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SMALL BUSINESS ADMINISTRATION

Changes to SBA Secondary Market Program

AGENCY: U.S. Small Business Administration.

ACTION: Notice of Changes to Secondary Market Program.

SUMMARY: The purpose of this Notice is to provide the public with notification of program changes to SBA's Secondary Market Loan Pooling Program. Specifically, SBA is increasing the minimum maturity ratio for both SBA Standard Pools and Weighted-Average Coupon (WAC) Pools by 1.0%, to 95.0%. The changes described in this Notice are being made to ensure that there are sufficient funds to cover the estimated cost of the timely payment guaranty for newly formed SBA 7(a) loan pools. The changes in this Notice will be incorporated, as needed, into the SBA Secondary Market Program Guide and all other appropriate SBA Secondary Market documents.

DATES: The changes will apply to SBA 7(a) loan pools with an issue date on or after October 1, 2018.

ADDRESSES: Address comments concerning this Notice to John M. Wade, Chief Secondary Market Division, U.S. Small Business Administration, 409 3rd Street S.W., Washington, D.C. 20416, or john.wade@sba.gov.

FOR FURTHER INFORMATION CONTACT: John M. Wade, Chief, Secondary Market Division, U.S. Small Business Administration, 409 3rd Street S.W., Washington, D.C. 20416, 202-205-3647, or john.wade@sba.gov.

SUPPLEMENTARY INFORMATION: The Secondary Market Improvements Act of 1984 authorized SBA to guarantee the timely payment of principal and interest on Pool Certificates. A Pool Certificate represents a fractional undivided interest in a "Pool," which is an aggregation of SBA guaranteed portions of loans made by SBA Lenders under section 7(a) of the Small Business Act, 15 U.S.C. 636(a). In order to support the timely payment guaranty requirement, SBA established the Master Reserve Fund ("MRF"), which serves as a mechanism to cover the cost of SBA's timely payment guaranty. Borrower payments on the guaranteed portions of pooled loans, as well as SBA guaranty payments on defaulted pooled loans, are deposited into the MRF. Funds are held in the MRF until distributions are made to investors ("Registered Holders") of Pool Certificates. The interest earned on the borrower payments and the SBA guaranty payments deposited into the MRF supports the timely payments made to Registered Holders.

From time to time, SBA provides guidance to SBA Pool Assemblers on the required loan and pool characteristics necessary to form a Pool. These characteristics include, among other things, the minimum number of guaranteed portions of loans required to form a Pool, the allowable difference between the highest and lowest gross and net note rates of the guaranteed portions of loans in a Pool, and the minimum maturity ratio of the guaranteed portions of loans in a Pool. The minimum maturity ratio is equal to the ratio of the shortest and the longest remaining term to maturity of the guaranteed portions of loans in a Pool.

On October 1, 2017, SBA increased the minimum maturity ratio for both SBA Standard Pools and Weighted-Average Coupon (WAC) Pools to 94.0%. Based on SBA's expectations as to the performance of future Pools, SBA has determined that, in order to support the costs associated with SBA's Secondary Market Loan Pooling Program, it is necessary to further increase the minimum maturity ratio -- in other words, to reduce the difference between the shortest and the longest remaining term of the guaranteed portions of loans in a Pool. SBA does not expect a 1 percentage point increase in the minimum maturity ratio to have an adverse impact on either the program or the participants in the program. SBA has monitored Pools formed over the last 18 months and has observed that many existing Pools have a minimum maturity ratio of at least 95.0%.

A higher minimum maturity ratio will decrease the difference between the amortization rates of the guaranteed portions of loans in a Pool. This will cause the cash flows from the guaranteed portions of loans in the Pool to be more homogenous, and will more closely match the amortization rate of the Pool Certificate. This is the primary driver in reducing the cost of SBA's timely payment guaranty on Pool Certificates. Therefore, effective October 1, 2018, all guaranteed portions of loans in a Pool presented for settlement with SBA's Fiscal Transfer Agent will be required to have a minimum maturity ratio of at least 95% for Standard Pools and WAC Pools. SBA is making this change pursuant to Section 5(g)(2) of the Small Business Act, 15 U.S.C. 634 (g)(2).

SBA will continue to monitor loan and pool characteristics and will provide notification of additional changes as necessary. It is important to note that there is no change to SBA's obligation to honor its guaranty of the amounts owed to Registered Holders of Pool Certificates and that such guaranty continues to be backed by the full faith and credit of the United States.

This program change will be incorporated as necessary into SBA's Secondary Market Guide and all other appropriate SBA Secondary Market documents. As indicated above, this change will be effective for Pools with an issue date on or after October 1, 2018, and will modify any previous guidance regarding the minimum maturity ratio for Standard Pools or WAC Pools.

John A. Miller,
Deputy Associate Administrator
Office of Capital Access
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