Small Business Administration

Cleveland District Office News
Information for the Small Business Community

Cleveland District Office
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Loan Report as of February 28, 2011

7(a) and 504 Loans Combined

Bank	Number Approvals	Dollars (In Thousands)
Huntington National Bank	233	$46,033
KeyBank	50	$16,748
JPMorgan Chase Bank	39	$9,876
FirstMerit Bank	32	$8,501
Charter One Bank/RBS Citizens	25	$2,281

504 Loans

Bank	Number 504 Approvals
FirstMerit Bank	14
Huntington National Bank	12
KeyBank	7
JPMorgan Chase Bank	6
Westfield Bank	3
Croghan Colonial Bank	2
First National Bank	2
Lorain National Bank	2

CDC	Number 504 Approvals	Dollars (In Thousands)
Growth Capital Corp.	20	$14,467
Cascade Capital Corp.	11	$4,853
Lake County SBAC	10	$3,093
Mahoning Valley Economic Dev. Corp.	6	$2,572
Stark Development Board	5	$3,261
Mentor Economic Assistance Corp.	2	$877
Ohio Statewide	1	$369
SEM Resource, Inc.	1	$446
West Central Partnership	1	$848

NEWS FOR OUR LENDING PARTNERS

Small Loan Advantage Program

Beginning February 15, 2011, the Small Loan Advantage Program is available to lenders participating in the Preferred Lenders Program (PLP).

Small Loan Advantage permits PLP lenders to use the shorter, more streamlined loan application forms designed originally in 2008 for use in the Small/Rural Lender Advantage (S/RLA) program by community lenders with limited SBA loan approval activity. These streamlined forms, some of which have been revised, may now be used by PLP lenders for loans of $250,000 or less. These forms will replace SBA Forms 4 and
4-I for Small Loan Advantage loans.

Background

In 2008 S/RLA was rolled out to accommodate the unique loan processing needs of small community/rural lenders, many of which do not make SBA 7(a) loans or make very few SBA loans. At that time, the Agency, in implementing and testing this new streamlined concept, stated that it intended to also assess the feasibility of expanding the use of the modified loan application forms and process to the PLP.

A review of the portfolio performance of S/RLA loans has led SBA to conclude that the streamlined process does not appear to negatively impact loan performance and, therefore, may be expanded to PLP lenders for their smaller loans. SBA anticipates that the use of this streamlined process by its PLP lenders will encourage PLP lenders to increase the number of smaller loans to small business borrowers.

Description of Small Loan Advantage

The expansion of S/RLA to include PLP lenders for smaller loans is known as the “Small Loan Advantage (SLA)” program. It is available to all SBA-approved PLP lenders.

Some of its features include:

- For loans of $250,000 or less;
- Use of streamlined application forms designed for S/RLA;
- Same PLP Eligibility Checklist as for other PLP loans processed under delegated authority (the PLP checklist has been revised to include SLA);
- Use of E-tran required for both delegated and non-delegated loan submissions; and
- Lenders may use their own note and guaranty agreements rather than SBA’s versions (SBA Forms 147, 148 and 148L).

Forms for SLA applications processed under a PLP lender’s delegated authority:

Form 2301 (Part A): Lender Advantage Initiative, Small Business Application for SBA Guaranteed Loan;

Form 2301 (Part B): Lender’s Application for Guaranty; and

Form 7: Eligibility Information for Preferred Lenders Program (PLP) Loans (including Small Loan Advantage (SLA) Loans). [This form is commonly referred to as the “Eligibility Checklist.”]

Forms for SLA applications from PLP lenders submitted under non-delegated authority:

Form 2301 (Part A): Lender Advantage Initiative, Small Business Application for SBA Guaranteed Loan;

Form 2301 (Part B): Lender’s Application for Guaranty; and

Form 2301 (Part C): Lender Advantage Initiative, Eligibility Questionnaire (instead of Form 7).

All forms are available at http://archive.sba.gov/tools/Forms/smallbusinessforms/fsforms/index.html.

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SLA Loan Application Submission Process

All SLA applications must be submitted using E-tran (SBA's electronic origination program). For those loans that are ineligible to be processed under a lender's delegated authority, the lender will submit general application information using E-tran and then submit the application documentation electronically to the Standard 7(a) Loan Guaranty Processing Center (LGPC). The lender must retain copies of the documentation in its loan file for all SLA loans whether submitted under delegated or non-delegated authority.

Specific Steps for Submitting All SLA applications

E-tran will be modified to include a Small Loan Advantage choice.

After selecting Small Loan Advantage, the PLP lender will complete the E-tran screens up to the point of "Eligibility."

E-tran has been modified to then ask the following question:

Is this loan eligible to be processed under the PLP lender's delegated authority?

Is this loan eligible to be processed under the PLP lender's delegated authority?

Process for Loans That Are Eligible for Submission Under Delegated Authority

If the PLP lender checks "Yes" to indicate the loan is eligible for submission under its delegated authority, the lender will receive an SBA Loan Approval Number.

Process for Loans That Are Ineligible for Submission Under Delegated Authority

If the PLP lender checks "No" to indicate that the loan is not eligible for submission under its delegated authority, E-tran will generate a message instructing the lender to e-mail the application forms along with the SBA Loan Application Number provided by E-tran to the LGPC at slaloans@sba.gov.

The attachments need to include:

- Forms 2301 (Parts A, B and C);
- Other SBA forms required by Form 2301 (Part A) in response to "yes" answers on the form [For example, Form 159 (Compensation Agreement) and/or Form 912 (Statement of Personal History)]; and
- Any required supplemental documents to the forms, such as the Lender's Credit Memo.

Please be sure that the contact information (name, e-mail and phone number) of the lender's loan officer who can discuss the underwriting of the loan is on the top of the e-mail to the LGPC.

Once the LGPC receives the e-mail and attachments, the LGPC will begin reviewing the loan for creditworthiness and eligibility.

Closing Documents

A lender will have the option of closing its SLA loans with the lender's own note (rather than SBA Form 147) and its own guaranty agreements (rather than SBA Forms 148 and 148L).

If a lender uses its own note form, the lender needs to ensure that the note is legally enforceable and assignable; has a stated maturity; and is not payable on demand. SBA does not guarantee demand notes and will not purchase defaulted loans that include a demand note.

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Application for E-tran Access

For those PLP lenders who currently do not use E-tran, application for E-tran access is easily made as follows:

- Go to https://eweb.sba.gov/gls.
- Select " Request SBA User Id" located on the left hand navigation tree. This will bring you to the application screen which will require the individual create a "User ID." This User ID can be from 8-15 characters long.
- Once this step has been completed, the new user will receive an e-mail from SBA IT Security with a temporary password that the lender will then use to log onto the system.
- Once logged on, the system will automatically prompt the user to create a new password. The password selected has to be at least 8 characters long and include an upper case letter, a lower case letter, and a number or special character such as an asterisk.

Gaining access may take up to 72 hours to be approved. The lender should expect an e-mail from SBA IT Security notifying the lender that it has been approved for access to E-tran.

Revised SBA Form 1086, Secondary Participation Guaranty Agreement and Form 1502, Guaranty Loan Status & Lender Remittance Form

The U.S. Small Business Administration (SBA) has received approval from the Office of Management and Budget to use revised SBA Forms 1086 and 1502. The Form 1086, Secondary Participation Guaranty Agreement (Form 1086) is used in the 7(a) loan program to document sales of guarantees in the secondary market. The Form 1502, Guaranty Loan Status and Lender Remittance Form (Form 1502) is used by Lenders to report on the status of all SBA loans approved. These revisions supersede all prior versions of the forms, and are to be put into effect on the dates detailed below.

The revision to the Form 1502 involved only a date update and logo and did not involve changes in the current format.

The Form 1086 has been updated to include clarifications to prevailing program rules along with additional lender certifications. More importantly, the revised form removes all reference to a warranty period for loans sold at a premium in the secondary market. A change in financial accounting rules issued in June 2009 restricted lenders from recognizing gain from premiums earned on secondary market sales until the end of the warranty period. SBA solicited public comment by Federal Register Notice on March 19, 2010 on just how this accounting rule change should be applied to SBA secondary market sales (FR Vol. 75, No 53, pages 13329-13330). Upon review of submitted comments, SBA concluded that it is in the best interest of the program at this time to remove the warranty provisions from the form.

Lenders and investors can access the revised SBA Form 1086 and Form 1502 at the website for SBA's fiscal and transfer agent Colson Services Corp. ("Colson"):

http://www.colsonservices.com/main/f_n_r_m ain.shtml

or via hyperlink to the Colson from SBA's website:

http://archive.sba.gov/aboutsba/sbaprograms/elending/1502/index.html.

The Form 1502 is to be implemented in the month of March for reporting loan payment activity occurring through February 28, 2011. The Form 1086 is effective for all loans submitted for secondary market sales settlement on or after February 15, 2011. We believe a number of loan sale commitments using the older version of the form have already been arranged. Therefore, sales settlement packages received by Colson will be accepted using either version of the form. All sales settlement packages received at Colson after February 14, 2011, must use the February 2011 version of form with older versions returned to the sender for proper re-submission.♦

If you have any questions on this or any SBA loan matter, please contact our Lender Relations division at (216) 522-4180.

SBA Re-launches Dealer Floor Plan Pilot Loan Program

New maximum loan size increased to $5 million by Small Business Jobs Act

A pilot loan program aimed at increasing access to inventory financing for auto, boat, RV and other dealerships will be re-launched Tuesday (2/8) and will be effective through Sept. 30, 2013, the U.S. Small Business Administration has announced. The Small Business Jobs Act of 2010 included a provision for re-launching SBA's Dealer Floor Plan (DFP) Pilot Loan program, which first became available in July 2009. The pilot is part of the SBA's overall 7(a) loan guarantee program. The Jobs Act also increased the maximum size for 7(a) loans to $5 million, up from $2 million, which includes loans made through the DFP pilot program.

"As a result of the credit crunch in late 2008 and early 2009, dealerships saw a significant decline in the availability of this type of inventory financing," SBA Deputy Administrator Marie Johns said. "SBA's original DFP pilot program was launched as a way to expand the availability of floor plan financing and the Jobs Act added further enhancements to that program, including allowing for larger loan sizes. "Dealerships are a cornerstone of local business communities," Johns continued. "As we continue to see our economy recover, the re-launch of this pilot provides another tool, alongside SBA's other programs, to help them succeed and create jobs in their local communities." The rules and regulations for the pilot will be available Tuesday on the website of *The Federal Register*, and in print editions on Wednesday. A procedural guide to the program will be posted on the SBA website at: http://www.sba.gov/content/dealer-floor-plan-financing-program-0.

Floor plan financing is a revolving line of credit that allows a dealership to obtain financing through SBA's 7(a) program for inventory that can be titled, such as autos, RVs, manufactured homes, boats and trailers. As each piece of collateral is sold by the dealer, the loan advance against that piece of collateral is repaid. As the loan is repaid, the dealer can borrow against the line of credit to add new inventory. The program is available to qualifying small businesses, including new and used automobile, motorcycle, RV, manufactured homes and boat dealers. SBA has issued a new maximum alternative size standard to allow businesses with $15 million net worth and $5 million in net income measured over two years to have access to the program.

All SBA-approved lenders may make DFP loans. Lenders with more than $1 billion of floor plan lines of credit in their current portfolios may apply for delegated authority, which would expedite the lending process. Borrowers interested in obtaining a DFP loan should contact their lender or their nearest SBA field office to get a list of SBA-approved lenders in their area who may be participating in the program. Local district offices and contact information, as well as information on this and other SBA programs and resources, can be found at www.sba.gov or by calling the SBA Answer Desk at 1-800-U-ASK-SBA or TDD 704-344-6640.

SBA Launches Temporary Program for Commercial Real Estate Refinancing

Agency began accepting refinancing applications Feb.28 for small businesses facing maturing mortgages, balloon payments

Small businesses facing maturity of commercial mortgages or balloon payments before Dec. 31, 2012, may be able to refinance their mortgage debt with a 504 loan from the U.S. Small Business Administration under a new, temporary program has announced The new refinancing loan is structured like SBA's traditional 504, with borrowers committing at least 10 percent equity and working with third-party lending institutions and SBA-approved Certified Development Companies in the standard 50 percent/40 percent split. A key feature of the new program is that it does not require an expansion of the business in order to qualify. SBA will begin accepting refinancing applications on Feb. 28. The program, authorized under the Small Business Jobs Act, will be in effect through Sept. 27, 2012.

The SBA initially will open the program to businesses with immediate need due to impending balloon payments before Dec. 31, 2012. SBA will revisit the program later and may open it to businesses with balloon payments due after that date or those that can demonstrate strong need in other ways. Borrowers will be able to refinance up to 90 percent of the current appraised property value or 100 percent of the outstanding mortgage, whichever is lower, plus eligible refinancing costs.

Loan proceeds may not be used for other business expenses. Existing 504 projects and government-guaranteed loans are not eligible to be refinanced. Congress authorized SBA to approve up to $15 billion in loans under this program ($7.5 billion in both fiscal 2011 and 2012). Together with the first mortgage, this temporary program will provide up to $33.8 billion of total project financing. Additional fees charged to the borrower will cover the cost of this refinancing program and as a result no subsidy will be needed. The program is expected to benefit as many as 20,000 businesses.

SBA's traditional 504 loan program is a long-term financing tool, designed to encourage economic development within a community. A 504 loan provides small businesses with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization. Typically, a 504 project includes three elements: a loan (or first mortgage) secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a second mortgage secured with a junior lien from an SBA Certified Development Company (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business borrower.

Final Regulations Will Strengthen 8(a) Business Development Program for Small Businesses

The U.S. Small Business Administration has published a package of final rules that will revise regulations to strengthen its 8(a) Business Development program to better ensure that the benefits flow to the intended recipients and help prevent waste, fraud and abuse.

The rules were published today in *The Federal Register* and will become effective in 30 days on March 14, 2011.

The revisions are the first comprehensive overhaul of the 8(a) program in more than 10 years. The regulations incorporate technical changes and substantive changes that mirror existing or new legislation enacted since the last revision in June 1998.

"The 8(a) Business Development Program is an effective tool for providing small businesses with support to help them compete for and win federal government contracts, and in turn put them in the best possible position to drive economic growth and create jobs," SBA Administrator Karen Mills said. "Through public meetings held in cities throughout the country, SBA gained valuable input from members of the small business community on ways to strengthen the program to provide the best opportunities for eligible firms, while also stepping up efforts to combat waste, fraud and abuse."

The rules cover a variety of areas of the program, ranging from clarifications on determining economic disadvantage to requirements on Joint Ventures and the Mentor-Protégé program. Some of the components of the 8(a) program that the revised regulations will affect include:

- Joint Ventures – requiring that the 8(a) firm must perform 40 percent of the work of each 8(a) joint venture contract that is awarded, including those awarded under a Mentor/Protégé agreement, to ensure that these companies are able to build capacity;
- Economic Disadvantage – providing more clarification on factors that determine economic disadvantage as it relates to total assets, gross income, retirement accounts and a spouse of an 8(a) company owner when determining the owner's ability to access capital and credit;
- Mentor-Protégé Program – adding consequences for a mentor who does not provide assistance to their protégé, ranging from stop-work orders to debarment ;
- Ownership and Control Requirements – providing flexibility on whether to admit 8(a) program companies owned by individuals with immediate family members who are owners of current and former 8(a) participants;
- Tribally-Owned Firms – requiring firms owned by tribes, Alaska Native Corporations, Native Hawaiian Organizations and Community Development Corporations to report benefits flowing back to their respective communities;
- Excessive Withdrawals – amending regulations on what amount is considered excessive as a basis for termination or early graduation from the 8(a) program; and
- Business Size for Primary Industry – requiring that a firm's size status remain small for its primary industry code during its participation in the 8(a) program.

The SBA initially published the proposed rule on Oct. 28, 2009 and provided a 60-day comment period for the public to submit their comments. Many businesses requested more time, so the SBA extended the comment period an additional 30 days, allowing the public to submit their comments by Jan. 28, 2010. In addition to requesting written comments from the public, the SBA also embarked on a "Listening Tour" and hosted public meetings between December 2009 and January 2010 in 10 cities around the country: Albuquerque, N.M., Atlanta, Ga., Boston, Mass., Chicago, Ill., Dallas, Texas, Los Angeles, Calif., Miami, Fla., New York, N.Y., Seattle, Wash. and Washington, D.C.

The SBA also conducted tribal consultations to gain further public input to the revisions in Albuquerque, Fairbanks and Anchorage, Alaska, and Seattle. In total, the SBA received more than 2,500 individual comments from the public.

The 8(a) program is a nine-year business development program for small businesses where the owner(s) fits the SBA's criteria of being socially and economically disadvantaged and the same owners control the firm. The 8(a) program helps these firms develop their business and provides them with access to government contracting opportunities, allowing them to become solid competitors in the federal marketplace. It also provides specialized business training, counseling, marketing assistance and high-level executive development to its participants. In FY09, small businesses received $18.6 billion in 8(a) contract dollars.♦

For more information about the revised 8(a) regulations, a compliance guide, and the 8(a) program, visit http://www.sba.gov/content/revised-8a-regulations or e-mail questions to: 8aBD2@sba.gov.

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SBA Announces Grant to Ohio Small Business Development Centers to Support Job Creation

CLEVELAND – Small businesses in Ohio will soon have greater access to critical resources to help them start or grow their businesses and create jobs, thanks to a $1,853,524 grant to SBA's Ohio Small Business Development Center.

The funding was provided under a key provision of the Small Business Jobs Act of 2010 signed by the President last September, which provided $50 million in grants to SBA's Small Business Development Centers (SBDC) across the country to support job creation and retention within the small business community by providing in-depth business counseling and advice to entrepreneurs and small business owners.

The Jobs Act grants are a one-time funding intended to meet the critical need for business expansion and job creation, and are not intended to replace the core funding or the matching funds that the SBDCs require to sustain the program annually.

This grant to the Ohio center will allow it to:

- provide increased export assistance through tiered training for new and existing exporters, ITAC counseling, seminars and outreach partnership with universities and manufacturing association;
- support emerging industry clusters through expert counseling for renewable/advanced energy, SBIR assistance, and growing aquaculture industry;
- increase "triage team" assistance to second stage firms at financial risk, and expand statewide Early Warning Network to refer firms facing closure or financial instability to SBDC for strategic financial consultation; and
- expand service to underserved groups including new service center in rural areas, new program to support contracting for minority and disadvantaged businesses, expanded veteran entrepreneurship training, counseling for displaced workers and startup assistance for clients with limited capital seeking entry to fast turnaround, customer oriented niche businesses.

"This is yet another example of the Small Business Jobs Act putting proven tools in the hands of America's entrepreneurs and small business owners," said Gil Goldberg, SBA Cleveland District Director. "SBA's extensive network of about 900 Small Business Development Centers continues to play a critical role in helping them grow businesses and create jobs. I'm pleased that these resources are being delivered quickly to hard-hit states like Ohio."

Internal Revenue Service FREE Webinar for Tax Professionals:
Business Taxes for the Self-Employed

On Tuesday, March 29, 2011, the Internal Revenue Service is presenting a FREE webinar for tax professionals, small businesses, self-employed persons and independent contractors: Business Taxes for the Self-Employed: The Basics.

The webinar will cover:

- Reporting profit or loss from a business or profession
- Self-employment tax and estimated tax payments
- Schedule C and C-EZ
- Deducting business expenses
- Husband and wife businesses
- Recordkeeping

The webinar starts at 2 p.m. Eastern, 1 p.m. Central, noon Mountain and 11 a.m. Pacific. Register and attend by clicking on this link or copy and paste this URL in your browser: http://www.visualwebcaster.com/IRS/77024/reg.asp?id=77024.

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