

Public Law 108–232
108th Congress

An Act

To amend the Small Business Investment Act of 1958 to allow certain premier certified lenders to elect to maintain an alternative loss reserve.

May 28, 2004
[H.R. 923]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Premier Certified Lenders Program Improvement Act of 2004”.

Premier Certified
Lenders Program
Improvement Act
of 2004.
15 USC 661 note.

SEC. 2. LOSS RESERVES OF PREMIER CERTIFIED LENDERS TEMPORARILY DETERMINED ON THE BASIS OF OUTSTANDING BALANCE OF DEBENTURES.

Paragraph (6) of section 508(c) of the Small Business Investment Act of 1958 (15 U.S.C. 697e(c)) is amended—

(1) by striking “The Administration” and inserting the following:

“(A) IN GENERAL.—The Administration”; and

(2) by adding at the end the following new subparagraph:

“(B) TEMPORARY REDUCTION BASED ON OUTSTANDING BALANCE.—Notwithstanding subparagraph (A), during the 2-year period beginning on the date that is 90 days after the date of the enactment of this subparagraph, the Administration shall allow the certified development company to withdraw from the loss reserve such amounts as are in excess of 1 percent of the aggregate outstanding balances of debentures to which such loss reserve relates. The preceding sentence shall not apply with respect to any debenture before 100 percent of the contribution described in paragraph (4) with respect to such debenture has been made.”.

Effective date.

SEC. 3. ALTERNATIVE LOSS RESERVE PILOT PROGRAM FOR CERTAIN PREMIER CERTIFIED LENDERS.

(a) IN GENERAL.—Subsection (c) of section 508 of the Small Business Investment Act of 1958 (15 U.S.C. 697e) is amended by adding at the end the following new paragraphs:

“(7) ALTERNATIVE LOSS RESERVE.—

“(A) ELECTION.—With respect to any eligible calendar quarter, any qualified high loss reserve PCL may elect to have the requirements of this paragraph apply in lieu of the requirements of paragraphs (2) and (4) for such quarter.

“(B) CONTRIBUTIONS.—

“(i) ORDINARY RULES INAPPLICABLE.—Except as provided under clause (ii) and paragraph (5), a qualified high loss reserve PCL that makes the election described in subparagraph (A) with respect to a calendar quarter shall not be required to make contributions to its loss reserve during such quarter.

“(ii) BASED ON LOSS.—A qualified high loss reserve PCL that makes the election described in subparagraph (A) with respect to any calendar quarter shall, before the last day of such quarter, make such contributions to its loss reserve as are necessary to ensure that the amount of the loss reserve of the PCL is—

“(I) not less than \$100,000; and

“(II) sufficient, as determined by a qualified independent auditor, for the PCL to meet its obligations to protect the Federal Government from risk of loss.

“(iii) CERTIFICATION.—Before the end of any calendar quarter for which an election is in effect under subparagraph (A), the head of the PCL shall submit to the Administrator a certification that the loss reserve of the PCL is sufficient to meet such PCL’s obligation to protect the Federal Government from risk of loss. Such certification shall be in such form and submitted in such manner as the Administrator may require and shall be signed by the head of such PCL and the auditor making the determination under clause (ii)(II).

“(C) DISBURSEMENTS.—

“(i) ORDINARY RULE INAPPLICABLE.—Paragraph (6) shall not apply with respect to any qualified high loss reserve PCL for any calendar quarter for which an election is in effect under subparagraph (A).

“(ii) EXCESS FUNDS.—At the end of each calendar quarter for which an election is in effect under subparagraph (A), the Administration shall allow the qualified high loss reserve PCL to withdraw from its loss reserve the excess of—

“(I) the amount of the loss reserve, over

“(II) the greater of \$100,000 or the amount which is determined under subparagraph (B)(ii) to be sufficient to meet the PCL’s obligation to protect the Federal Government from risk of loss.

“(D) RECONTRIBUTION.—If the requirements of this paragraph apply to a qualified high loss reserve PCL for any calendar quarter and cease to apply to such PCL for any subsequent calendar quarter, such PCL shall make a contribution to its loss reserve in such amount as the Administrator may determine provided that such amount does not exceed the amount which would result in the total amount in the loss reserve being equal to the amount which would have been in such loss reserve had this paragraph never applied to such PCL. The Administrator may require that such payment be made as a single payment or as a series of payments.

“(E) RISK MANAGEMENT.—If a qualified high loss reserve PCL fails to meet the requirement of subparagraph

(F)(iii) during any period for which an election is in effect under subparagraph (A) and such failure continues for 180 days, the requirements of paragraphs (2), (4), and (6) shall apply to such PCL as of the end of such 180-day period and such PCL shall make the contribution to its loss reserve described in subparagraph (D). The Administrator may waive the requirements of this subparagraph.

“(F) QUALIFIED HIGH LOSS RESERVE PCL.—The term ‘qualified high loss reserve PCL’ means, with respect to any calendar year, any premier certified lender designated by the Administrator as a qualified high loss reserve PCL for such year. The Administrator shall not designate a company under the preceding sentence unless the Administrator determines that—

“(i) the amount of the loss reserve of the company is not less than \$100,000;

“(ii) the company has established and is utilizing an appropriate and effective process for analyzing the risk of loss associated with its portfolio of PCLP loans and for grading each PCLP loan made by the company on the basis of the risk of loss associated with such loan; and

“(iii) the company meets or exceeds 4 or more of the specified risk management benchmarks as of the most recent assessment by the Administration or the Administration has issued a waiver with respect to the requirement of this clause.

“(G) SPECIFIED RISK MANAGEMENT BENCHMARKS.—For purposes of this paragraph, the term ‘specified risk management benchmarks’ means the following rates, as determined by the Administrator:

“(i) Currency rate.

“(ii) Delinquency rate.

“(iii) Default rate.

“(iv) Liquidation rate.

“(v) Loss rate.

“(H) QUALIFIED INDEPENDENT AUDITOR.—For purposes of this paragraph, the term ‘qualified independent auditor’ means any auditor who—

“(i) is compensated by the qualified high loss reserve PCL;

“(ii) is independent of such PCL; and

“(iii) has been approved by the Administrator during the preceding year.

“(I) PCLP LOAN.—For purposes of this paragraph, the term ‘PCLP loan’ means any loan guaranteed under this section.

“(J) ELIGIBLE CALENDAR QUARTER.—For purposes of this paragraph, the term ‘eligible calendar quarter’ means—

“(i) the first calendar quarter that begins after the end of the 90-day period beginning with the date of the enactment of this paragraph; and

“(ii) the 7 succeeding calendar quarters.

“(K) CALENDAR QUARTER.—For purposes of this paragraph, the term ‘calendar quarter’ means—

“(i) the period which begins on January 1 and ends on March 31 of each year;

“(ii) the period which begins on April 1 and ends on June 30 of each year;

“(iii) the period which begins on July 1 and ends on September 30 of each year; and

“(iv) the period which begins on October 1 and ends on December 31 of each year.

Deadline.
Federal Register,
publication.

“(L) REGULATIONS.—Not later than 45 days after the date of the enactment of this paragraph, the Administrator shall publish in the Federal Register and transmit to the Congress regulations to carry out this paragraph. Such regulations shall include provisions relating to—

“(i) the approval of auditors under subparagraph (H); and

“(ii) the designation of qualified high loss reserve PCLs under subparagraph (F), including the determination of whether a process for analyzing risk of loss is appropriate and effective for purposes of subparagraph (F)(ii).

“(8) BUREAU OF PCLP OVERSIGHT.—

“(A) ESTABLISHMENT.—There is hereby established in the Small Business Administration a bureau to be known as the Bureau of PCLP Oversight.

“(B) PURPOSE.—The Bureau of PCLP Oversight shall carry out such functions of the Administration under this subsection as the Administrator may designate.

“(C) DEADLINE.—Not later than 90 days after the date of the enactment of this Act—

“(i) the Administrator shall ensure that the Bureau of PCLP Oversight is prepared to carry out any functions designated under subparagraph (B), and

Reports.

“(ii) the Office of the Inspector General of the Administration shall report to the Congress on the preparedness of the Bureau of PCLP Oversight to carry out such functions.”

(b) INCREASED REIMBURSEMENT FOR LOSSES RELATED TO DEBENTURES ISSUED DURING ELECTION PERIOD.—Subparagraph (C) of section 508(b)(2) of the Small Business Investment Act of 1958 (15 U.S.C. 697e(b)(2)) is amended by inserting “(15 percent in the case of any such loss attributable to a debenture issued by the company during any period for which an election is in effect under subsection (c)(7) for such company)” before “; and”.

(c) CONFORMING AMENDMENTS.—

(1) Subparagraph (D) of section 508(b)(2) of the Small Business Investment Act of 1958 (15 U.S.C. 697e(b)(2)) is amended by striking “subsection (c)(2)” and inserting “subsection (c)”.

(2) Paragraph (5) of section 508(c) of the Small Business Investment Act of 1958 (15 U.S.C. 697e(c)) is amended by striking “10 percent”.

(d) STUDY AND REPORT.—

Contracts.

(1) IN GENERAL.—The Administrator shall enter into a contract with a Federal agency experienced in community development lending and financial regulation or with a member of the Federal Financial Institutions Examinations Council to study and prepare a report regarding—

(A) the extent to which statutory requirements have caused overcapitalization in the loss reserves maintained by certified development companies participating in the Premier Certified Lenders Program established under section 508 of the Small Business Investment Act of 1958 (15 U.S.C. 697e); and

(B) alternatives for establishing and maintaining loss reserves that are sufficient to protect the Federal Government from the risk of loss associated with loans guaranteed under such Program.

(2) TRANSMISSION OF REPORT.—The report described in paragraph (1) shall be transmitted to the Committee on Small Business of the House of Representatives and the Committee on Small Business and Entrepreneurship of the Senate not later than 90 days after the date of the enactment of this Act. Deadline.

(3) LIMITATION.—The amount of the contract described in paragraph (1) shall not exceed \$75,000.

Approved May 28, 2004.

LEGISLATIVE HISTORY—H.R. 923:

HOUSE REPORTS: No. 108-153 (Comm. on Small Business).

CONGRESSIONAL RECORD:

Vol. 149 (2003): June 24, considered and passed House.

Vol. 150 (2004): May 18, considered and passed Senate.