture priced at a much wider Swap spread to June it still was only 4 bps wide to our 12-month average spread and our focus is to maintain this strong relative value.