



News Release

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SBA Announces New Ways to Improve Small Businesses Access to Capital

WASHINGTON, DC – In response to the credit crunch, today SBA’s Acting Administrator Sandy K. Baruah announced important loan program changes to help the agency’s lending partners increase access to capital for small businesses.

First, an interim final rule allowing new SBA loans to be made with an alternative base interest rate, the one month LIBOR rate (London Interbank Offered Rate), in addition to the prime rate, which was previously allowed. In the past 60 days, both the prime and LIBOR rates have not yet returned to their historical relationship—of roughly 300 basis points between the two rates. The mismatch between the rates is squeezing SBA lenders out of the lending market, since their costs are based on the LIBOR rate.

“This change will help more small businesses obtain capital to grow their businesses and create new jobs,” Baruah said. “By allowing both rates, SBA is making its programs more flexible, increasing opportunities to access capital and giving both lending partners and small business customers more options to meet their needs.”

The second change allows a new structure for assembling SBA loans into pools for sale in the secondary market. The enhanced flexibility in loan pool structures can help affect profitability and liquidity in the secondary market for SBA guaranteed loans, especially with the current market conditions. Because the average interest rate is used, these pools are easier for pool assemblers to create, thus providing incentives for more investors to bid on these loans.

“The challenge small businesses face today is not the cost of capital, it is access to capital,” said Baruah. “Interest rates are at historically low levels meaning money is inexpensive, yet lenders aren’t lending and borrowers aren’t borrowing. This indicates markets are frozen due to liquidity concerns. This interim final rule is an important step to reenergize the lenders to make SBA-backed loans and will help open the gateway of capital for entrepreneurs.”

“SBA moved quickly on these changes after consulting with small businesses, lending partners and other government agencies,” said Eric R. Zarnikow, SBA’s Associate Administrator for the

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Office of Capital Access. “We’re confident these solutions will help free up capital so lenders can continue to make SBA-backed loans.”

By addressing market issues that were impeding the funding streams for both lenders and small businesses, SBA is making capital more available to America’s small businesses. The SBA will be issuing additional technical guidance to lenders in the coming weeks relating to the implementation of these important changes.

For more information on the interim final rule or to share your comments, visit www.regulations.gov. To learn more about SBA’s guaranteed loan programs visit www.sba.gov.

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