



**Date:** September 13, 2011

**To:** Certified Development Companies

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

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

On September 14, 2011, 555 twenty-year debentures totaling \$312,077,000 and 52 ten-year debentures totaling \$28,414,000 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
2011-20I (09/06/11)	1.941%	+21.25 BP	69.65 BP	2.85%	90.9 BP
2011-20H (08/09/11)	2.375%	+21.00 BP	70.50 BP	3.29%	91.5 BP
Change	- 43.4 BP	+ 0.25 BP	-0.85 BP	-44 BP	-0.6 BP

  

Sale/Sale Comparison	Treasury	Swap Spread	Spread	Rate	T plus
2011-10E (09/06/11)	0.873%	+30.25 BP	35.45 BP	1.53%	65.7 BP
2011-10D (07/05/11)	1.722%	+27.75 BP	25.05 BP	2.25%	52.8 BP
Change	-84.9 BP	+2.50 BP	+10.40 BP	-72 BP	+12.9 BP

- The October offering will consist of *20-year debentures*.
- The ***cutoff date*** to submit loans to Colson for this offering is **Tuesday, September 20**.
- A ***request to remove a submitted loan*** from a financing must be made through Colson Services by close of business **Thursday, September 29**. 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, October 4**, 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, October 12**.

Market conditions remained challenging in September but not as volatile as August. Treasury yields continued to fall as weak US data and yet again increased worry about the euro area led the market to start pricing in another ease at the September FOMC meeting. Any ease would likely be in the form of passively or actively extending the average maturity of the NY Fed’s \$2.7

<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.

trillion portfolio of government debt. An active maturity extension, achieved through selling shorter-maturity treasury holdings and buying longer maturity treasuries, has been termed “operation twist” by the financial press. In 1961 Treasury and the Fed engaged in a strategy to flatten the yield curve which they dubbed *Operation Twist*. But economic and market conditions, policy rationale and the tactics for 1961’s Operation Twist were quite different.

Anyway, the further drop in treasury yields in expectation of some September Fed action resulted in the lowest SBA 504 debenture rates in history on the September 6 pricing. If the Fed does not ease this month treasury yields may back up in disappointment. But given the continued turmoil in the euro area financial markets and the stalling US economy, they may not back up too far. Given that we are again in uncharted waters there certainly remains the possibility of even lower long-term US treasury yields. SBA debenture spreads to treasury, though, probably will widen if interest rates continue to drop along with a flattening yield curve. Currently, the 91 BP spread to treasury for the 20-year debenture is right at the long run average.