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SBA 504 Interest Rate Stable in a Record Storm in U. S. Credit Markets

Over the last nine months U. S. Credit markets have experienced the largest most protracted and widespread crisis of the Post-war era. The first months of the period were characterized by a spreading and deepening liquidity crunch with roots in the U. S. Subprime mortgage market collapse. The effects of the crunch were global and most acute in U. S., European and U. K. Money markets. In addition, the market from a broad variety of mortgage-and asset-backed securities were severely impaired. The U. S., European and Swiss central banks cooperated on a very large scale to pump money into banking systems. Old and new techniques were used by central banks to supply money to inter-bank lending markets in the summer and over the turn of the year. The overall effort was successful.

Over the same nine month period economic growth slowed while core inflation remained elevated but steady. The Fed cut the Fed fund rates from 5.25% to 2.25%. Fed rate cuts and the flight to treasuries during the panic led the three-month T-bill yield to fall from over 5% to below 1%. High risk aversion and strong preference for liquidity among investors resulted in record wide spreads to treasuries for all major credit market sectors including federally-backed agency securities such as SBA DCPC's. Though the spread to treasury ballooned, SBA 504 debenture interest rates were quite stable. In the nine sales so far during the credit market storm, (August-April) the average 20-year 504 debenture rate was 5.43% with a range of 5.16% to 5.75%. That average is close to the two-and three-year averages of 5.50% and 5.49%, respectively. In contrast, high quality municipal and corporate bond yields rose. For below investment grade credits money remains extremely scarce at any price.

While the panic wave crested in March neither the credit markets nor the economy are out of the woods. Credit markets need to stabilize and experience better flow, something we hope to see over the remainder of 2008. By mid-2008, however, credit markets will have been dysfunctional for a year, and as a result, economic growth will remain sub-par for what is expected to be a protracted period of time. DCFC held a panel discussion titled "Perspective on the Credit Market Crisis" at the NADCO annual meeting on Friday, May 9 .

Article courtesy of NADCO Certified News. Steve Van Order, DCFC Fiscal Agent.