



Bank Notes

A Newsletter for Michigan Lenders

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SBA Announces New Ways To Improve Small Businesses Access To Capital

In response to the credit crunch, SBA has announced important loan program changes to help our lending partners increase access to capital for small businesses.

The first change is 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. 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.

This interim final rule is an important step to reenergize lenders to make SBA-backed loans and SBA is confident these two changes will help free up capital. 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, please see SBA Procedural Notice 5000-1081 at www.sba.gov/idc/groups/public/documents/sba_program_office/bank_5000-1081.pdf.

Small Business Loans

According to recent reports in the press, the state of Michigan is planning to provide state banks and credit unions with up to \$150 million for small business loans.

While details of the program are being worked out, the program would require the state banks and credit unions to guarantee that up to 80 percent of the money would go for loans to businesses.

The program would use up to \$150 million of the state's common cash to purchase certificates of deposit at competitive rates from the banks and credit unions.

When this investment of state funds into bank and credit unions is implemented, the SBA would certainly encourage all of our participating lenders to consider using SBA's loan guaranty programs to enhance the number of small business loans they would make by using these state funds.

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