CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 19, 2007

H.R. 1332
Small Business Lending Improvements Act of 2007

As ordered reported by the House Committee on Small Business on March 15, 2007

SUMMARY

H.R. 1332 would make a number of amendments to loan programs administered by the Small Business Administration (SBA). The bill would specifically authorize SBA to use appropriated funds in lieu of charging borrower and lender fees to cover the cost of 7(a) loan guarantees, to the extent that such funds are made available. The bill also would ease financial requirements for individuals in targeted groups to participate in the 7(a) loan guarantee program and expand eligibility for loans under the 504 loan program, which guarantees debentures issued by intermediaries to provide funding for major fixed assets.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 1332 would cost $316 million in 2008 and $2.3 billion over the 2008-2012 period. CBO estimates that enacting the bill would not affect revenues and would have no significant effect on direct spending.

H.R. 1332 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.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1332 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
SPENDING SUBJECT TO APPROPRIATION					
Elimination of 7(a) Loan Fees					
Estimated Authorization level	470	480	500	510	520
Estimated Outlays	305	460	490	500	510
Easing Requirements for 7(a) Loans for Medical Professionals					
Estimated Authorization level	9	9	10	10	10
Estimated Outlays	6	9	9	10	10
Easing Requirements for 7(a) Loans for Veterans					
Estimated Authorization level	7	7	7	8	8
Estimated Outlays	5	7	7	7	8
Total					
Estimated Authorization level	486	496	517	528	538
Estimated Outlays	316	476	506	517	528

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted in 2007 and that the necessary amounts will be appropriated near the start of each year.

The budgetary accounting for SBA's loan guarantee programs is governed by the Federal Credit Reform Act (FCRA) of 1990, which requires an appropriation of subsidy and administrative costs associated with loan guarantees and loan operations. The subsidy cost is the estimated long-term cost to the government of a loan guarantee, calculated on a net-present-value basis, excluding administrative costs. Administrative costs, recorded on a cash basis, include activities related to making, servicing, and liquidating loans, as well as overseeing the performance of lenders.

The budgetary impact of the changes H.R. 1332 would make to SBA's business loan programs is measured in terms of projected subsidy costs. The bill does not specify an authorization level for either the subsidy or administrative costs, if any, that could be incurred as a result of implementing the amendments in the bill. CBO has estimated those amounts based on information from the SBA regarding the historical demand for and costs of the agency's business loan programs.

Spending Subject to Appropriation

Section 101 would authorize SBA to use appropriated funds rather than charging certain fees on loans guaranteed under the 7(a) program to cover the program's cost . Under current law, SBA must adjust fees charged to both borrowers and lenders to produce an estimated subsidy rate of zero at the time the loans are guaranteed.

Based on historical demand for 7(a) loans and assuming a small increase in demand as a result of the lower cost to borrowers, CBO estimates loan volume for fiscal year 2008 would be about $14 billion. The projected subsidy rate on the 7(a) program for 2008, in the absence of fee collections, would be about 3.4 percent of the loan principle guaranteed. Assuming that loan volume would grow with inflation in subsequent years and that the necessary sums would be appropriated each year, additional outlays would total $305 million in 2008 and $2.3 billion over the 2008-2012 period, CBO estimates.

Title I also would ease the financial requirements for individuals in certain groups to receive loan guarantees under the 7(a) program. Those affected would include borrowers in rural and low- and moderate-income areas, certain medical professionals, and veterans. Under the bill, the targeted groups would receive higher loan guarantees from SBA, pay lower fees, or both.

Based on information from SBA, CBO estimates that creating programs targeted at medical professionals and veterans within the 7(a) program would increase the overall subsidy rate by about five basis points, each with the elimination of the fees discussed above. The programs proposed for rural and low- and moderate-income borrowers would not affect the subsidy rate. CBO estimates that the new targeted programs would cost $11 million in 2008 and $77 million over the 2008-2012 period.

Title II would make changes to SBA's 504 program, renamed the community development corporation economic development loan program under the bill. That program guarantees debentures issued by community development corporations (CDCs) to provide funding for investments in major fixed assets, including land, structures, machinery, and equipment. H.R. 1332 would expand the number of CDCs eligible to issue debentures, broaden the purposes for which loan proceeds may be used, and allow CDCs to contract with third parties to foreclose and liquidate defaulted loans.

As for the 7(a) program, SBA must set an annual fee on such loans to produce an estimated subsidy rate of zero at the time the loans are guaranteed. Based on information from SBA, CBO estimates that the amendments to the 504 loan program in H.R. 1332 would not affect the subsidy rate, and therefore would have no cost.

Direct Spending

SBA's Premier Certified Lenders Program gives a CDC participating in the 504 program 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.

H.R. 1332 would reinstate a program that allows PCLs to maintain a lower loss reserve equal 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. In addition, the bill would reinstate the option for certain PCLs 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 program, if a PCL chooses this option, it must pay 15 percent of SBA's total loss on defaulted CDC loans. Both loss reserve programs expired in 2006; under the bill, these provisions would be extended through the end of fiscal year 2008.

Enacting these provisions of H.R. 1332 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 that opt to maintain a loss reserve level based on risk would increase SBA's recoveries on defaulted CDC loans. CBO estimates that those two effects would not have a significant net impact on the subsidy cost of outstanding loans.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1332 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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