

Lease guarantee has an impact on the redevelopment of our cities by helping to provide commercial space in urban renewal areas for desirable small businesses.

Lease guarantee also provides support for companies displaced by urban renewal projects and other federally aided projects. It has been estimated that roughly 13,000 businesses will be displaced annually by Government programs, of which 60 percent will be small businesses. Studies indicate that at least 25 percent of these small businesses do not relocate, but go out of business. Lease guarantee can help those in this group who have viable businesses but discontinue because they are unable to find adequate rental facilities.

In smaller communities and rural areas lease guarantees should attract investment in enterprises significant to the growth of local economies.

All parties in a lease guarantee transaction may benefit. For lessees the lease guarantee plan elevates the credit status of competent small-firm operators, thereby enabling them to compete with large businesses for prime space. Additional security provided by the lease guarantee allows the tenant to lease these premises on more favorable terms, which may include lower rentals.

For lessors the coverage provides a secure stream of rentals from each guaranteed space. This enables them to obtain more favorable mortgage financing from institutional mortgage investors. Since the guarantee provides these investors with additional security, landlords enjoy more latitude in choosing tenants for their rentable space. A competent small business tenant fortified with a lease guarantee may be more acceptable to a mortgage lender than a larger tenant without such a guarantee.

For mortgage investors the coverage provided by the lease guarantee insurance policy enables financial institutions to make more favorable mortgage commitments to their customers while increasing their loan security at the same time. The program makes it possible for lenders to be assured the receipt of rental income in an amount at least equal to the required mortgage payments.

The act provides: "Any such guarantee may be made or effected either directly or in cooperation with any qualified surety company or other qualified company through a participation agreement with such company." The act further provides: "The Administration shall, to the greatest extent practicable, exercise the powers conferred by this section in cooperation with qualified surety or other companies on a participation basis."

In conformity with this provision of the act, we seek participation on the part of private companies, with SBA standing in the role of reinsurer. We also urge the development of the private companies of lease guarantee programs without Government participation.

One basis for participation agreements suggested by the program is that the insurance companies take 100 percent of the losses or claims up to an amount equal to 12 months of guaranteed monthly rental, and that subsequent losses be shared 80 percent by SBA and 20 percent by the participating company.

The CHAIRMAN. That is a very good agreement for the insurance companies, a good deal for them if they can get it, isn't it?

Mr. HENDRICKS. We think so, Mr. Chairman.

The CHAIRMAN. Good for the insurance companies. Is it good for the SBA?