

EXPORT WORKING CAPITAL LOAN IMPROVEMENT ACT OF
2000

SEPTEMBER 21, 2000.—Committed to the Committee of the Whole House on the
State of the Union and ordered to be printed

Mr. TALENT, from the Committee on Small Business,
submitted the following

R E P O R T

[To accompany H.R. 4944]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business, to whom was referred the bill (H.R. 4944) to amend the Small Business Act to permit the sale of guaranteed loans made for export purposes before the loans have been fully disbursed to borrowers, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

BACKGROUND AND NEED FOR LEGISLATION

According to the Department of Commerce, between 1987 and 1997, the number of small business exporters tripled, going from 66,000 to 202,000. Small businesses now account for 31 percent of total merchandise export sales spread throughout every industrial classification. The fastest growth among small business exporters has been with companies employing fewer than 20 employees. These very small businesses represented 65 percent of all exporting companies in 1997.

Even though the number of small business exporters tripled, they form less than one percent of all small businesses in the United States. Among these firms, nearly two-thirds of small business exporters sold to just one foreign market in 1997. In fact, 76 percent of small business exporters sold less than \$250,000 worth of goods abroad. In other words, these are “casual” exporters. The key is to encourage more small businesses to enter the trade arena and to encourage “casual” small business exporters into becoming more active. Improving and increasing the availability of financing

for export transactions is one way to help ease the anxiety expressed by many small businesses fearful of selling abroad.

In response to this data, complaints from small business exporters about the lack of trade financing, and several hearings on the problems faced by small business exporters and improvements to the various small business export promotion programs of the federal government, Representative Donald Manzullo, Chairman of the Subcommittee on Tax, Finance and Exports of the Small Business Committee, introduced H.R. 4944, the Export Working Capital Loan Improvement Act of 2000.

PURPOSE

The Export Working Capital Loan Improvement Act of 2000 makes a technical correction to the Small Business Act that will enable the Small Business Administration (SBA) to sell Export Working Capital loans on the secondary market. The Export Working Capital Guarantee Program (EWCP) provides transaction-specific financing for loans of \$833,333 or less (the Export-Import Bank of the United States (Ex-Im) provides small business financing for loans over \$833,333). Small business exporters may use this program for pre-export financing of labor and materials, financing receivables generated from these sales; and/or standby letters of credit used as performance bonds or payment guarantees to foreign buyers. The EWCP provides a repayment guarantee rate of 90 percent to commercial lenders and offers exporters preliminary commitments (PCs) that encourage lenders to provide credit. To be eligible, the small business must have been in operation, though not necessarily exporting, for at least 12 months. Interest rates and fees are negotiable between the lender and the small business exporter.

Unfortunately, EWCP is a very underutilized program. In total, the SBA provided only 429 international trade loans in FY 1999.

Enabling the sale of these loans on the secondary market, will increase the attractiveness of EWCP loans to lenders by relieving them of the costs of servicing and paperwork on small, short term loans. While the authority exists to sell EWCP loans secondary market sales of SBA guaranteed loans are conducted infrequently which creates a technical problem affecting these short term loans.

Due to their size in comparison to most transactions in the national financial markets SBA loans are combined into large pools that are sold to secondary market investor approximately every six months. Current law requires that all 7(a) loans, including EWCP loans, must be fully disbursed to the borrower prior to being included in any secondary market sale, hence the problem. EWCP loans are often approved, disbursed, and repaid so quickly that they miss the window of opportunity for inclusion in a biennial secondary market sale. The Export Working Capital Loan Improvement Act of 2000 will exempt EWCP loans from the disbursement requirement under the SBA's 7(a) loan program allowing EWCP loans to be sold as part of a secondary market pool prior to their full disbursement.

Passage of this technical change will free up more trade financing for small business exporters. Increasing the availability of export finance and encouraging more small businesses to enter into the trade arena.

CONSIDERATION OF H.R. 4944

At 10 a.m. on July 27, 2000, the Committee on Small Business met to consider H.R. 4944, and several other pieces of legislation. Following a review of the provisions of the bill, the Chairman declared the bill open for amendment. No amendments were offered. Chairman Talent then moved the bill be reported, and by unanimous voice vote, a quorum being present, the Committee passed H.R. 4944 and ordered it reported at 11:00 a.m.

SECTION-BY-SECTION ANALYSIS

Section 1. Short title

Designates the bill as the “Export Working Capital Improvement Act of 2000.”

Section 2. Sale of guaranteed loans made for export purposes

This section amends Section 5(f)(1)(C) of the Small Business Act by exempting loans made under section 7(a)(14) of the aforementioned Act from the disbursement requirement. Section 7(a)(14) of the Small Business Act is the provision in law that governs the EWCP loan program. This change will allow EWCP loans to be sold on the secondary market prior to full disbursement.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, August 18, 2000.

Hon. JAMES M. TALENT,
*Chairman, Committee on Small Business,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4944, the Export Working Capital Loan Improvement Act of 2000.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Mark Hadley.

Sincerely,

ARLENE HOLEN
(For Dan L. Crippen, Director).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

H.R. 4944—Export Working Capital Loan Improvement Act of 2000

CBO estimates that implementing H.R. 4944 would have no significant impact on the federal budget. This legislation could affect direct spending by lowering the subsidy cost of certain existing loan guarantees, but we estimate that any such effects would be negligible. Because the bill could affect direct spending, pay-as-you-go procedures would apply. H.R. 4944 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

Under current law, the Small Business Administration (SBA) may guarantee loans to small businesses to develop foreign markets. Lenders may sell the guaranteed portion of such loans after the loans are fully disbursed to the borrowers. SBA is authorized

to charge a fee on loans sold on the secondary market if the sale price exceeds 110 percent of the value of the guarantee. Amounts collected from such fees reduce the subsidy cost of those loan guarantees.

H.R. 4944 would authorize banks to sell the guaranteed portion of loans for export working capital before the loans are fully disbursed to the borrowers. CBO expects that implementing this provision would increase the volume of loans sold. We expect, however, that very few of these export-related guarantees would sell for more than 110 percent of the value of the guarantee, based on trends in the secondary market for loans and information from SBA. As a result, we estimate that the legislation would have no significant effect on the subsidy cost of existing or future guarantees of such loans.

The CBO staff contact is Mark Hadley. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

COMMITTEE ESTIMATE OF COSTS

Pursuant to the Congressional Budget Act of 1974, the Committee estimates that the amendments to the Small Business Investment Act contained in H.R. 4944 will not increase discretionary spending over the next five fiscal years. The Committee also estimates that H.R. 4944 will not affect direct spending. This estimate concurs with Congressional Budget Office (CBO) estimates.

Furthermore, pursuant to clause 3(d)(2)(A) of rule XIII of the Rules of the House of Representatives, the Committee estimates that implementation of H.R. 4944 will not significantly increase other administrative costs.

OVERSIGHT FINDINGS

In accordance with clause 4(c)(2) of rule X of the Rules of the House of Representatives, the Committee states that no oversight findings or recommendations have been made by the Committee on Government Reform with respect to the subject matter contained in H.R. 4944.

In accordance with Clause (2)(b)(1) of rule X of the Rules of the House of Representatives, the oversight findings and recommendations of the Committee on Small Business with respect to the subject matter contained in H.R. 4944 are incorporated into the descriptive portions of this report.

STATEMENT OF CONSTITUTIONAL AUTHORITY

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds the authority for this legislation in Article I, Section 8, clause 18, of the Constitution of the United States.

COMPLIANCE WITH PUBLIC LAW 104-4

H.R. 4944 contains no unfunded mandates.

CONGRESSIONAL ACCOUNTABILITY ACT

H.R. 4944 does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of Public Law 104–1.

FEDERAL ADVISORY COMMITTEE STATEMENT

This legislation does not establish or authorize the establishment of any new advisory committees.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 5 OF THE SMALL BUSINESS ACT

SEC. 5. (a) * * *

* * * * *

(f)(1) The guaranteed portion of any loan made pursuant to this Act may be sold by the lender, and by any subsequent holder, consistent with regulations on such sales as the Administration shall establish, subject to the following limitations:

(A) * * *

* * * * *

[(C) each loan shall have been fully disbursed to the borrower prior to any sale.]

(C) each loan, except each loan made under section 7(a)(14), shall have been disbursed to the borrower prior to any sale.