U.S. Small Business Administration
Your Small Business Resource

FACT SHEET

PRESS OFFICE

Release Date: May 2, 2007

Contact: Sean Rushton (202) 205-6882
Internet Address: http://www.sba.gov/news

SBA LOAN PROGRAM FUNDING
MYTH V. FACT

MYTH 1: The Bush Administration has cut funding for SBA loan programs.

REALITY: Under the Bush Administration, the SBA – with the approval of Congress – has changed the funding mechanism of the 7(a) program to what is called a "zero-subsidy" basis. Under zero-subsidy, the costs of the loans are borne by the borrowers and lenders who benefit from participating in the program, similar to user fees charged for a variety of government-provided services and activities.

The zero-subsidy program is not a partisan idea. Proposed under the Clinton Administration, it was successfully adopted in 1996 for SBA's second largest loan program, the Certified Development Company (504) program. Before zero-subsidy, the 7(a) program required $100 million or more in annual appropriations. Because the program no longer requires a subsidy, it no longer requires an appropriation.

Zero-subsidy is far more efficient for taxpayers and reliable for lenders and borrowers. Aside from the substantial budget savings, zero-subsidy frees the program from annual loan volume limitations imposed by finite appropriations. During the last two years of unprecedented, historically high demand for SBA loan guaranties, zero-subsidy has made the 7(a) program immune to the periodic loan limits and temporary shutdowns that have plagued it over the years, most recently in 2002 and 2004.

Now, banks can market the product more aggressively and don't worry about the program being shut down late in the year. A higher fee is not nearly as big an issue as the program's reliability. A major concern expressed by lenders is the threat of interrupted availability that would result if a subsidy were reintroduced.

MYTH 2: The fees have caused a decline in 7(a) lending by making them too expensive.

REALITY: Since the start of zero-subsidy the 7(a) program has continued to set loan volume records far and above prior years:

- From 1990 through 1999, the average loan approval volume was 40,181 loans. The highest level recorded during that time was in 1995 at 55,597 loans. The largest total dollar amount in approvals for a single year during that time period was $8.6 billion.

- From 2000 through 2004, the average loan approval volume for the program was 57,362 loans. The highest level recorded during that time was in 2004 at 81,133.

- From FY 2005- FY 2006, the first two years of zero-subsidy, 7 (a) loan approvals reached record-setting levels. Approvals were **95,900 in FY 2005** and **97,290 in FY 2006.** The total dollars approved in FY 2005 also set a record, at **$15.2 billion**.

Past experience has shown that subsidies limit access to SBA loans. SBA must temporarily suspend the program when program demand exceeds the subsidy availability. SBA may also have to temporarily suspend the program when Congress fails to pass a budget on time. We are concerned that frequent interruptions will deter many banks from participating in a subsidized program, resulting in many borrowers being unable to get loans when they need them.

MYTH 3: The fees are exorbitant.

REALITY: The fees are modest, have not changed significantly since 1997 and are comparable to fees charged by private lenders for similar loans. In addition, the fee amount can be financed by borrowers. That means for an average-sized loan (**$149,285** last year), at 7 percent over 7 years, the difference between a 1 percent fee and a 2 percent fee is $19.15 per month. If the loan is made under the SBA Express program, which has a lower guaranty percentage, the monthly difference would be just $11.27 per month. The increasing number of loans approved over the past two years does not support the suggestion that fees are exorbitant.

MYTH 4: The SBA doubled its guaranty fees on 7(a) loans.

REALITY: For the vast majority of loans, the fees today are exactly the same as they have been for 20 of the past 22 years. The SBA does not have the authority to change loan fees unilaterally-- they can only be changed by Congress. After September 11th, Congress temporarily reduced some of those fees:

- The fee on loans under $150,000 was reduced from 2 percent of the guaranteed amount to 1 percent;
- The fee on loans between $150,000 and $700,000 was reduced from 3 percent of the guaranteed amount to 2.5 percent;
- The fee for larger loans was unchanged.

Under a sunset provision in the legislation, the fees returned to their former level automatically on September 30, 2004, and they remain at those levels today.

The fees currently in place on 7(a) loans to small business borrowers are at the same level established by Congress in FY 2000, under the Clinton Administration:

- The fee on loans under $150,000 the fee is 2 percent of the guaranteed amount;
- The fee on loans between $150,000 and $700,000 is 3 percent of the guaranteed amount;
- The fee on loans greater than $700,000 is 3.5 percent of the guaranteed amount.

When Congress raised the maximum guaranteed amount above $1 million in April 2004, it added a surcharge of 0.25 percent on loans over that amount.

The vast majority of 7(a) loans – 81 percent last year – pay the lowest guaranty fee, at 2 percent of the guaranteed amount. The fee level for those loans has been set at 2 percent for the past 22 years, except for 2003 and 2004 when Congress temporarily reduced it to 1 percent.

###