



**Date:** October 12, 2011

**To:** Certified Development Companies

**From:** Steve Van Order, DCFLLC Fiscal Agent

**Subject:** October 2011 SBA 504 Debenture Offering

On October 12, 2011, 556 twenty-year debentures totaling \$319,054,000, to be issued by CDC's and guaranteed by SBA, will be funded through the settlement of certificates guaranteed by SBA. Below are the October 4 debenture pricing details:

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2011-20J (10/04/11)	1.764%	+24.75 BP	74.85 BP	2.76%	99.6 BP
2011-20I (09/06/11)	1.941%	+21.25 BP	69.65 BP	2.85%	90.9 BP
Change	-17.7 BP	+3.50 BP	+5.20 BP	-9 BP	+8.7 BP

- The November offering will consist of *10- and 20-year debentures*.
- The *cutoff date* to submit loans to Colson for this offering is **Tuesday, October 25**.
- A *request to remove a submitted loan* from a financing must be made through Colson Services by close of business **Thursday, November 3**. In advance of that all CDCs are required to determine "no adverse change" for each loan before submitting it to SBA.<sup>1</sup>
- *Pricing and pooling date* is **Tuesday, November 8**, on which 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, November 16**.

Fortunate calendar timing resulted in a new record low October 20-year debenture rate at 2.76% on the morning of October 4. That afternoon, news that EU leadership seriously considered capital injections for euro area banks led to a global recovery rally in the riskier asset markets such as stocks. Currencies such as the Australian dollar, associated with global growth plays, rallied. High yield bond spreads tightened. Of course as riskier assets rallied, refuge assets such as US treasuries sold off and thus yields increased. The yield rise that started the afternoon after debenture pricing has continued to this day. If pricing was this morning the 504 20-year debenture rate would be more like 3.22%, 46 BP higher than the realized rate.

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<sup>1</sup> Per NADCO General Counsel Jan Garlitz: SOP 50-10(5)(C), page 331, 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.

It would be tough to argue that a 20-year interest rate a bit over 3% is a lot worse than one a bit below 3%. It's not the level of the interest rate these days that is in question. Low interest rates will be likely for quite some time given 1) the outlook for slow US growth and inflation during a time of western economy debt troubles and 2) the extraordinarily easy monetary policy of the Fed. The issue at hand is more the continued potential for bursts of substantial financial markets volatility which, by extension, would result in treasury yield volatility. Potential remains high for notable monthly swings in the 504 debenture interest rate.