

The 20-year SBA 504 interest rate is a function of three things:

1. The ten-year Treasury rate

2. The spread over the Treasury demanded by the market

The graph below plots the risk spread in investing in a bond containing a collection of commercial mortgages processed under the SBA 504 loan program. The sub-prime mortgage “mess” beginning in August of 2007, coupled with the underlying concern about the viability of any pool of mortgages (even ones backed by the US Government like the 504) forced the spread higher and higher through December of 2008. Since this peak, the spread has declined month over month, although spiked back up in August of 2011 after the debt-ceiling crisis and downgrading of the US economy by Moody’s, and has remained high through January 2012 as Treasury’s remain low.

3. The fees included in the borrower’s interest rate

A borrower will receive approximately the same interest rate regardless of which Certified Development Company (CDC) they choose to work with. Some CDC’s will inflate the minimum statutory servicing fee included in the final interest rate the borrower pays but Colorado Lending Source always charges the statutory minimum-servicing fee.

SBA 504 20 year Debenture -- Spread Over 10-year Treasury (2008 through now)

