CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 2, 1999

H.R. 2615

A bill to amend the Small Business Act to make improvements to the general business loan program, and for other purposes

As ordered reported by the House Committee on Small Business on July 29, 1999

H.R. 2615 would make numerous changes to the general business loan program administered by the Small Business Administration (SBA). Based on information from the SBA, CBO estimates that implementing the bill would not have a significant impact on the federal budget. H.R. 2615 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

H.R. 2615 would establish penalties for borrowers who choose to prepay their loans in the first three years if such loans have a contractual maturity of at least 15 years. The bill also would reduce certain fees paid by borrowers of loans between $80,000 and $150,000. Current law allows the SBA to pay, on defaulted loans, 1 percent less than the borrower's interest rate between the time of a default and the time the SBA purchases the loan. Section 3 would eliminate this provision of law for new loans guaranteed after fiscal year 1999. Finally, the bill would make technical changes affecting the percent of a loan the agency would guarantee, the maximum loan size, and eligible uses for loan proceeds.

The Federal Credit Reform Act of 1990 requires appropriation of the subsidy costs and administrative costs for credit programs. The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee, calculated on a net present value basis and excluding administrative costs. Based on the number of loans that would be affected by the prepayment penalty and the value of the fees that would be reduced by the bill, CBO estimates that the net effect of H.R. 2615 on the subsidy costs of general business loan guarantees would be negligible. Any changes in spending that would result would be subject to the availability of appropriated funds.

H.R. 2615 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act. The bill would modify an existing small business loan program that includes tribal-owned small businesses as qualified recipients. Any costs or benefits to Indian tribes would be the result of voluntary participation in this program and are expected to be minimal. Less than 1 percent of the loans issued each fiscal year are to tribes, and the bill's changes would not significantly affect the overall costs or benefits of the program. State and local governments would not be affected.

The CBO staff contacts are Mark Hadley (for federal costs), and Shelley Finlayson (for the state, local, and tribal impact). This estimate was approved by Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.