



The Center on Federal Financial Institutions (COFFI) is a nonprofit, nonpartisan, non-ideological policy institute focused on federal insurance and lending activities.

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## Small Business Administration

**The SBA's mission.** The organization's stated goals are to aid, counsel, assist, and protect the interests of small business concerns.

**The SBA has assisted small business for over 50 years.** The Small Business Administration was established in 1953 as a successor to the Reconstruction Finance Corporation. Since then its reach has been expanded to include guaranteed and direct loan financing and disaster assistance.

### SBA

**Guaranteed Loans Outstanding:** \$57.5 billion

**Guaranteed Loans Originated FY2004:** \$19.7 billion

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**Direct Loans Outstanding:** \$3.3 billion

**Direct Loans Originated FY2004:** \$.7 billion

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**Statutory Taxpayer Exposure\*:** \$58.8 billion

**Budget Cost of Loan Programs FY2004:** \$3.9 billion

\* Note: Reflects total federal losses in a worst case scenario given current law and current financial commitments

## Structure and Functions

**Nuts and bolts.** The SBA is an executive branch agency of the federal government. It is directed by the SBA administrator, appointed by the President. The SBA's loan program guidelines are set by Congress pursuant to 15 U.S.C 14a. Each year Congress appropriates funds for the Administration's operating costs. The House's Small Business committee and the Senate's Small Business and Entrepreneurship committee oversee the SBA.

**The SBA has two main credit functions.** First, the SBA acts as a 'gap lender' to supplement market lending where private lenders are reluctant to do so without a government guarantee. The SBA guarantees loans made by these lenders for uses by small business for specific purposes such as capital procurement and job retention. The SBA also offers direct loans to businesses through its micro-loan program, intended for entrepreneurs who lack the financial resources and the technical business knowledge to obtain loans in the commercial market.

Second, the SBA is the primary lender to uninsured business- and home-owners for the cost of disaster recovery. These loans are direct, financed by the SBA without any relation to the private market.

The SBA supplements the above two functions by helping to pool loans in the secondary market guaranteed by the SBA. Lenders can sell the guaranteed portion of the loans in order to free up liquidity.

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## Guaranteed Loan Programs

**The SBA primarily promotes business lending via guaranteed loans.** Several distinct guaranteed loan programs exist. Many have been in existence for more than a decade, though specific programs can, and are, cut and added each year by congress.

The Section 7(a) Business Loan Program provides the bulk of general small business guaranteed loans. Private lenders administer these loans and the SBA guarantees a specified portion against default.

The Section 504 Community Development Corporation (CDC) Loan Program provides longer term financing for particular projects via CDCs.

**Guarantee process.** Businesses apply directly to private lenders or CDCs for loans or equity investments. These lenders provide and administer loans for circumstances delineated by the SBA. These lenders structure loans to SBA guidelines and apply for an SBA guaranty. This guaranty is a guaranty against payment default, not against lender negligence. The SBA guarantees a given percentage of the loan against default, sharing the risk with the lender. The SBA absorbs losses on defaults first, up to the guaranty limit on the loan, with the lender absorbing any loss over the loan guaranty limit.

**Eligibility provisions.** The SBA reviews applications on the basis of business size, type, purpose of loan, availability of alternate financing, cash flow, collateral, ability of repayment, and ownership structure. The SBA particularly targets small businesses that cannot acquire financing

### 7(a) Business Guaranteed Loan Program

**Purpose:** Primary business loan program; flexible for a variety of business uses including capital and real estate purchases as well as debt refinancing

**Maximum Loan:** \$2 million

**Maximum guaranty:** variable; 85% for loans less than \$150,000; 75% for loans above \$1.5 million

**Delivered by:** Commercial lenders

**FY2004 Originations:** \$11.8 billion

### Section 504 CDC Guaranteed Loan Program

**Purpose:** Long-term, fixed-rate financing for fixed assets and long-term equipment purchases

**Maximum Loan:** Up to 50% of the loan is secured by private lender; at least 10% in equity from the business; up to 40% by CDC which is guaranteed by the SBA and is subject to guaranty limits below

**Maximum guaranty:** \$1.5 million for job creation or community development; \$2 million for public policy goals; \$4 million for small manufacturers

**Delivered by:** Certified Development Companies

**FY2004 Originations:** \$4.0 billion

in the open market but that have a reasonable ability to pay back that financing. Eligibility rules are kept purposefully loose to enable financing to a diverse portfolio of small businesses.

**The SBA guarantees debt issued by private venture capital corporations.**

The Small Business Investment Corporation (SBIC) Program promotes private venture capital. The structure of the program is unique. SBICs are privately owned and managed venture capital funds, licensed and regulated by the SBA. They use their own capital, plus funds borrowed by issuing debentures (unsecured bonds) that carry an SBA guarantee. This capital is used to make equity and debt investments in qualifying small businesses. The SBIC program also provides a limited number of New Market Venture Capital grants to businesses of low-income owners.

**SBIC Debenture and Venture Capital Program**

**Purpose:** Encourages small business risk-taking by licensing and regulating privately owned and managed venture capital funds; the SBA guarantees debentures issued by SBICs

**Maximum guaranty:** 300% of private capital, up to \$116 million, indexed to the CPI

**Delivered by:** SBIC venture capital funds

**FY 2004 Originations:** \$4.6 billion

**Surety Bond Guarantee Program**

**Purpose:** Provides bid, payment, and performance bond guarantees for construction, service, and supply contracts

**Maximum loan:** \$2 million

**Maximum guaranty:** 70-90%

**Delivered by:** Surety companies

**Surety bonds are also guaranteed by the SBA.** The Surety Bond Guarantee Program encourages surety companies to provide bonds to contractors and service industry companies by guaranteeing a portion of those bonds.

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## Direct Loan Programs

**The SBA also provides loans directly.**

The majority of direct loans from the Small Business Administration come in the form of disaster assistance loans. In addition, a limited number of micro-loans are provided to businesses for a variety of purposes.

**Section 7(m) Direct Micro-loan Program**

**Purpose:** Small loans for uses other than debt refinancing or real estate purchases

**Maximum Loan:** \$750,000 to intermediaries who, in turn, make loans up to \$35,000

**Delivered by:** Non-profit intermediary lenders

**FY2004 Originations:** \$23 million

The SBA's Micro-loan Program is meant to assist entrepreneurs that lack the financial resources and technical savvy to borrow in the market. The SBA directly lends to intermediate lenders who then provide loans to the businesses. The SBA also provides technical assistance to those borrowers considered unbankable due to their inexperience with credit or lack of assets.

**The SBA is the primary lender to uninsured homeowners and businesses for disaster assistance.**

The Business Disaster Assistance Program covers both physical property damage and economic damage due to foregone revenues, etc. In addition, it includes coverage for preventative measures aimed at disaster mitigation. A special part of this program is aimed at alleviating economic hardship caused by a business' employees being called up from the reserves to active duty. In this case, a business can be eligible for low-cost loans to cover the cost of lost personnel.

The Personal Disaster Assistance Program covers losses to physical real estate and personal property resulting from natural disasters. This is the only program in the SBA that is not exclusively for small business purposes.

**Business Disaster Direct Loan Program**

**Purpose:** Primarily provides financing to businesses for physical or economic disaster damage

**Maximum Loan:** \$1.5 million for disaster damage or reservist hardship, \$50,000 for pre-disaster mitigation

**Delivered by:** SBA

**Personal Disaster Direct Loan Program**

**Purpose:** Provides financing to homeowners and renters to replace personal property or real estate damaged in a disaster

**Maximum Loan:** \$200,000 real estate; \$40,000 personal property

**Delivered by:** SBA

**Combined FY2004 Originations:** \$664 million

**Finances**

**Overall Size.** The SBA currently has outstanding guaranteed loans in excess of \$57.4 billion and direct loans in excess of \$3.3 billion. [See Table 1.](#) The agency made upwards of \$20.4 billion in new direct and guaranteed loans during FY2004. [See Table 2.](#)

**Table 1: Outstanding Loans**

<b>Fiscal Years</b>	<b>2003 Act.</b>	<b>2004 Act.</b>	<b>2005 Est.</b>	<b>2006 Proj.</b>
<b>Direct Loans</b> <i>in millions</i>				
Business	\$ 311	\$ 264	\$ 218	\$ 175
Disaster	\$ 2,979	\$ 3,069	\$ 5,717	\$ 6,400
	\$ 3,290	\$ 3,333	\$ 5,935	\$ 6,575
<b>Guaranteed Loans</b> <i>in millions</i>				
Business	\$ 53,388	\$ 57,493	\$ 67,935	\$ 77,644
<i>(proportion guaranteed)</i>	(98%)	(96%)	(76%)	(69%)
<b>Totals</b> <i>in millions</i>				
Total Loans	\$ 57,308	\$ 60,826	\$ 73,870	\$ 84,219
Total Guaranteed Portion plus Direct Loans	\$ 55,418	\$ 58,775	\$ 57,265	\$ 60,395

Source: President's FY2005-6 Budget

Note: Loan levels reflect total for financing and liquidating accounts

**Statutory taxpayer exposure.** Total potential taxpayer exposure to the SBA's loan programs, under current law, includes the net present value of its direct loans and the guaranteed portion of its guaranteed loans. This is the total cost if all covered borrowers defaulted on their loans and no recoveries were possible. At present this is approximately \$58.8 billion.

Table 2: Loan Originations

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
<b>Loans Originated</b> <i>in millions</i>				
<b>Business Programs</b>				
General Business 7(a) Guaranteed	\$ 10,641	\$ 11,827	\$ 16,000	\$ 16,500
New Market Venture Capital Guaranteed	\$ 2	\$ 0	\$ 3	\$ 0
SBIC Debentures Guaranteed	\$ 240	\$ 607	\$ 3,250	\$ 3,000
SBIC Participating Securities Guaranteed	\$ 379	\$ 4,000	\$ 0	\$ 0
Secondary Market Guaranteed*	\$ 38,008	\$ 3,572	\$ 10,000	\$ 12,000
Section 504 CDCs Guaranteed	\$ 2,149	\$ 3,966	\$ 5,000	\$ 5,500
Micro Direct	\$ 21	\$ 23	\$ 10	\$ 0
<b>Disaster Programs</b>				
Direct Loans	\$ 533	\$ 664	\$ 3,966	\$ 810
	\$ 13,432	\$ 20,423	\$ 24,263	\$ 25,000

Source: President's FY2005-6 Budget Appendix

\*Note: The Secondary Market Guarantee Program is excluded from totals as it is simply a pooling of SBA guaranteed loans, and does not represent new loans.

**Loan program budgeting.** Since 1992, loan programs have been reflected two ways in the budget. See COFFI's "Budgeting for Credit Programs: A Primer" at [www.coffi.org](http://www.coffi.org) for a fuller explanation on how federal credit programs are accounted for.

On-budget program accounts record the net cost or revenue of a loan program to the federal government. Costs and revenues are broken into two pieces: a "subsidy" cost and annual administrative expenses. Subsidies are calculated by projecting future cash inflows to and outflows from the government and discounting these flows back to today's dollars. The net "present value" represents the subsidy amount. A deficit is registered as a positive subsidy and a surplus as a negative subsidy. Since the net present value relies on default rate estimates and a discount rate which is recalculated each year (varying with interest rates), subsidy reestimates are made yearly. Reestimates are reflected in program costs, but do not directly affect discretionary appropriations, as they fall under an indefinite, unlimited appropriations authority of their own.

Non-budgetary financing accounts record the actual collections from a loan program and the cost of defaults and losses. This is on a cash flow basis, meant to make it easier to understand a program's inflows and outflows. Loans existing before the 1992 law are kept in a third type of account, a liquidating account, which operates in a similar manner to a financing account but is on-budget.

In general, with a positive subsidy, the program account receives appropriations from general revenues to cover the net cost of administrative, subsidy, and subsidy reestimate costs.

In general, with a negative subsidy, the program account applies the negative subsidy to cover administrative expenses, any subsidy reestimate costs, or subsidy costs incurred by positive subsidy programs in the same account. In some cases, the negative subsidy is enough to cover all costs and no appropriations are made to the program account. In other cases, some appropriations from general revenues are made to cover the difference. Often, negative subsidy programs pay for their own administrative costs but subsidy reestimate costs are paid through general revenues.

Most SBA loan programs run positive subsidies, paying out more in expenses than they bring back in revenues. [See Table 4.](#)

**SBA budgeting.** The SBA is financed in part through interest and fees collected from its direct and guaranteed loan programs. This, however, is not enough to cover the costs of the programs, and Congress appropriates money yearly to the SBA. [See Table 3.](#)

There are two parts to the appropriations each year to the SBA. The program account receives discretionary appropriations to cover administrative costs and subsidy costs. The program account also receives mandatory appropriations each year to cover subsidy reestimates. Since reestimates can vary widely from year to year, appropriations to the SBA overall can increase or

Table 3: Budget Costs

Fiscal Years	Business Loans		Disaster Loans		Total SBA Loans	
	2004 Act.	2005 Est.	2004 Act.	2005 Est.	2004 Act.	2005 Est.
<b>Costs in millions</b>						
Direct Loan Subsidy	\$ 2	\$ 1	\$ 80	\$ 501	\$ 82	\$ 502
Guaranteed Loan Subsidy	\$ 91	\$ 0	-	-	\$ 91	\$ 0
Direct Loan Reestimates and Interest	\$ 30	\$ 0	\$ 1,128	\$ 336	\$ 1,158	\$ 336
Guaranteed Loan Reestimates and Interest	\$ 2,404	\$ 1,906	-	-	\$ 2,404	\$ 1,906
Administrative Costs	\$ 127	\$ 125	\$ 113	\$ 541	\$ 240	\$ 667
	\$ 2,654	\$ 2,032	\$ 1,321	\$ 1,378	\$ 3,975	\$ 3,410
<b>Revenues in millions</b>						
Discretionary Appropriations (general revenues)	\$ 209	\$ 126	\$ 170	\$ 1,040	\$ 379	\$ 1,166
Mandatory Appropriations (general revenues)	\$ 2,434	\$ 1,906	\$ 1,128	\$ 336	\$ 3,562	\$ 2,242
	\$ 2,643	\$ 2,032	\$ 1,298	\$ 1,376	\$ 3,941	\$ 3,408
<b>Balance in millions</b>						
Balance from previous year	\$ 26	\$ 15	\$ 38	\$ 29	\$ 64	\$ 44
Total Costs	\$ -2,654	\$ -2,032	\$ -1,321	\$ -1,378	\$ -3,975	\$ -3,410
Total Revenues	\$ 2,643	\$ 2,032	\$ 1,298	\$ 1,376	\$ 3,941	\$ 3,408
Other funds available	\$ 0	\$ 0	\$ 14	\$ 10	\$ 14	\$ 10
Balance carried forward	\$ 15	\$ 15	\$ 29	\$ 37	\$ 44	\$ 52

Source: President's FY2006 Budget Appendix

Note: Information from the business and disaster loan program accounts

decrease substantially year to year.

**Cost to general revenues.** These two appropriations represent the cost of the program from general revenues for the year. This varies slightly from the total obligations, or costs, of the loan programs since they have a small amount of cash on hand (balances carried forward) that is accumulated or depleted each year.

For fiscal year 2004, the budget cost of the business loan program was \$2.6 billion and the cost of the disaster loan program was \$1.3 billion. The total cost to the federal budget was \$3.9 billion.

**Subsidy rates.** Typically, one looks to subsidy rates and subsidy outlays in order to compare loan programs and their cost to the federal budget. In the case of the SBA, a majority of these figures are not available for the current year, and many have not yet been recalculated for previous years, as mandated by law. [See Table 4.](#)

For 2003, the last year for which comprehensive subsidy information is available, the 7(a) loan program – representing around 2/3 of SBA loans – had a subsidy rate of 1.13%. The Section 504 CDC loan program is the only one which ran a negative subsidy. The Disaster Assistance Loan Program had a subsidy level of over 16%.

Table 4: Subsidy Rates

Fiscal Years	2003 Act.	2004 Act.	2005 Est.	2006 Proj.
<b>Subsidy Rates in %</b>				
<b>Business Programs</b>				
General Business 7(a) Guaranteed	1.13%	1.06%	N/A	N/A
New Market Venture Capital Guaranteed	15.46%	16.05%	16.03%	N/A
SBIC Debentures Guaranteed	2.99%	N/A	N/A	N/A
SBIC Participating Securities Guaranteed	26.80%	N/A	N/A	N/A
Secondary Market Guaranteed*	0.39%	N/A	N/A	N/A
Section 504 Guaranteed	-2.04%	N/A	N/A	N/A
Micro Direct	13.05%	9.55%	10.25%	N/A
Weighted Average	0.77%	0.38%	N/A	N/A
<b>Disaster Programs</b>				
Direct Loans	16.41%	11.72%	12.86%	14.64%

Source: President's FY2006 Budget Appendix

\*Note: The Secondary Market Guarantee Program is excluded from totals as it is simply a pooling of SBA guaranteed loans, and does not represent new loans.

## Current Issues

**Proposed reforms.** The SBA's budget has been reduced each year since 2003, when \$797 million was appropriated. The President's budget for fiscal year 2006 calls for \$593 million for the agency. The Administration's proposal cuts out funding for micro-loans – which was also proposed in 2005 – stating that the 7(a) general business loan program would be able to serve the same clientele. The proposal would also eliminate the New Market Venture Capital Program.

Congress is in the process of revamping some of the SBA's loan programs including Participating Securities and Section 504 CDCs.

### Sources

**SBA:** Budget Request and Performance Plan; available via <http://www.sba.gov>

**U.S. Code:** Full Text of 15 U.S.C. 14a; available via <http://uscode.house.gov>

**OMB:** President's FY2006 Budget; available via <http://www.whitehouse.gov/omb>