



SBA LENDER'S NEWSFLASH #09-06



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Clarifying SBA's Interest Rates

The purpose of this **Newsflash!** is to clarify how a lender locates the correct One Month London Interbank Offered Rate (LIBOR) rate or the Prime rate on a monthly basis.

The modifications to SOP 50-10(5) that describes which Prime or One Month LIBOR rate is to be used reads as follows:

“(4) ... The Prime or LIBOR rate will be that rate which is in effect on the first business day of the month, as identified in a national financial newspaper or newspaper website each business day. SBA publishes the Optional Peg Rate quarterly in the Federal Register. Base Rates will be rounded to two digits with .004 being rounded down and .005 being rounded up.”

The same section of the SOP contains the following example:

“The rate of interest will change on the first calendar day of the adjustment period even though the rate may not be known until the second business day of that period. For example, if the first of the month is a Sunday, the base rate is the prime rate in effect on Monday. This rate will be reported in the Wall Street Journal on Tuesday, the third calendar day and second business day of the month.”

In some cases, a national financial newspaper may be delayed in reporting the Base Rate for Prime or LIBOR. Thus, the rate reported by the newspaper on the first business day of the month may actually be the rate in effect a day or two earlier. The LIBOR is fixed each morning at 11 a.m. London time by the British Bankers Association, so some U.S. financial websites are able to post the current day's rate for LIBOR prior to 8 a.m. EST that same day. (Lenders should access such sites the first business day of the month to identify the correct LIBOR rate since LIBOR changes daily.)

The Base Rates for the month of December are the following:

Prime: 4.00 % (as in effect on the first business day of December)
LIBOR: 1.91 % (as in effect on the first business day of December) + 3.0% = 4.91%
SBA Peg Rate: 4.63% (as in effect for the period between October 1, 2008 and December 31, 2008)

Released December 22, 2008