



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

January 4, 2002

H.R. 3230

American Small Business Emergency Relief and Recovery Act of 2001

As ordered reported by the House Committee on Small Business on November 14, 2001

SUMMARY

H.R. 3230 would allow the Small Business Administration (SBA) to repay any outstanding loan guarantees and direct loans issued under the Small Business Act for small businesses affected by the September 11th attacks. The bill also would authorize appropriations for SBA to offer new grants, direct loans, loan guarantees, procurement advantages, and technical assistance to these firms. Finally, H.R. 3230 would change the terms for certain loan guarantees during the year after its enactment.

By allowing SBA to modify existing loans, H.R. 3230 would increase direct spending by an estimated \$1.3 billion in 2002. Therefore, pay-as-you-go procedures would apply. In addition, CBO estimates that implementing the bill would cost about \$1.6 billion over the 2002-2006 period, assuming appropriation of the necessary amounts.

H.R. 3230 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. State and local governments would benefit from provisions of the bill that would reduce or waive loan fees paid by state and local development companies.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3230 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
CHANGES IN DIRECT SPENDING					
SBA Loan Modifications					
Estimated Budget Authority	1,318	0	0	0	0
Estimated Outlays	1,318	0	0	0	0
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Disaster Relief Grant Program					
Estimated Authorization Level	1,200	0	0	0	0
Estimated Outlays	480	600	120	0	0
Business Loan Guarantees					
Estimated Authorization Level	374	105	0	0	0
Estimated Outlays	122	90	22	1	0
Procurement Programs for Small Businesses					
Estimated Authorization Level	100	0	0	0	0
Estimated Outlays	75	25	0	0	0
Technical Assistance Programs					
Estimated Authorization Level	36	1	1	1	1
Estimated Outlays	17	15	3	1	0
Total Changes in SBA Spending					
Estimated Authorization Level	1,710	105	1	1	1
Estimated Outlays	694	729	145	2	0

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3230 will be enacted early in calendar year 2002 and that the necessary amounts to implement the bill will be appropriated. H.R. 3230 would increase direct spending by about \$1.3 billion in 2002 because the bill would allow SBA to repay outstanding direct loans and loan guarantees issued under the Small Business Act. Also, the bill would authorize the appropriation of funds to assist small businesses after the September 11th attacks through grants, loan programs, and other forms of aid. CBO estimates that implementing H.R. 3230 would cost about \$1.6 billion over the 2002-2006 period, subject to the appropriation of the necessary amounts.

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs for operating direct loans and loan guarantee programs such as those authorized in H.R. 3230. The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs.

Direct Spending

Under H.R. 3230, SBA could assume the obligation to repay outstanding loan guarantees and direct loans issued under the Small Business Act for small businesses injured by the September 11, 2001, terrorist attacks. This change would modify the expected cost of existing loans under the business loan and disaster loan programs. Under credit reform procedures, if a loan guarantee or direct loan modification is mandated in legislation, the legislation itself provides the budget authority to incur the cost of the subsidy obligation. Assuming SBA implements these provisions, CBO estimates that direct spending would increase under the bill by \$1.3 billion in 2002.

Loan Guarantees. By far the largest loan guarantee program that would be affected by this provision is the 7(a) General Business Loan program. For this estimate, CBO assumes that the provisions of the bill would apply only to businesses that were closed following the terrorist attacks, located in the declared disaster areas, or otherwise directly affected by the attacks.

Based on information from SBA, CBO expects that the agency would receive applications to assume the repayment of about \$1 billion in loan guarantees, about half of the total volume of 7(a) loan guarantees outstanding in the declared disaster areas. However, under the bill, CBO expects SBA would repay the entire amount of these loans, not simply the amount guaranteed by SBA. Since the agency guarantees an average of about 75 percent of a loan under the 7(a) program, CBO estimates that SBA would repay a total of about \$1.4 billion in loans under this provision. CBO estimates that implementing this provision would increase direct spending by \$1.3 billion in 2002. This estimated subsidy cost is slightly less than the \$1.4 billion total because SBA would have had to pay some outstanding loans that defaulted under current law.

Direct Loans. This provision also would affect SBA's Disaster Loan Program. For this estimate, CBO assumes that this provision would apply only to businesses that were closed, located in the declared disaster areas, or otherwise directly affected by the attacks. CBO assumes that loans disbursed since the September 11th terrorist attacks in declared disaster areas also would be eligible for forgiveness under the bill. Based on information from SBA, CBO estimates that implementing this provision would increase direct spending by \$68 million in 2002.

Spending Subject to Appropriation

H.R. 3230 authorizes the appropriation of additional funds to amend SBA programs related to disaster relief, business loan guarantees, procurement assistance, and technical assistance. CBO estimates that implementing these provisions would increase the agency's discretionary costs by about \$1.6 billion over the 2002-2006 period.

Disaster Relief Grant Program. H.R. 3230 would provide SBA with the authority to make grants within a year of its enactment to small businesses that have suffered substantial economic injury as a result of the terrorist attacks. For this estimate, CBO assumes that these grants would be distributed only to firms that were directly affected by the attacks. CBO estimates that the demand for grants could total about 150 percent of the demand for loans under the existing disaster loan program. Based on information from SBA about the need for such assistance in response to this and other disasters, data from small business groups, and information on the economic impact of the terrorist attacks, CBO estimates that the demand for disaster loans in response to the terrorist attacks will be about \$800 million. Therefore, CBO estimates that SBA would distribute \$1.2 billion in grants under this new program over the 2002-2006 period, assuming appropriation of the necessary amounts.

Although SBA would be authorized to establish a new loan program under H.R. 3230 for small businesses that have experienced significant economic injury in the wake of the terrorist attacks, for this estimate we assume that SBA will choose to give out all assistance to small businesses experiencing substantial economic injury in the form of grants.

Business Loan Guarantees. Under current law, SBA guarantees loans to small businesses through a variety of programs, including the 7(a) General Business Loan program, the Small Business Investment Company (SBIC) program, and the 504 Certified Development Company (CDC) program. H.R. 3230 would authorize SBA to issue over \$63 billion in loan guarantees under these three programs in 2002 and 2003. CBO estimates, however, that demand for those programs would only be about half that amount. We estimate that implementing the provisions of H.R. 3230 related to these three programs would cost \$122 million in 2002 and \$235 million over the 2002-2006 period, subject to the appropriation of the necessary funds.

7(a) General Business Loan Program. H.R. 3230 would change the terms of all 7(a) loan guarantees approved within the year following its enactment. Specifically, the bill would reduce by one-half an upfront fee paid by borrowers and an annual fee paid by lenders. Also, H.R. 3230 would raise the percentage of a loan that could be guaranteed by the federal government. CBO estimates the provision would increase the subsidy cost for about \$13.3 billion in 2002 loans and \$4.5 billion in 2003 loans. Based on information from SBA, CBO estimates that implementing these provisions would increase the cost of guaranteeing

7(a) loans by \$103 million in 2002 and \$189 million over the 2002-2005 period, assuming appropriation of the necessary amounts.

H.R. 3230 also would authorize SBA to establish a new one-year 7(a) program targeted at small businesses that have suffered economic injury as a direct or indirect result of the September 11th attacks. The terms of these loans would be similar to current law, except no upfront fees would be charged, a 0.25 percent annual fee instead of a 0.5 percent annual fee would apply, a one-year deferment of principal payments would be allowed, and a higher percentage of the loans could be guaranteed by the federal government. Based on the historical demand for similar programs, estimates from small business groups, and information about the economic losses resulting from the attacks, CBO expects that SBA would guarantee about \$500 million in loans under this new program. Based on information from the agency, CBO estimates that implementing this new loan program would cost about \$29 million during the 2002-2004 period, subject to the appropriation of the necessary amounts.

504 Certified Development Company Program. The 504 program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and equipment. H.R. 3230 would change the terms of loan guarantees made under the 504 program during the year following its enactment. Specifically, the bill would reduce by one-half an annual fee paid by borrowers, and would exempt lenders from an upfront fee.

Under the bill, SBA would be authorized to guarantee \$6.5 billion in 504 loans in 2002. Because the bill only would affect loans guaranteed within a year of enactment, CBO estimates that the provision would increase the cost of about \$5.4 billion of the 2002 loans. (These provisions would not affect any loans guaranteed in 2003, because they would not change the terms of loan guarantees from those in current law.) Based on information from SBA, CBO estimates that implementing these provisions would cost \$4 million in 2002 and \$17 million over the 2002-2006 period.

SBIC Program. Through two SBIC programs, participating securities and debentures, SBA guarantees 10-year loans made to venture capital firms. Under current law, the agency can guarantee up to \$3.5 billion in participating securities and \$2.5 billion in debentures in 2002. H.R. 3230 would authorize SBA to guarantee an additional \$700 million in participating securities and \$200 million in debentures in 2002 and 2003 for small businesses affected by the September 11th attacks.

Based on information from SBA, CBO expects that the demand for guarantees of participating securities and debentures above the levels authorized under current law would be minimal. Therefore, CBO estimates that implementing the bill's SBIC-related provisions would increase outlays by less than \$500,000 a year.

Procurement. H.R. 3230 also would allow agencies, under the guidance of the Administrator for Federal Procurement Policy, to increase the price of a contract performed by a small business concern that was adversely affected by the terrorist acts of September 11, 2001. The bill would authorize an appropriation of \$100 million for SBA to pay the increased contract costs. Based on information from the Federal Procurement Data System and the General Accounting Office, CBO estimates that SBA would spend \$75 million in 2002 and \$25 million in 2003 to implement this provision.

Technical Assistance and Studies. H.R. 3230 would authorize the appropriation of \$36 million for SBA to aid small businesses that were affected by the September 11th attacks through technical assistance programs such as Small Business Development Centers and Microloan Technical Assistance. The bill also would authorize the appropriation of \$500,000 a year for the agency to conduct annual studies on the effect of the attacks on small businesses and the effectiveness of the programs authorized by this bill. Based on SBA's historical spending patterns, CBO estimates that implementing these provisions would cost \$17 million in 2002 and \$37 million over the 2002-2006 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	1,318	0	0	0	0	0	0	0	0	0
Changes in receipts					Not applicable					

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3230 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments. State and local

governments would benefit from provisions of the bill that would reduce or waive loan fees paid by state and local development companies.

ESTIMATE PREPARED BY:

Federal Costs: Ken Johnson, Julie Middleton, and Matthew Pickford

Impact on State, Local, and Tribal Governments: Susan Sieg Tompkins

Impact on the Private Sector: Cecil McPherson

ESTIMATE APPROVED BY:

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis