

More Than \$986 Million in SBA Debenture Leverage Priced



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Christopher A. Rossi | rossic@pepperlaw.com

A small business investment company (SBIC) is a privately owned and operated investment fund that makes long-term investments in U.S. small businesses and is licensed by the U.S. Small Business Administration (SBA) under the Small Business Investment Act of 1958. The principal reason for a fund to become licensed as an SBIC is to obtain access to low-cost, long-term financing (leverage) provided by SBA.

On March 12, 2019, approximately \$986.8 million of debentures issued by SBICs since the September 2018 pooling and sale of SBA guaranteed trust certificates for debentures were priced at an interest rate of 3.113 percent (excluding annual SBA charges and fees), representing a 51.3 basis point premium to the 10-year Treasury Note rate of 2.6 percent and a decrease from the 3.548 percent rate from the September 2018 pooling. The maturity date for each debenture included in the March 2019 pooling is March 1, 2029. Each debenture may be prepaid in whole (and not in part), without premium or penalty, effective as of specified payment dates.

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Debentures are unsecured 10-year loans issued by SBICs that have interest only payable semiannually. SBA obtains funds enabling it to supply leverage for pooled debentures by guaranteeing payment of trust certificates that are purchased by traditional purchasers of government-guaranteed notes. SBA then invests the proceeds in SBICs in the form of debentures. SBA guaranteed trust certificates for debentures are pooled and sold to the public in March and September each year. Most debentures bear a temporary interest rate based on LIBOR until they are pooled and sold. The interest rate (excluding the annual SBA charges and fees) on these debentures is fixed at the time of each pooling, and the maturity date is 10 years from the pooling date. The interest rate recently has been between 33.8 and 65.9 basis points in excess of the 10-year Treasury Note rate. The premium over the 10-year Treasury Note rate for each of the last 10 poolings is shown in the following chart:

Pooling Date	10 Year Treasury Rate	Premium	Total Interest Rate (excluding SBA Charge)
September 2014	2.591%	0.424%	3.051%
March 2015	2.059%	0.458%	2.517%
September 2015	2.170%	0.659%	2.829%
March 2016	1.996%	0.541%	2.507%
September 2016	1.713%	0.338%	2.051%
March 2017	2.430%	0.415%	2.845%
September 2017	2.202%	0.316%	2.518%
March 2018	2.812%	0.375%	3.187%
September 2018	2.958%	0.590%	3.548%
March 2019	2.600%	0.513%	3.113%

A more detailed description of the SBIC Program is available on Pepper Hamilton's website (available at: <https://www.pepperlaw.com/publications/description-of-the-small-business-investment-company-debenture-program-2019-03-01/>)

For additional information contact:

Christopher A. Rossi, SBIC Practice Group Chair (610.640.7846 or rossic@pepperlaw.com)

Michael A. Temple (248.359.7385 or templem@pepperlaw.com)