Small Business Credit Liquidity Act of 2003
Summary of Provisions

The Small Business Credit Liquidity Act of 2003 authorizes the Small Business Administration (SBA) to develop a three-year pilot program to facilitate the securitization of small business loans, and thereby improve the opportunities for small businesses to obtain capital by increasing the liquidity of small business loans.

Under the pilot program:

- Financial firms, after being licensed by the SBA, would create "pools" of conventional small business loans (*i.e.*, small business loans not individually guaranteed by the SBA).

- These financial firms, also known as "loan poolers," would then issue securities, rated by rating agencies, which would offer returns based upon the returns from the loans in the pools. The securities would be sold to private investors.

- The loan poolers would offer partial "first-loss" guarantees to investors on the securities' returns (*i.e.*, on the pools themselves, rather than on individual loans). If the loans had insufficient returns to pay the expected returns on the securities, the pooling entities' guarantees would be the first guarantees called into performance to pay investors.

- The SBA would issue additional guarantees, on the pools rather than on individual loans, that would be in a "second loss" position, meaning that the private investors would receive the full first-loss guarantees from the loan poolers before any SBA guarantee was applied. The SBA's second-loss guarantees for each pool would be limited to 25% of the size of that pool.

- The SBA's second-loss guarantees would be funded exclusively through fees paid by loan poolers, and would therefore require no appropriated funds.

- The SBA would be required to report its plan for the program to the Senate and House Committees on Small Business before implementing the program. The SBA would also be required to file with the Congress, in the agency's Budget Request and Performance Plan, an annual report about the program's performance. In addition, the General Accounting Office (GAO) would be required to study the pilot program after it began and analyze its results.

- To ensure that the pilot program is initially implemented on a manageable scale, loan pools under the pilot program would have maximum individual sizes beginning at $350 million for Fiscal Year 2004 and increasing to $450 million for Fiscal Year 2006. In addition, the SBA's guarantees would be limited to maximum amounts of $2.1 billion for Fiscal Year 2004, $3.25 billion for Fiscal Year 2005, and $4.5 billion for Fiscal Year 2006.

- The program will sunset at the end of Fiscal Year 2006 unless it is reauthorized by Congress.