

the small business concern, it will be paid by the landlord and distributed through his base rental structure.

Mr. MITCHELL. Will it be added to the original \$300 a month rent?

Mr. MOOT. Yes, sir, it will be an additional cost.

Mr. MITCHELL. An additional cost to the small businessman.

Mr. MOOT. Yes, there is no question about it. Now, we have evaluated the cost of the lease guarantee versus the benefits, and there is no doubt in our mind by providing a triple A credit rating to the small business concern, thereby making him eligible for prime facilities, either little industrial or shopping center facilities, that we are enhancing his ability to increase his sales and therefore his profits much beyond the cost of the lease. This, however, is something that must be judged on the risk rating of the lease guarantee teams, which look at the liability of the location as well as the management and the financial situation of the individual.

We think that between the increase of profit potential by the space availability, the cost distribution which will largely be, we hope, through the rental structure, and not out-of-pocket cost, that this is going to be a viable situation for the small business community.

Generally speaking we think that the leases will be somewhat longer than 5 years, however. At least our experience to date has been generally that these leases are in the 15-year period.

Mr. MITCHELL. But the premium will be just depreciated gradually.

Mr. MOOT. That is right.

Mr. MITCHELL. Under a 10-year lease it would be somewhere around probably 4 percent or 5?

Mr. MOOT. That is right, but you see under the situation you can get the cost of a 15-year lease for about the same cost as you can for a 5-year lease, because, as you know, this committee knows better than I do, the high percentage of business failures are in the early years of its inception, so that the failure rate is high in the first 5 years. Therefore the exposure cost is high in the first 5 years.

Mr. MITCHELL. Mr. Administrator, I believe you also have a provision whereby the insurance company which insures one of these leases will sustain all the loss in the first 12 months, but after that 12 months, SBA will sustain 80 percent of the loss.

Mr. MOOT. That is right, sir.

Mr. MITCHELL. Now, on the breakdown that we had here, assuming they pay, as you said in the original statement, they pay the full fee at the beginning, but at any rate it is charged to them in the cost in some way or another, the total with premium and escrow funds amounts to approximately 12 percent of his total \$18,000 rental, assuming that that is fully paid to the insurance company. And in addition to the 3 months' rent that is put up, the \$1,170 premium is equal to more than 3 months' rent, taking administrative costs out of it. Well, there is 6 months' rent, nearly 7, that the small businessman has put up, and after a 12 months' loss period, SBA would move in and take 80 percent of the loss.

In addition to that, there are provisions that the landlord must attempt to get another renter if there is default. An insurance company could not lose one penny, according to counsel's computation, if the renter were to not be in default more than 6 months—and not then if another renter could be obtained—and then would lose only