

# National Association of Development Companies

## Economic Stimulus Proposals

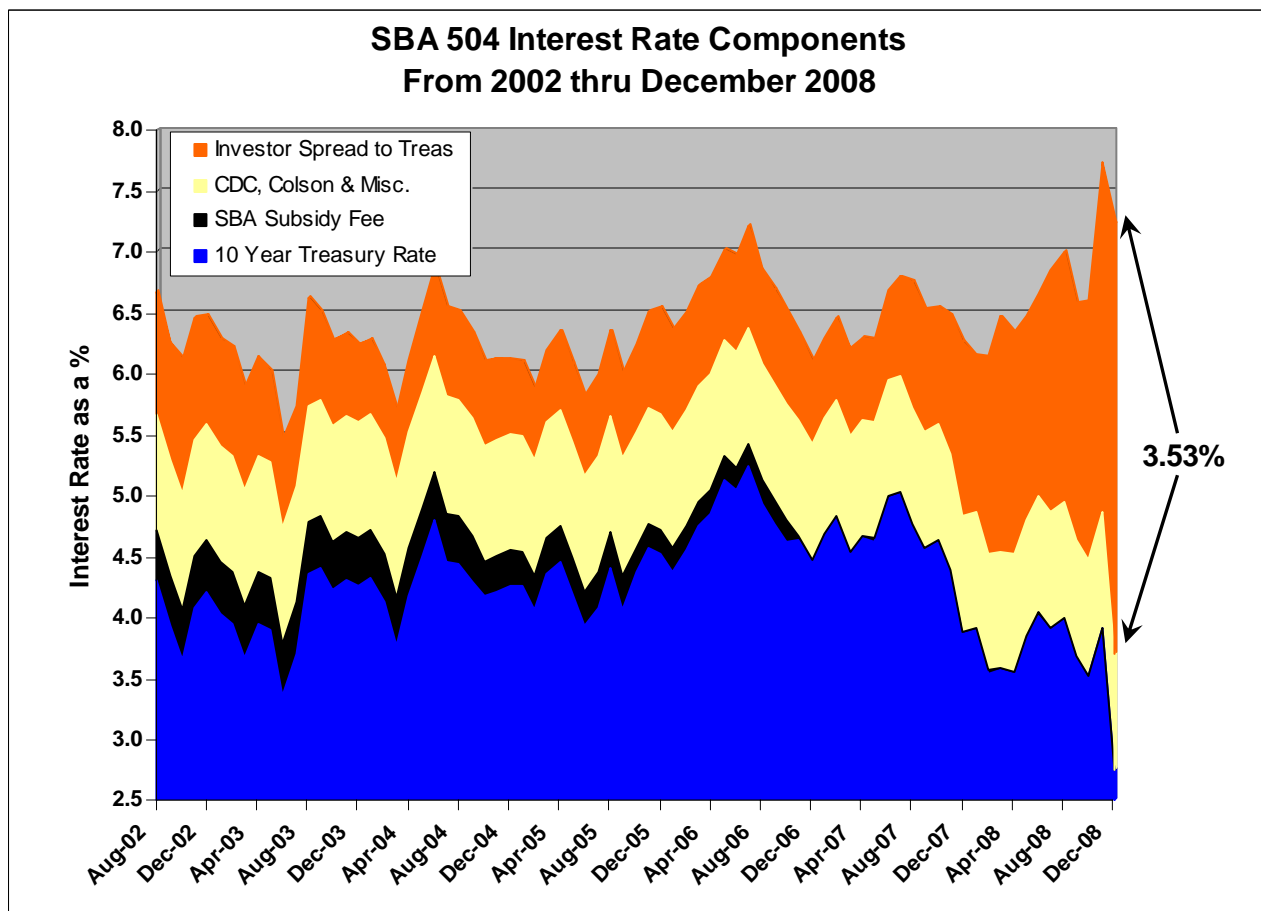
### Basis for the Request

Due to the recent meltdown in the credit markets that the Congress, Treasury and the Federal Reserve are working to mitigate and stabilize, the actual market spreads for SBA 504 financing have ballooned to never before seen levels. For our 11/08 debenture sale this spread increased to an unprecedented 2.88% over the 10-year Treasury note, and blew out even further to 3.53% in our November sale. This has resulted in an increase in overall 504 rates of 1.1% in a single month and are a do not reflect risk but are the direct result of turmoil and lack of liquidity in the credit markets.

The unpredictability of our rates, the high interest rates themselves, and the high 504 loan fees have a damaging effects of both punishing 504 borrowers now going to market to fund their loans, and they also create a huge disincentive for companies grow by making 504 loans simply too expensive for small businesses to finance their business expansions going forward.

The chart below illustrates each component of the overall 504 interest rate paid by 504 small business borrowers for the last 5 years. The 504 rate components are: 1) the 10-year Treasury note rate, 2) fees paid to CDCs, and other entities for servicing and supporting these loans, 3) the Federal subsidy fee, and 4) the “spread” over the Treasury rate that is the premium paid by our 504 borrowers to our 504 investors for their “risk” purchasing of the 504 bonds.

Our goal for these stimulus requests is to reduce the impact of this historic capital markets crisis for our borrowers just as Treasury is seeking ways to increase capital availability and to moderate the cost of credit for all businesses and consumers through its recent TARP-based credit proposals. 504 is the largest source of long-term fixed-rate capital targeted to help expanding main street small businesses in the entire country. We urge Congress to appropriate funds in the stimulus bill to help these companies and the jobs they create.



## **Stimulus Provisions to Help Small Businesses Create Jobs with 504:**

1. Reduce Small Business Borrower's 504 loan interest rate by 1% for next twelve monthly fundings which will provide access to affordable expansion capital to growing small businesses over the next year and give the capital markets the time they need to return to more efficient operation.

Estimated appropriation cost: **\$500 million**

Calculation: \$5 billion in 504 loans funded over the next year X 1% interest rate buydown X 10 years average outstanding life of each loan.

### Benefits:

- Offset increased loan interest rate caused by U. S. credit markets turmoil.
- 100% of savings goes directly to borrower.
- Enables borrower to conserve critical cash for working capital.

2. Reduce Borrower's loan servicing fee charged by CDC by 5/8% for first year of 504 loan:

Estimated appropriation cost: **\$31.25 million**

Calculation: \$5 billion 504 loans funded X 0.625% X 1 year.

### Benefits:

- Eliminate CDC servicing fee on 504 loan.
- 100% of savings goes directly to borrower.
- Borrower conserves cash for working capital.

3. Reduce Borrower's first mortgage lender fee charged by bank from ½% to zero for one year:

Estimated appropriation cost: **\$34 million**

Calculation: \$6.8 billion first mortgages X 0.5% X 1 year

### Benefits:

- Eliminate upfront bank fee on 504 loan that is passed on to the borrower.
- 100% of savings goes directly to borrower.
- Eliminates point of friction with bank participants caused by bank requirement to pass on this fee to borrower.
- Cash is conserved for working capital.

### Overall impact:

These three proposals provide both critical access to capital and at affordable rates and terms to small businesses that will now be able to use the 504 program this year to expand their businesses by purchasing new facilities/ real estate, and by enlarging their existing plants and creating more jobs. 100% of these funds go directly to the small business as loan cost savings through refunds of interest and fees. None of these funds go to lenders. NADCO believes these proposals will result in increased attractiveness of the 504 program and greater utilization of funds to create more jobs during this recession. For more information contact: Chris Crawford, NADCO President, 703-748-2575.