

SBA LENDER'S NEWSFLASH #09-05



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SBA's Addition of LIBOR Rate

On November 13, 2008, SBA published an interim final rule that changed the definition of “base rate” set out in 13 CFR 120.214(c) to allow a new optional base rate: One Month LIBOR plus 3 percentage points (“LIBOR Base Rate”).

In addition to adding a new base rate, under the revised regulation, the base rate in effect on the first business day of the month will determine the basis for the initial interest rate for any loan application received by SBA during that month. (Historically, the initial interest rate was determined as of the date the loan application was received by SBA.)

For example, if an application is received by SBA in November of 2008 (on or after the effective date of Notice 5000-1081), the following would be the applicable base rate options:

Prime: 4.0 % (as in effect on the first business day of November)

LIBOR: 2.36 % (as in effect on the first business day of November) + 3.0 % = 5.36

SBA Peg Rate: 4.63 % (as in effect for the period between October 1, 2008 and December 31, 2008)

The applicable loan interest rate would then be the “base rate + the spread.”

These changes are applicable to all SBA guaranteed loan applications that lenders may currently have internally in process on or after November 14, 2008, but they are not applicable to loan applications that have already been received by SBA or loan applications that have been approved by SBA. As a result, lenders cannot change the base rate of an existing SBA-guaranteed loan through a servicing action.

SBA's Express Lending application forms can be located on our website at: <http://www.sba.gov/banking>