CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 2, 2015

S. 1857
Microloan Modernization Act of 2015

As ordered reported by the Senate Committee on Small Business and Entrepreneurship on July 29, 2015

Under current law, the Small Business Administration (SBA) operates a program that makes loans and grants to eligible nonprofit entities (known as intermediaries). Intermediaries use those funds to make small loans (microloans that are less than $50,000) to newly-established or growing small businesses. Participating intermediaries use grant funds from SBA to provide technical assistance to small businesses receiving a microloan.

S. 1857 would make a number of changes to the microloan program, including raising the amount the SBA may commit to an intermediary, extending the maximum term for repayment of the microloan to the intermediary, and authorizing intermediaries to offer lines of credit as well as traditional loans. (A line of credit allows a borrower to establish a maximum loan amount that the borrower may draw down as the funds are required.) The bill also would direct the Government Accountability Office to conduct a study of intermediaries to determine why some that may be eligible to participate in the program fail to do so, and to recommend ways to increase participation in the program.

Based on information from the SBA, CBO estimates that implementing S. 1857 would cost about $2 million over the 2016-2020 period, assuming appropriation of the necessary amounts for monitoring, rulemaking, and reporting activities, as well as for additional subsidy costs or the microloan; program. Enacting S. 1857 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

CBO expects that provisions of the bill that would allow intermediaries to offer lines of credit as well as traditional loans would affect the subsidy rate for the microloan program. The subsidy rate is the estimated long-term cost to the government of a direct loan, calculated on a net-present-value basis, stated as a percentage of the loan amount. (In fiscal year 2015, that estimated rate is about 10 percent for the microloan program, which in recent years has provided an average of about $30 million a year in loans.)

Intermediaries depend on a steady stream of repayments from their borrowers to repay the SBA. By allowing all participating intermediaries to offer lines of credit, the steady stream of repayments generated by traditional loans to micro-borrowers could become uneven, increasing the chance that the intermediary would default on its loan from the SBA. Based on information from the agency, CBO expects that the subsidy rate for the microloan program would increase only slightly as a result of enacting S. 1857 because the default rate for the program is a small fraction of the program's overall subsidy cost and because we expect a small portion of the intermediaries, the riskiest lenders, would be adversely affected by such a change in cash flows. We estimate that implementing this provision would raise the subsidy cost for such loans to about 11 percent, and would cost less than $500,000 per year. That additional cost is included in the total estimated cost of the bill.

S. 1857 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

On October 1, 2015, CBO transmitted a revised cost estimate for H.R. 2670, the Microloan Modernization Act of 2015, as passed by the House of Representatives on July 13, 2015. The House version of the bill includes a report by the SBA's Office of Advocacy that is not included in S. 1857; the two cost estimates reflect that difference.

The CBO staff contact for this estimate is Susan Willie. The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.