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Fact Sheet

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SBA Efforts to Thaw U.S. Credit Markets

WASHINGTON – In this difficult credit environment, it's important to understand what's happening in the market and the several extraordinary steps the U.S. Small Business Administration has taken in recent months.

Economic uncertainty has led to diminished small business loan demand. Borrowers are, on average, less creditworthy than in previous years. Lenders have also tightened credit standards. At the same time, liquidity concerns have led some lenders to raise cash reserves until the economy picks up again; other lenders have slowed SBA-backed lending because the secondary market for those loans is still disrupted.

To address these issues, SBA has taken several steps:

First, SBA added an alternative base interest rate lenders can use on SBA-backed loans, the one-month LIBOR rate (London Interbank Offered Rate). By creating a way for loan rates to be more in line with lenders' costs, this change helps lenders continue to be profitable on new SBA loans despite current divergence between interest rates and costs of funds.

Second, SBA allowed a new structure – Weighted Average Coupon Pools – for pools of SBA securities sold in secondary markets, improving profitability and adding liquidity into the secondary market for SBA-guaranteed loans. Because the average interest rate is used for these pools, they are easier for pool assemblers to create and more attractive to potential investors.

These important changes address immediate problems faced by lenders and investors, problems that reduced capital availability for small businesses.

SBA also worked with the Treasury Department and the Federal Reserve Board of Governors to ensure the new Term Asset-Backed Securities Loan Facility (TALF) program will help restore buying activity in SBA's disrupted secondary market, generating liquidity lenders need to step up their small business lending.

It has only been two months since SBA changes to rules on rates and pooling became effective, and those changes will take time to work through the system. We think the TALF will have a strong positive effect on the secondary markets but this program also is just getting off the ground.

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SBA also has reminded participating lenders of their authority to extend temporary payment relief for qualified borrowers struggling to repay their loans. SBA has asked lenders not to react to changing financial variables, such as fluctuations in personal credit scores, declining collateral values, and reduced home equity by broadly calling borrower loans.

In recent months, SBA staff has met with hundreds of lenders around the country to review their strategies and portfolio quality, and to encourage their use of SBA products, soliciting feedback on their problems and how SBA can improve its products and services.

In response, last year SBA launched Small/Rural Lender Advantage to help small and rural lenders by streamlining the loan process so they can better reach underserved markets.

SBA has also modernized its programs to make the agency a better partner for lenders. It centralized its loan process from 68 sites to six, a change long requested by lenders, to standardize procedures, upgrade technology and cut turnaround times. Since 2006, 7(a) loan processing times have fallen by more than 50 percent. In 2007, SBA took 279 days on average to pay lenders their guaranties; today it's less than 25 days for correct loan packages.

The current Administration also freed the program from volume limitations that caused program shutdowns in 2002 and 2004 by funding the program through modest fees and eliminating its $120 million annual subsidy. Today, lenders don’t worry about the program shutting down late in the year, enabling them to market it more vigorously.

SBA has also modernized its processes and technology. Last year, SBA updated and simplified its program rule book from over 1,000 pages to 400 pages and made it searchable online. The agency also upgraded its technology systems, allowing lending partners to service SBA loans electronically.

These changes are having an effect. Over the last year, SBA has seen a net increase in active lenders, specifically community banks.

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