



Date: June 11, 2014

To: Certified Development Companies

From: Frank Keane, DCF LLC Fiscal Agent

Subject: June 2014 SBA 504 Debenture Offering

On June 11, 2014, 392 twenty-year debentures totaling \$224,447,000 will be funded through the settlement of certificates guaranteed by SBA. Below are the June 5 debenture pricing details:

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2014-20F (06/05/14)	2.60%	+12bps	.27ps	2.99%	.39bps
2014-20E (05/08/14)	2.61%	+08bps	.31bps	3.00%	.39bps
Change	-.01bps	+.04bps	-.04bps	-.01bps	0.00bps

- The **July** offering will consist of *20-year and 10-year debentures*.
- The **Cutoff date** to submit loans to the CSA for this offering is **Thursday, June 26**.
- A **request to remove a submitted loan** from a financing must be made through the CSA by close of business **Monday, July 7**. In advance of that all CDCs are required to determine “no adverse change” for each loan before submitting it to SBA.ⁱ
- **Pricing and pooling date** is **Thursday, July 10**, 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, July 16**

The Trend Continues – as June funding levels are the lowest in rate since September’s peak (3.62%) and at the tightest spread to Interest Rate Swaps since that month (+48 bps). For the same reason we’re experiencing an uninspiring economic recovery we continue to see strong but more selective demand for our certificates. While the Unemployment Rate is reduced, the number of jobless and lack of wage growth hinder expansion. Federal Reserve officials are committed to keeping short-term rates low but face a double-edged sword; they want to keep interest rates low to boost economic growth, encourage hiring, and lift inflation from levels that are below the bank's 2% target. But, having been burned by the risk taking that stoked the 2008 financial crisis they are on the lookout for signs that the policies are having dangerous side-effects in financial markets. One of those effects is a perceived complacency about credit risk. For example, Italian ten-year debt was recently downgraded to a negative outlook but trades at a yield just 0.10 bps above US Treasuries, while one year ago it traded 197 bps wider. The search for high quality assets has brought us to these levels and could keep us here for a while longer, but accounts are more fully invested than earlier this year so demand has lessened and a slide to higher rates is probable, especially with new-issue Treasury supply coming to market this week.

ⁱ Per SOP 50-10(5)(F), page 312, 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."