

More Than \$1.3 Billion in SBA Debenture Leverage Priced at Near-Record Low

WRITTEN BY

Christopher A. Rossi

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Michael A. Temple

Licensed by the U.S. Small Business Administration (SBA) under the Small Business Investment Act of 1958, a small business investment company (SBIC) represents a privately owned and operated investment fund that makes long-term investments in U.S. small businesses. SBICs invest billions of dollars in American small businesses — the drivers of economic growth and jobs in the United States. A fund primarily becomes licensed as an SBIC to obtain access to low-cost, long-term financing (leverage) from SBA to enable making these private investments.

On September 14, approximately \$1.36 billion of debentures issued by SBICs since the March 2021 pooling and sale of SBA-guaranteed trust certificates for debentures were priced at an interest rate of 1.304% (excluding annual SBA charges and fees), representing a 2.8 basis point premium to the 10-year Treasury note rate of 1.276% and a decrease from the 1.667% rate from the March 2021 pooling. This pooling represents the largest in SBIC program history and resulted in the second lowest debenture interest rate ever. The maturity date for each debenture included in the September 2021 pooling is September 1, 2031. 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 with interest-only payable semiannually. SBA obtains funds enabling it to supply leverage for pooled debentures by guaranteeing payment of trust certificates 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 2.8 and 133.5 basis points in excess of the 10-year Treasury note rate. The following chart shows the premium over the 10-year Treasury note rate for each of the last 10 poolings:

Pooling Date	10-Year Treasury Rate	Premium	Total Interest Rate (Excluding SBA Charge)
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%
September 2020	0.677%	0.357%	1.034%
March 2021	1.614%	0.053%	1.667%
September 2021	1.276%	0.028%	1.304%

Click [here](#) for a more detailed description of Troutman Pepper's SBIC program.

For additional information, contact:

Christopher A. Rossi (SBIC Practice Group Chair) | 610.640.7846 | Christopher.Rossi@Troutman.com

Michael A. Temple | 248.359.7385 | Michael.Temple@Troutman.com

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