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NEW LOAN SECURITIZATION RULES WILL IMPROVE LIQUIDITY FOR SMALL BUSINESS LOANS, PROTECT SAFETY AND SOUNDNESS

WASHINGTON – New rules governing the U.S. Small Business Administration's (SBA) loan securitization program will increase the availability of loan capital for small business lending and improve the safety and soundness of the program by linking sales of the unguaranteed portions of SBA-backed loans to the credit quality of lenders' SBA loan portfolios.

Under final rules published today in the *Federal Register*, SBA will require each lender that pools and sells the unguaranteed portion of SBA-backed 7(a) general business loans to retain a percentage of the loans' value equal to twice the lender's historical loan loss rate. The rule applies to regulated commercial banks as well as to non-depository lenders that make SBA loans.

"The rules will help sustain the viable secondary market for small business loans," said Administrator Alvarez. **"The benefits of this approach are clear. For lenders, it levels the playing field and improves liquidity. For small businesses, improved liquidity means more loan capital available to establish and expand their businesses. For taxpayers, the preservation of safety and soundness as the key element protects their interests and their investment in the small business economy."**

Administrator Alvarez said the rules **"strike a prudent balance between the desire of lenders to participate profitably in the sale of SBA loans and the need for the SBA to maintain consistent and acceptable credit standards in making and servicing new loans."**

Under SBA's 7(a) General Business Loan program, SBA partially guarantees repayment of loans made to small businesses, sharing the risk of default with private sector lenders. SBA typically guarantees up to 80 percent of the loan, with the lender accepting the risks of the remaining unguaranteed portion.

The secondary market in SBA-backed loans – in which pooled loans are securitized and sold to investors who wish to profit from the income stream produced by loan repayments – was created to increase the attractiveness of small business lending. Beginning in 1985, banks and other depository institutions were permitted to pool the *guaranteed* portion of SBA-backed loans that they made to small business owners. Approximately $25 billion in SBA-guaranteed loans have been securitized and sold since 1985.

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In 1992, SBA agreed to allow non-depository lenders, such as finance companies, to securitize the *unguaranteed* portion of SBA loans they originate. The rule recognized that non-bank lenders lack customer deposits to finance small business loans. Since 1992, non-bank lenders have securitized nearly $1.3 billion in unguaranteed portions of SBA-backed loans. SBA prepared the regulations to permit both non-depository lenders, such as commercial banks, and other depository lenders to securitize the unguaranteed portion of their SBA-backed loans in response to legislation.

A key issue involves the amount of risk lenders retain under the program. To control risk and protect taxpayers' investment in the loans, SBA has relied historically on lenders retaining a meaningful interest in the unguaranteed portion of 7(a) loans. This risk-sharing mechanism is designed to keep lenders accountable for losses on loans they originate.

To maintain and strengthen this SBA policy, the rules will require lenders to retain an amount equal to twice the loss rate on the lender's SBA-backed loans, or 2 percent of the unguaranteed portion, whichever is greater. Based on average loss rates for the 40 highest volume SBA lenders, the percentage would be 5.4 percent of the unguaranteed portion, or about 1.3 percent of total loan value. Securitizers would be permitted to sell the retained portion at market value after six years.

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For more information about SBA programs, call the SBA Answer Desk at 1-800-U-ASK-SBA, or visit the SBA's extensive website at www.sba.gov.

The U.S. Small Business Administration, established in 1953, provides financial, technical and management assistance to help Americans start, run, and grow their businesses. With a portfolio of direct and guaranteed business loans and disaster loans worth more than $45 billion, SBA is the nation's largest single financial backer of small businesses. Last year, SBA offered management and technical assistance to more than one million small business owners. SBA also plays a major role in the government's disaster relief efforts by making low-interest recovery loans to both homeowners and businesses.

America's 22 million small businesses employ more than 50 percent of the private workforce, generate more than half of the nation's gross domestic product, and are the principal source of new jobs in the U.S. economy.

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