

THE SMALL BUSINESS ADVANTAGE

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The Small Business Advantage, a publication by the U.S. Small Business Administration West Virginia District Office.

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Helping small businesses
start, grow and succeed.



Your Small Business Resource

Recovery Act Provides Significant Changes to SBA Loan Programs



The American Recovery and Reinvestment Act, signed into law by President Obama will have a significant impact on West Virginia's small business community by helping unlock credit and create jobs. It will be easier and less expensive for lenders to put capital in the hands of more small businesses.

\$730 million has been earmarked for the SBA to enhance our lending and investment programs. The funding bill includes:

- **\$375 MILLION FOR TEMPORARY FEE REDUCTION OR ELIMINATIONS ON SBA LOANS AND INCREASED SBA GUARANTEED SHARES, UP TO 90 PERCENT FOR CERTAIN LOANS**
- **\$255 MILLION FOR A NEW LOAN PROGRAM TO HELP SMALL BUSINESSES MEET EXISTING DEBT PAYMENTS**
- **\$30 MILLION FOR EXPANDING SBA'S MICROLOAN PROGRAM**
- **\$15 MILLION FOR EXPANDING SBA'S SURETY BOND GUARANTEE PROGRAM**

More information about these program changes can be found at:

<http://www.sba.gov/recovery>.

We have recently implemented two key provisions of the Recovery Act—we have temporarily eliminated certain loan fees and raised guarantees on some 7(a) loans to 90 percent. With these critical steps SBA is committed to getting lending markets flowing again.

I'm sure you have numerous questions on how the Recovery Act will provide small business assistance. The balance of this publication contains a series of questions and answers which should provide some clarification. If you have additional questions after reviewing the Recovery.gov web site and the Q&A section, please do not hesitate to contact our office (304-623-5631) or the Charleston Branch Office (304-347-5220).

I sincerely hope you will utilize this opportunity to ask your bank about SBA loan programs and how they can help you. I also encourage our lending community to use these loan programs to reach as many qualified borrowers as possible during these challenging times.

A handwritten signature in black ink that reads "Judy K. McCauley".

District Director
West Virginia District Office

Government Contracting Training

Doing Business with the Federal Government

- March 24 - Clarksburg
- March 25 - Morgantown
- March 31 - Huntington
- April 21 - Clarksburg
- May 14 - Charleston
- May 19 - Clarksburg

8(a) Certification - Application Process

- March 24 - Clarksburg
- May 19 - Clarksburg

For information or to register, contact Naomi Bassel at (304) 623-7447 or via email:

naomi.bassel@sba.gov.

For a complete listing of our upcoming events as well as events being conducted by our resource partners, go to www.sba.gov/wv and click on the "Events Calendar" link on the right-hand sidebar.

Additional training is also available online:

[Free Online Courses!](#)

2009 RECOVERY ACT

Q&A FOR SMALL BUSINESS OWNERS

What did the Obama Administration announce?

The Treasury Department will commit up to \$15 billion to help unlock the secondary markets for small business loans. By purchasing these securities, the Treasury Department will facilitate the ability of lenders to make new loans to small businesses by providing confidence that there will be a ready buyer for those loans in the secondary market.

In addition, the Small Business Administration is immediately implementing two key provisions of the Recovery Act – temporarily eliminating certain loan fees and raising guarantee levels on some of its loans. These steps will provide lenders with the security they need to start lending again to the millions of small business owners desperately in need of capital.

Finally, the Treasury Department issued a call for new reporting requirements designed to better track small business lending by banks and unveiled guidance from the IRS for an expanded "carryback" provision that will offer many small businesses a tax refund.

Which loans are affected by the fee elimination and higher guarantees?

Beginning March 16, the SBA will temporarily raise guarantees and eliminate fees for borrowers on certain of its 7(a) loans. 7(a) loans, which are partially guaranteed by the SBA, are issued by a bank to a small business to support its operations.

Additionally, the SBA has temporarily eliminated fees for borrowers and third party lenders on its 504 Certified Development Company Loans. These loans offer growing small businesses long-term, fixed-rate financing for major fixed assets, such as land, buildings and machinery and equipment. These loans are aimed at fostering community development, creating jobs and encouraging modernization.

How do I apply for these loans?

Borrowers apply for loans directly with their lending institutions, including banks, credit unions, and Small Business Lending Companies. The SBA works with thousands of small and large lenders nationwide. Lenders evaluate loan applications under their lending standards and decide whether to:

- Make the loan through conventional financing – without a SBA guarantee –because the borrower meets their conventional credit standards;
- Make the loan with a SBA guarantee if the borrower does not meet conventional standards and is eligible for SBA programs; or
- Decline to make the loan.

What kind of businesses typically get SBA-backed loans?

Typical 7(a) borrowers are entrepreneurs looking to start, expand or acquire a small business. In many cases, the applicant may have a strong business idea, management ability, and sound financial projections, but may have a shortfall in collateral to secure a loan or equity to put into the business.

In order to qualify for a SBA 7(a) loan, borrowers must be unable to secure conventional commercial financing on reasonable terms and be a "small business" as defined by SBA size standards. In 2008, of the \$18 billion in SBA backed loans, 35% went to start-up businesses, nearly 32% (\$5.7 billion) went to minority owned businesses, and nearly 23% went to women owned businesses. The most frequently financed industries in 2008 were services, retail trade, accommodation/food service, construction firms, and manufacturing.

SBA-backed loans are three to five times more likely to be made to minority and women owned businesses than conventional small business loans made by banks, according to a recent study by the Urban Institute.

Is there a limit on how much I can apply for?

The maximum loan amount for a 7(a) loan is \$2 million. For 504 loans, the loan structures and amounts vary since lenders and borrowers each determine how much equity

they are putting into the loan. However, for the SBA portion of the loan, the maximum loan amount is either \$2 million or \$4 million, depending on the purpose of the loan.

For most purposes, the SBA's maximum guarantee for any borrower remains at \$1,500,000, or 75 percent of a \$2 million loan.

How soon can I get a loan to help me and take advantage of these new programs?

You can apply immediately to any SBA participating lender to take advantage of these programs.

- Fees will be reduced for 7(a) loans starting this week.
- Fees will be eliminated for 504 loans beginning this week.
- Microloan intermediaries across the country are providing loans of up to \$35,000 right now to start-up, newly established and growing small businesses.

Lenders will work with the SBA to process and approve these loans. Once we receive a completed loan package from a lender, the SBA can quickly process applications in just a few days.

What kind of savings will I see from the temporary borrower fee elimination?

Fees for a 7(a) loan are based only on the guaranteed portion of the loan and depend on the size of the loan. The fees range from 2% to 3.75%

For example, a \$300,000 loan with a 75% guaranty would have a guarantee fee of 3%. With the temporary elimination of fees, you would save \$6,750.00 ($\$300,000 \times 75\% \times 3\%$). Under the new 90% guaranty your savings would be \$8,100 ($\$300,000 \times 90\% \times 3\%$).

For a Section 504 loan from a Certified Development Company, the 1.5% application fee that is frequently charged to small businesses when they apply to the Certified Development Company for a loan will not be charged. For a typical 504 loan of about \$600,000, fee savings would equal about \$9,000. In addition, the SBA charges the first mortgage lender a fee equal to ½% of the first mortgage in a Section 504 loan transaction. The SBA will temporarily eliminate that fee as well, further encouraging the first mortgage lender to get involved with the development project.

I am a small business owner – what does the 90% guarantee mean to me?

It means that the lender will have less risk and a greater sense of security due to the higher guarantee percentage and will be more likely to extend credit to your small business.

Can I go to any lender in my area to take advantage of these new programs?

Only lenders who have been approved to participate in SBA lending programs can assist you with an SBA-guaranteed loan. Contact the West Virginia District Office (304-623-5631 or wvinfo@sba.gov) to obtain a list of approved participants in West Virginia.

For out of state residents, follow this link to locate the District Office nearest you: <http://www.sba.gov/localresources/index.html>.

The banks aren't lending to me. So how do any of the programs the President announced help me?

Revisit your lender and specifically ask about the Recovery Act and SBA loans. Many of the provisions in the Act provide incentives to lenders to encourage them to start lending again to get more dollars in the hands of the small businesses that need it most. Banks will now have access to more funds and higher guarantees making it less risky and more attractive to lend to small businesses. Also, you can contact the West Virginia District Office to obtain a list of SBA-participating lenders.

I own a small business, and my revenue has gone down. The equity in my house has declined and I don't have any more collateral to pledge. How do the President's programs help me?

SBA does not have a specific level of collateral that must be pledged. If your business is viable and you have pledged all of your available business and personal assets, a lender may consider making a loan to you with an SBA guarantee.

The Recovery Act includes other initiatives to help small business owners, including targeted tax relief for small business owners, allowing "carryback" of losses from this year for up to the previous five years; reducing the estimated tax payments a small business makes to the IRS from 110 percent to 90 percent; and providing the ability to write off up to \$250,000 of certain investments made in your small business.

I got laid off from my job. Now, I want to start a new business, building on my prior skills. I have a good business plan and am working with an accountant and an advisor. Can I get a loan from any of these new programs?

SBA loan programs are available to start-up businesses as well as those that are already established. All applicants must meet certain SBA eligibility and credit requirements. In general, you must be organized for profit, meet SBA specific size standards, and be unable to obtain funding on reasonable terms through traditional lending channels.

When applying for a loan, you must prepare a written loan proposal or business plan. The proposal should outline your business strategy over the next several years and briefly explain who you are, your business background, the nature of your

business, the amount and purpose of your loan request, your requested terms of repayment, how the funds will benefit your business, and how you will repay the loan.

SBA has a host of resource partners (<http://www.sba.gov/localresources/index.html>) that can assist you in developing your plan, as well as online training resources through the Small Business Training Network <http://www.sba.gov/services/training/index.html>.

I need working capital now to buy inventory and to make payroll. How long will it take to get a loan? How much can I apply for?

You can apply for a loan by talking to a local SBA participating lender today. Once SBA receives a complete application package from your lender, SBA typically responds to the lender within a few business days.

SBA loan programs are available for most sound business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements, and debt refinancing (under special conditions). The maximum loan size under SBA's 7(a) loan program is \$2,000,000, although some programs have specific maximums that are lower.

The President mentioned that the \$15 billion from the Treasury would primarily be focused on buying loans and freeing up lending for community banks, credit unions and other small lenders. Why?

Community banks, credit unions and other small lenders account for about 40 percent of all SBA-backed loans. Unclogging the secondary market for these local, small lenders will help them provide greater access to capital for the small businesses and entrepreneurs in their communities. While unclogging the secondary market is aimed at providing a funding source for smaller lenders, large lenders may also use the secondary market as a source of liquidity.

Why will purchasing securities on the secondary market help small business owners?

Under normal circumstances, many banks sell a portion of their loans to companies that pool them together and sell them as securities to investors. This provides banks with new capital that they can use to make additional loans. The result is that the secondary markets significantly increase the amount of lending banks can do to small businesses.

Over the past year, however, the secondary markets for 7(a) and first lien 504 securities have ground to a virtual halt. The institutions that securitize these loans have been unable to find buyers for the securities they have already packaged. This has in turn reduced their willingness to purchase new loans from banks. Since banks depend on the secondary markets for liquidity, they have increasingly become reluctant to extend credit to small businesses.

The President's announcement will help unlock secondary markets by providing assurances that the government will stand ready to purchase 7(a) and 504 first-lien securities. If you apply for a 7(a) or 504 loan at your local community bank, that bank will be more willing to lend because it will have confidence that the Treasury Department will be a ready buyer of the loan in the secondary markets.

What other provisions are in the Recovery Act beyond fee elimination and higher guarantees, and when will they be implemented?

The additional provisions in the Recovery Act include:

- **Microloan Expansion:** Provides extra funding for loans and technical assistance to SBA backed micro lenders
- **ARC Stabilization Loans:** Offers 100% guaranteed deferred payment of loans up to \$35,000 to help viable small businesses facing immediate economic hardship make payments on existing qualifying loans
- **Expanded 504 Refinancing Project:** Allows borrows to refinance an existing eligible loan as part of a new 504 small business expansion project.
- **Surety Bond Program Expansion:** Allows more small businesses to compete for contracts by raising the maximum amount for contracts that qualify for SBA surety bonds to \$5 million and up to \$10 million for certain contracts.
- **SBIC Program Expansion:** Increases the maximum levels of funding that SBA can provide to SBICs.
- **Secondary Market Guarantee for 504 First Mortgages:** Provides liquidity to lenders by allowing SBA to guarantee 504 first mortgage pools sold into the secondary market.
- **7(a) Secondary Market Lending Authority:** Increases liquidity in the secondary market for SBA loans by directly lending money to brokers to purchase SBA 7(a) loans.

SBA is working hard to implement these provisions with the goal of having the broadest impact on small businesses as rapidly and effectively as possible. Implementation will begin as soon as the rules and regulations are published in the Federal Register.

