



NEWS RELEASE

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ADMINISTRATION OFFERS SOLUTION TO LONG-STANDING DEBATE OVER LOAN PROGRAM COSTS FOR SMALL BUSINESS

Solution Provides Econometric Model to Allow More Accurate Calculations of Loan Costs, Fees

WASHINGTON – In an effort to improve the accuracy and predictive capability of the model used to project the cost of the 7(a) General Business Loan Program, the U.S. Small Business Administration has developed an econometric model as an innovative solution.

The econometric model will enable the SBA to allocate its resources more effectively, determine program risk more precisely, and increase its ability to target loans to aspiring entrepreneurs who cannot obtain financing without a government guaranty. The econometric subsidy model will improve the government's ability to forecast loan performance by taking into account a wider variety of economic factors, such as GDP and unemployment, as well as a wider variety of loan characteristics that affect performance. The new model allows for a more accurate reflection of loan performance and allows the agency to calibrate appropriations requests and loan fee levels more precisely.

“Coming up with an improved subsidy rate model has been an important priority for us at the SBA, and I’m extremely pleased to say that we have done it right,” said SBA Administrator Hector V. Barreto. **“Rather than jump in with a quick fix solution, we have taken the time and made the effort to develop a solid, long-term solution that we think our partners, both lenders and small businesses, will be happy with.”**

“This new, forward-thinking model will help us to do a better job backing loans to small businesses, and it will help us do a better job protecting the interests of the American taxpayer, the ultimate backer of our loan programs.”

In accordance with the commitment the Administrator made one year ago, the SBA is prepared to implement the new model for the 2004 budget year.

For more information about all of the SBA's programs for small businesses, call the SBA Answer Desk at 1-800 U ASK SBA or TDD 704-344-6640. Also, visit the SBA's extensive Web site at www.sba.gov.

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