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On Focus and In Depth

## Without Tweaks, Facility Seen Doing Little on SBA

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By [Bonnie McGeer](#)

However well intended, a new Federal Reserve Board program to spur Small Business Administration lending is unlikely to have much impact as it is designed now, industry insiders say.

But bankers, securitizers, and investors say they remain hopeful that the Fed could tweak the Term Asset-Backed Securities Loan Facility — which is aimed at reviving the secondary market for consumer and small-business loans — before it takes effect next month.

"There is cautious optimism about the Talf program being a constructive solution. I think that's what everybody wants," said Mike Haught, the director of the SBA trading desk at Vining Sparks IBG LP. "As it was worded in December, though, it does nothing."

The facility would make loans to investors who buy securities backed by SBA, auto, student, or credit card loans. Without a secondary market, lenders have been forced to hold loans on their books. Once the moribund asset-backed securities market is revived, lenders could go back to selling the loans they make, using the money from those sales to make new loans.

One longtime investor in SBA securities — who is not buying them right now — said he is skeptical about whether the facility could change his mind.

Given the way the secondary market for SBA loans operates, the program could have more of an impact if the funding went to the roughly 10 companies that buy the loans directly from banks and other lenders nationwide, according to the investor, who asked not to be identified. These middlemen pool the loans and create securities to sell to investors.

Boosting demand for SBA securities might help spark more lending eventually, but helping the middlemen, or "poolers," would achieve the same result faster, the investor said, because they could start buying loans immediately. "Everything will thaw out over time, but this seems like a slow thaw. They're not using a blowtorch. They're using a couple of candles."

The Fed said in releasing the initial details last month that the program would be refined. A spokesman for the Federal Reserve Bank of New York, which will run the program, confirmed this week that it has been getting feedback from those involved in the SBA market.

"We are in discussions with a number of parties," he said.

Executives for companies that pool the SBA loans say they have stopped buying new loans, because they got bogged down with about \$3 billion of loans that were securitized last year but remain unsold. As a result, many banking companies, unable to sell their loans, have had to cut back on their SBA lending. Temecula Valley Bancorp Inc. in California, an active SBA lender, announced last week that it would stop taking applications until the secondary market is functioning again.

The Fed said that it would extend loans to investors who own eligible collateral, if they have an account with a primary dealer. The dealers would screen the collateral and submit the loan requests to the Fed.

The loan would be equal to the market value of the collateral, minus a "haircut." The Fed would set the interest rate on the loan and collect a fee.

Some important factors, such as the size of the haircut and the interest rate, remain unsettled. Several people involved in the SBA market said those factors will be crucial in determining whether investors will use the program.

Scott Taylor, the vice president of Shay Financial Services Inc. in Miami, and Chris LaPorte, a trader at Coastal Securities Inc. in Houston, said the SBA market in particular could remain clogged, because only one of the companies that actively pools the loans, Cantor Fitzgerald & Co., is a primary dealer, so the others would be at a disadvantage.

In addition, only pools created after Jan. 1 would be eligible for Talf funding, and those pools would have to be made up almost exclusively of recent loans. (Specifically, any loans made after Jan. 1 of last year would qualify.)

"All of the dealer inventories are ... not only full, they're sagging," said Mr. Taylor, whose firm buys and securitizes SBA loans. Because poolers cannot clear out the old inventory, "who's going to be able to make a new pool to sell to these investors?"

Mr. LaPorte said his pooling company ran out of funding to bid on loans around the end of October. He said it had reached capacity not only because it could not attract investors for the securities it already had, but also because the companies that provide the financing it needs to bid on SBA loans shrank their credit lines.

After selling some SBA securities to investors for "much less" than it paid for the loans, Coastal began bidding on new loans again last month — selectively. However, investor demand remains "virtually nonexistent," Mr. LaPorte said.

He and Mr. Taylor say they are hopeful market feedback will prompt the Fed to make changes.

This week Mr. Taylor sent an e-mail urging lenders that work with him to contact government officials and recommend ways to make the program more effective.

"Talf is at risk of becoming the program that almost helped the secondary market," he wrote.

Mr. Taylor said he understands why the Fed took the approach it did. "They want to ensure this Fed assistance they're offering in the form of a credit line is directed toward spurring new loan activity. They don't want to appear as if they are bailing out SBA dealers of their old inventory. I totally get that. But what they missed is, if they want to increase lending, the best way they can do that is to help us make some room."

Some market participants expressed less skepticism about the program's chances.

Bob Judge, a partner at Government Loan Solutions Inc., a consultant to SBA lenders, said he expects new investors to emerge as a result. "This is going to create demand from a broad range of investors until the people who will buy this stuff without the funding reappear."

But the investor who asked not to be named voiced some doubt. SBA securities used to be the only investment option that came with a government guarantee, he said, but now bank debt is backed by the Federal Deposit Insurance Corp.

"The full faith and credit of the U.S. government used to be particular to this security only. Well, now everything is that way," he said. "There's a lot more competition for the so-called sure thing investment."

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