Development Company Finance LLC

Date: April 12, 2010

To: Certified Development Companies

From: Steve Van Order, DCFC Fiscal Agent

Subject: April 2010 SBA 504 Debenture Offering (2010-20D)

On April 14, 2010, 463 twenty-year debentures totaling $236,577,000 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
2010-20D (04/06/10)	3.951%	1.25 BP	39.65 BP	4.36%	40.9 BP
2010-20C (03/09/10)	3.696%	4.25 BP	45.15 BP	4.19%	49.4 BP
Change	+25.5 BP	-3.00 BP	-5.50 BP	+17 BP	-8.5 BP

- The May offering will consist of *10-* and *20-year debentures.*
- The ***cutoff date*** to submit loans to Colson for this offering is Tuesday **April 20**.
- A ***request to remove a submitted loan*** from a pool must be made through Colson Services by close of business Thursday, **April 29**.
- ***Pricing date*** is Tuesday **May 4**, on which the debenture interest rates will be set.
- The debentures will be funded on Wednesday, May 12.

Never before has the 504 debenture rate premium over treasury been so slim. The 40.9 BP spread to ten-year treasury was a new record low, taking out 42 BP printed in May 1994. A sub-50 BP spread occurred just five times in 281 sales, or a 1.8% frequency. While the sub-50 BP spread is not a three sigma event, it is quite rare. In addition, over March and April, we printed consecutive sub-50 BP spreads for the first time.

Never before has the program had such low interest rates for so long. The 20-year debenture rate has been below 5% for 15 months straight, something not close to experienced in the low interest rate cycle of early last decade. The 20-year rate averaged 4.29% over the 12 months through April. In contrast the lowest rolling 12-month average during the last interest rate cycle was 4.75% from April 2004.

Extraordinarily tight spreads and persistently low debenture rates only occur during extraordinary times. The Fed's near-zero percent target rate policy, entered into in December 2008, set up a most extraordinary time in interest rate history. The rock bottom short-term rates and the very steep treasury yield curve, both engineered by the Fed, led fixed income investors to chase after yields. This has benefited products such as the SBA 504 DCPC pools that offer yield over treasuries and money markets and tightened spreads and kept the debenture rates very low.

All good things eventually must end - but when? The Fed has laid out the outline for how it will tighten policy. First, nearly all of the emergency support facilities and buying programs have been closed. Next to come will be the first operations to temporarily drain some of the $1.1 trillion in excess bank reserves from of the system. Eventually, the Fed will hike the rate of interest it pays on bank reserves (now 0.25%) along with the target Fed funds rate (now in a 0% to 0.25% range). Actual hikes, as opposed to just warnings, will be the clear start of the ending of extraordinary times. But how often and in what size the Fed hikes policy rates will much determine if this cycle's yield chase ends in small or big tears in the bond market. The Greenspan Fed took two years to hike the target Fed funds rate from 1% to 5.25%. That snail's pace of tightening, coming off such a low policy rate, played a non-trivial part in turning what was a typical cyclical yield chase into the massive credit bubble that popped in 2007.

How will the Fed manage its latest yield chase creation? So far the early signal from the Bernanke Fed is that, with a weak labor market and disinflation, it will want to go slow in tightening, suggesting slow pace of hikes. The benefit from that pace would be the macroeconomic support from protracted low interest rates. The risk would be for another financial market bubble. Or, perhaps instead, there'd be a sharp rise in long-term interest rates from a bond market that rejected the Fed policy as likely to lead to another bubble and/or inflation. While this drama slowly unfolds, though, 504 borrowers continue to enjoy the best debenture results in history.