CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 26, 2010

S. 2869
Small Business Job Creation and Access to Capital Act of 2009

As ordered reported by the Senate Committee on Small Business and Entrepreneurship on December 17, 2009

SUMMARY

S. 2869 would make changes to several business loan and loan guarantee programs operated by the Small Business Administration (SBA). The bill also would establish a new pilot program, modeled after SBA's microloan program, to make loans to intermediaries that would then make loans to new and expanding small businesses. Based on information from SBA, CBO estimates that implementing S. 2869 would cost $23 million over the 2010-2015 period, assuming appropriation of the necessary amounts. CBO estimates that enacting S. 2869 would have no effect on direct spending or revenues.

S. 2869 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 S. 2869 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						
	2010	2011	2012	2013	2014	2015	2010-2015
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
Estimated Authorization Level	8	8	8	0	0	0	24
Estimated Outlays	4	6	7	3	2	1	23

BASIS OF ESTIMATE

For this estimate CBO assumes that S. 2869 will be enacted early in 2010, the necessary amounts will be appropriated each year, and spending will follow historical patterns. Based on information from SBA, CBO estimates that implementing S. 2869 would cost $23 million over the 2010-2015 period, assuming appropriation of the necessary amounts.

The budgetary accounting for SBA's direct loan and loan guarantee programs is governed by the Federal Credit Reform Act of 1990, which requires an appropriation of the 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 or 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.

Small Business Intermediary Lending Program

The bill would authorize a three-year program to provide loans of up to $1 million to nonprofit lenders that would, in turn, make loans, ranging in size from $35,000 to $200,000, to eligible small businesses. The program, modeled after the microloan program, would feature a 20-year loan term, an interest rate of 1 percent, and a two-year grace period before principal and interest payments would be first due. The bill would authorize $20 million in loans for each of fiscal years 2010 through 2012. Based on information from SBA, CBO estimates that the subsidy rate for the program would be about 38 percent; the difference between the government’s borrowing rate and the rate SBA would charge the borrowers makes up nearly half of the subsidy cost. We estimate that the subsidy cost for the authorized loan amounts would be $23 million over the 2010-2015 period.

Business Loan Programs

Other provisions of S. 2869 would make changes to several of SBA’s existing business loan programs. The bill would:

- Increase the maximum size of loans that SBA would be authorized to guarantee under the 7(a) and 504 loan programs;

- For a limited time, increase the guarantee percentage on 7(a) loans from up to 85 percent to 90 percent of the amount of the loan; and

- Increase the maximum size of loans intermediaries would be authorized to make to small businesses under the microloan program and the maximum amount an intermediary can loan to a single borrower.

SBA’s 7(a) program provides limited guarantees on loans made by certain lending institutions to small businesses; the 504 program (also known as the certified development company program) provides guarantees on debentures issued by certified development companies to provide funding to small businesses for major fixed assets. The microloan program provides direct loans to nonprofit lenders which then offer loans to small businesses just starting up, whose capital needs are too small to qualify for the 7(a) program. Estimated subsidy rates for those programs range from zero percent for the 504 program to about 12 percent for the microloan program.

Based on information from SBA, CBO expects that changing the loan terms would not significantly affect the programs’ estimated subsidy rates. Thus, CBO estimates that implementing those changes would not significantly affect spending subject to appropriation.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2869 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit tribal governments by establishing a grant program for tribal agencies to provide loans to new and growing businesses. Any costs to tribal governments of participating in the program would be incurred voluntarily.

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