SECTION IX—LEASE GUARANTEE PROGRAM

The Lease Guarantee Program was authorized by the Housing and Urban Development Act of 1965 as new Title IV of the Small Business Investment Act. Initially, the program was limited to those firms suffering substantial economic injury as a result of Federally aided projects, such as urban renewal and highway construction, and to businessmen who could qualify as Economic Opportunity Loan applicants. On January 9, 1968, under an amendment to the Small Business Investment Act, the program was broadened to include *all* small businesses eligible under policies established for SBIC and SBA business loans. The program will enable small businessmen to lease space at prime locations without the necessity of a Triple A rating that requires a net worth of $1 million.

The operating procedures and guidelines for this program have been carefully designed to assure complete compliance with the intent of the Congress:

First, we are seeking the participation of private companies, with SBA acting as re-insurer. We are also urging development of private lease guarantee programs without Government parcicipation. Regional conferences were held in 1967 in Chicago, Washington, New York, San Francisco and Dallas to present our plans for the program. Superintendents of State insurance departments and representatives of private casualty insurance companies attended these conferences. Participation agreements have been signed with three private companies.

Second, on May 13, 1967, a *pilot program* was launched to test the soundness of the procedures and identify needed improvements in the rate structure.

Third, with the advice of outside experts, a *risk rating system* was developed to measure the risks incident to successful operation of a business, i.e., management capabilities, financial position, location and economic evaluations. The adequacy of the fees established in the rate structure will be continually evaluated as the program proceeds.

Agency staffs are being trained to handle the public inquiry publicity and processing of Lease Guarantee applications, both direct and in participation with insurance companies.

Of the three insurance companies with whom we have signed agreements, one company is actively receiving applications in 30 states, and has already, at this date, submitted 24 applications for reinsurance.

An active program to obtain broader participation by insurance companies has been implemented. On February 14, 1968, a conference for this purpose was held with eight midwestern companies and two insurance trade associations, National Association of Independent Insurers and American Mutual Insurance Alliance.

The program was explained to each of the state insurance regulatory agencies, and SBA continues to work with each state agency. Reception by the states of the Lease Guarantee Program is good.

In addition, we are working with the Life Insurance Association of America, American Insurance Association, American Society of Real Estate Counselors, National Association of Real Estate Boards, International Council of Shopping Centers, and the Urban Land Institute to broaden interest in all fields of Lease Guarantee activities.

Forty-four Lease Guarantee commitments have been issued, nine of these in participation with insurance companies. Twenty-three commitments are to prospective EOL tenants in a shopping center of Cuban refugees in Miami, Florida. These are highly qualified small business people who will also obtain Economic Opportunity loans. Participation of these guarantees is being developed with one of our participating insurance companies. Long-term mortgage financing of the shopping center is provided by one of the major insurance companies.

In the same geographical area, we have issued direct lease commitments on three day-care centers for pre-school children, with 100% bank financing obtained because of Lease Guarantee. The mothers can now obtain jobs and escape from dependency upon welfare benefits.

A direct lease guarantee issued to a small Cleveland, Ohio, firm enabled it to get space in an industrial park. Other projects being processed involve two large-sized groups of merchants in Chicago and one group in White Plains, New York, and agencies in Washington, D.C., displaced by urban renewal projects who are working together to develop new urban shopping plazas. Because of Lease Guarantees for these displaced small businesses, long-term mortgage financing for land purchase, design and construction costs becomes available. We are finding that we are able to obtain lower interest rates for the developers for this financing and willingness to extend greater dollar participation because of Lease Guarantees.