



News Release

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SBA Applauds Treasury Action to Bolster Secondary Market for Small Business Loans

Federal Reserve Facility Will Support Consumer, Small Business Lending

WASHINGTON – A plan by the Treasury and the Federal Reserve to improve market conditions for asset-backed securities – including those composed of SBA-backed small business loans – should be welcome news to credit-hungry small businesses across the country, said U.S. Small Business Administration Acting Administrator Sandy K. Baruah.

The plan, announced today by Treasury Secretary Henry Paulson, establishes the Term Asset-Backed Securities Loan Facility, or TALF, to breathe new life into a secondary market that essentially ground to a halt in October. The TALF would make loans to investors who purchase asset-backed securities made up of small business loans guaranteed by SBA, auto loans, student loans, or credit card loans. As a result, lenders will find it easier to sell the loans they make, and use the proceeds of those sales to make new loans.

“The approach announced today is a significant and important breakthrough in our efforts to help unclog the secondary market and to help restore the flow of credit and credit products to normal levels,” said Baruah. “This is a big step toward reviving a healthy market for investors who want to purchase secondary market loan pools of SBA loans. I believe it will help restore the flow of buying activity in what has been a disrupted secondary market for SBA-backed loans and generate the liquidity lenders need to step up their lending to small businesses.

“We expect these efforts to help free up the capital both brokers and investors need to purchase new SBA loans,” Baruah said. “As this cycle continues, we expect secondary market activity to begin to return to normal levels.

“We will continue to work with the Treasury and the Federal Reserve, and with our partners in the SBA lending industry to reinvigorate the secondary market for SBA guaranteed securities to help craft solutions to bring much needed capital to the nation’s small businesses,” Baruah said.

About \$4 billion in securities backed by SBA-guaranteed loans are bought and sold in the secondary market each year, with the total outstanding amounting to about \$15 billion. At present, a share of the current year’s volume of loans securitized by lenders – estimated at up to \$3 billion – is essentially frozen. The resulting lack of liquidity hampers the ability of some of SBA’s lending partners to make new SBA-backed loans.

The loans that investors will receive from TALF through this new action can be used to purchase these securities from brokers.

The actions announced today follow steps already taken by SBA, including the recent emergency implementation of LIBOR as a base rate for SBA loans and the development of Weighted Average Coupon pools.

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