

## More Than \$1 Billion in SBA Debenture Leverage Priced at Near-Record Low



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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. SBICs invest billions of dollars in American small businesses, which are the driver of economic growth and jobs in the United States. 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 to enable these private investments to be made.

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On March 16, approximately \$1.007 billion of debentures issued by SBICs since the September 2019 pooling and sale of SBA-guaranteed trust certificates for debentures were priced at an interest rate of 2.078 percent (excluding annual SBA charges and fees), representing a 133.5 basis point premium to the 10-year Treasury Note rate of 0.753 percent and a decrease from the 2.283 percent rate from the September 2019 pooling. Although the premium to the 10-year Treasury Note has not been this high in a number of years, this is the second lowest debenture interest rate ever. The maturity date for each debenture included in the March 2020 pooling is March 1, 2030. Each debenture may be prepaid in whole (and not in part), without premium or penalty, effective as of specified payment dates.

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 31.6 and 133.5 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 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%
September 2019	1.822%	0.461%	2.283%
March 2020	0.743%	1.335%	2.078%

A more detailed description of the SBIC Program is available on Pepper Hamilton's Insight Center here: <https://www.pepperlaw.com/publications/description-of-the-small-business-investment-company-debenture-program-2020-01-06/>.

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