

CLIENT ALERT

Record Low Interest Rates for SBICs: September 2020 Debenture Pooling

SEPTEMBER 16, 2020

The September 2020 pooling of Small Business Investment Company (SBIC) debentures was priced at 1.034%. This is the lowest SBIC debentures have ever been priced and is nearly half of the previously lowest price of 2.051%. This most recent semi-annual pricing of SBIC debentures reflected a decrease to the rate set in March 2020 at 2.078%.

The SBIC debenture rate is set based on a market-driven premium to 10-year Treasury Notes. The sharp decrease in the September 2020 pooling resulted from the fact that the U.S. economy suffered from pandemic-related shutdowns during the months covered in this pricing period.

SBICs that drew down debentures between the March 2020 and September 2020 poolings locked in the 1.034% 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 0.275%. A new rate for the annual fee will be set after October 1, 2020. 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 the pricing of debentures, the SBIC program, or this client alert, please contact the authors or your Winston & Strawn relationship attorney.

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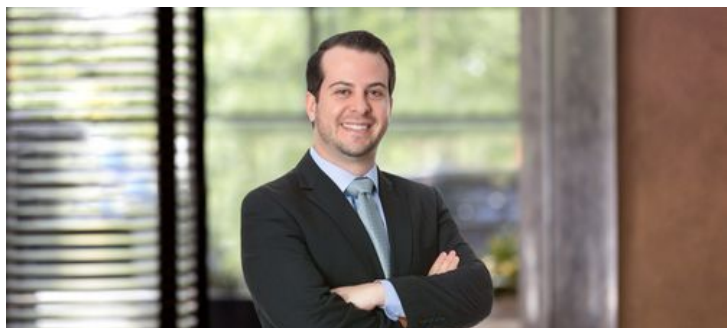
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