

Interest Rates Are On the Rise for SBICs: September 2018 Debenture Pooling

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The September 2018 pooling of Small Business Investment Company (“SBIC”) debentures was priced at 3.548%. This most recent semi-annual pricing of SBIC debentures reflected an increase to the rate set in March 2018 at 3.187%.

The SBIC debenture rate is set based on a market-driven premium to 10-year Treasury Notes. The increase in the September 2018 pooling resulted from the fact that yields on 10-year Treasury Notes have been increasing for some time.

SBICs that drew down debentures between the March 2018 and September 2018 poolings locked in the 3.548% interest rate for the 10-year term of the debentures. Debenture interest payments are due semi-annually, and a balloon payment of the entire principal amount of the debentures is due on the tenth anniversary of the pooling. The SBIC program also imposes an annual fee on the debentures which is currently set at 0.222%. A new rate for the annual fee will be set after October 1, 2018. SBIC debentures may be prepaid in whole or in part at any time, without premium or penalty. Under current SBIC regulations, SBICs are not permitted to refinance outstanding debentures to take advantage of the new rate.

If you have questions regarding pricing of debentures or the SBIC program in general, please contact your SBIC counsel at Winston & Strawn.

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