Development Company Finance LLC

Development Company Finance LLC

Date: January 10, 2011

To: Certified Development Companies

From: Steve Van Order, DCFLLC Fiscal Agent

Subject: January 2011 SBA 504 Debenture Offering

On January 12, 2011, 476 twenty-year debentures totaling $263,092,000 and 43 ten-year debentures totaling $24,427,000 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
2011-20A (01/04/11)	3.333%	+5.75 BP	49.95 BP	3.89%	55.7 BP
2010-20L (12/07/10)	3.071%	+14.75 BP	50.15 BP	3.72%	64.9 BP
Change	+26.2 BP	-9.00 BP	-0.20 BP	+17 BP	-9.2 BP

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2011-10A (01/04/11)	1.981%	16.50 BP	30.40 BP	2.45%	46.9 BP
2010-10F (11/09/10)	1.163%	29.50 BP	35.20 BP	1.81%	64.7 BP
Change	+81.8 BP	-13.00 BP	-4.80 BP	+64 BP	-17.8 BP

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

Debenture rates rose in January, tracking benchmark treasury yields higher. Spreads to treasury remained tight by historical standards. The rise in bond yields in Q4 suggests we are in a new cyclical bear market in interest rates. The big piece of the puzzle missing to draw this conclusion, though, is a tentative signal from the Fed it is close to ending its easing campaign. That is traditionally one of the earliest signs the bull cycle is over in bonds. We are not close to getting that signal. Given the unusual nature of all things economic, fiscal and financial in this post-crisis phase, however, the bond market may be making its first bear move without waiting for that Fed signal. A take out of the 4% level on the ten-year note would be solid confirmation a new bear cycle has been underway.

For the Fed's part, right now it remains deep into its super-easy monetary policy with QE2. QE2 treasury purchases will act as a soft cap on interest rate rises, and an accelerator on interest rate drops. If economic growth in 2011 is firmer as now expected with the passage of new federal stimulus, there will be no fundamental reason for interest rates to fall sharply and retest or approach cycle lows. For reference, the range on the ten-year T-note yield this cycle is 2.04% (January 2008) to 4.01% (June 2009 and April 2010). At 3.29% yield at the time of this writing, the yield is a bit on the north side of the mid-point of the range.