CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 5, 2003

H.R. 923

Premier Certified Lenders Program Improvement Act of 2003

As ordered reported by the House Committee on Small Business on May 22, 2003

H.R. 923 would make several changes to the loan program that the Small Business Administration (SBA) operates in cooperation with certified development companies (CDCs). Based on information from the SBA, CBO estimates that implementing H.R. 923 would not have a significant impact on the federal budget. Enacting the bill would not affect revenues and would have no significant impact on direct spending. H.R. 923 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

CDC loans, also known as section 503 and 504 loans, provide small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and equipment. The Premier Certified Lenders Program allows a participating CDC the authority to review and approve loan requests and to foreclose, litigate, and liquidate loans made under the program. Under current law, CDCs can qualify as Premier Certified Lenders (PCLs) if, among other requirements, they agree to pay 10 percent of SBA's potential loss on a defaulted 504 loan. A PCL must hold 10 percent of this potential loss (i.e., 1 percent of the total loan) in a reserve for the life of the loan.

During a two-year pilot period, H.R. 923 would have two effects on the requirements for loss reserves under the PCLs Program. First, the bill would change the loss reserve requirement from 1 percent of the total value of the loan to 1 percent of the total loan outstanding. PCLs would be allowed to withdraw any funds from their loss reserve in excess of this amount. Second, certain PCLs would have the option to maintain an alternate loss reserve level based on risk rather than a fixed percentage. The amount of the reserve would be determined by an independent, SBA-approved auditor. Under the bill, if a PCL chooses this option, it must pay 15 percent of SBA's total loss on defaulted CDC loans.

Under current law, the Administrator of SBA must adjust an annual fee on CDC loans to produce an estimated subsidy rate of zero at the time the loans are guaranteed. Enacting H.R. 923 could affect the subsidy rates for previous cohorts of CDC loans. Decreasing the loss reserve requirement for PCLs would cause SBA to collect a smaller amount of recoveries if a small business defaults on a loan and a PCL is unable to pay its portion of SBA's total loss. However, increasing the required loss coverage to 15 percent for PCLs who opt to maintain a loss reserve level based on risk would increase SBA's recoveries on defaulted CDC loans. It is unclear if, taken together, those two effects would increase or decrease the average subsidy costs for previous CDC loans. However, CBO estimates that the net result of those two effects would not have a significant impact on the federal budget.

H.R. 923 also would create a Bureau of PCL Program Oversight and require SBA to study and report to the Congress on the loss reserve requirements for PCLs. Based on information provided by SBA, CBO estimates that those provisions would cost less than $500,000, assuming appropriation of the necessary amounts.

The CBO staff contact for this estimate is Melissa E. Zimmerman. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.