

CLEVELAND DISTRICT OFFICE NEWS
INFORMATION FOR THE SMALL BUSINESS COMMUNITY

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Loan Report as of September 30, 2010

7(a) and 504 Loans Combined

Bank	Number Approvals	Dollars (In Thousands)
Huntington National Bank	365	\$59,167
JPMorgan Chase Bank	85	\$15,553
KeyBank	85	\$16,748
Charter One Bank/RBS Citizens	67	\$4,609
FirstMerit Bank	53	\$9,007

504 Loans

Bank	Number 504 Approvals	Dollars (In Thousands)
FirstMerit Bank	16	
KeyBank	14	
Huntington National Bank	13	
JPMorgan Chase Bank	9	
PNC Bank	8	

CDC	Number 504 Approvals	Dollars (In Thousands)
Growth Capital Corp.	39	\$15,349
Cascade Capital Corp.	24	\$7,364
Lake County SBAC	12	\$2,885
Northwest Ohio Dev. Ass't.	12	\$3,243
Mahoning Valley Economic Dev. Corp.	10	\$7,696
Stark Development Board	8	\$1,106
Mentor Economic Ass't Corp.	5	\$1,612
Community Capital Dev. Corp.	2	\$1,523
Ohio Statewide	2	\$622
West Central Partnership	2	\$1,530
SEM Resource, Inc.	1	\$1,473

Highlights of the Small Business Jobs Act of 2010

The Small Business Jobs Act, signed by President Obama on September 27, will provide critical resources to help small businesses continue to drive economic recovery and create jobs. The new law extends the successful SBA Recovery loans while offering billions more in lending support and tax breaks for entrepreneurs and small business owners.

For an overview of the Act, please go to: <http://www.sba.gov/jobact/>

President Obama Signs the Small Business Jobs Act of 2010

On September 27, 2010, President Obama signed the Small Business Jobs Act (SBJA) of 2010. See details below.

The SBJA provides an additional \$505 million to the SBA. These funds are available to provide fee relief for new 7(a) and 504 loans under the Recovery Act and extend the authority for SBA to provide a higher guaranty on eligible 7(a) loans to December 31, 2010. For details regarding funding of Recovery loans, [please view the full notice](#).

The SBJA establishes a new temporary alternative size standard for business loans made under SBA's 7(a) and 504 loan programs. For details, [please view the full notice](#).

The SBJA authorized under Section 1133(a) a new, expanded Dealer Floor Plan ("DFP") Pilot Program which will remain available until September 30, 2013. The Agency's currently available DFP Pilot Initiative will expire on September 30, 2010, and will not be renewed. For details, [please view the full notice](#).

7(a) and 504 Fees Effective on October 1, 2010

The Office of Capital Access announces the fees for 7(a) and 504 loans in FY11. For specific fees, [please view the full notice](#).♦

SBA Cleveland Participates in Summit Mall Entrepreneur Forum

Over twenty business owners and entrepreneurs gathered at Summit Mall in Fairlawn on September 21 for the Entrepreneur Forum, the third to be offered by Summit Mall. Mall manager David Huesser and marketing director Katie Anderson welcomed the crowd for over an hour's worth of advice and conversation about starting and successfully growing a business.

Presenters included Russell Vernon and Diana Bennett from the Akron SCORE chapter, Jim Griggy from the Summit Medina Business Alliance (SBDC), and Mark Hansel from the Cleveland office of the SBA. Several banks were also represented including Citizens, Charter One, Huntington, Chase, PNC and First Merit. Lenders stepped forward during the session to share valuable insights on credit and lending with the audience.

Questions from the audience covered everything from how to market on a limited budget to cash flow projections. Many arranged follow-up meetings with SCORE, the SBDC and the various lenders who were present. Both Huesser and Anderson look forward to hosting similar events in the future. ♦



Over twenty area business owners participated in the event.

NEWS FOR OUR LENDING PARTNERS

Issuance of SOP 50 10 5(C) – Lender and Development Company Loan Programs

SBA's Office of Financial Assistance has announced the issuance of an update to the Standard Operating Procedure (SOP) 50 10 5. This update to the SOP will be known as SOP 50 10 5(C) and will be effective on October 1, 2010. This version of the SOP will apply to all applications received by SBA on or after October 1, 2010.

As with previous editions of SOP 50 10 5, SBA will post two versions on the web site. The first version will show all changes as "tracked changes" to enable users to more easily identify what has been modified. (As a note, the Table of Contents has been updated but, for ease of viewing, those changes are not shown.) The second version incorporates all of the changes into the document. The revised SOP may be found at <http://www.sba.gov/aboutsba/sbaprograms/elending/reg/index.html>.

The following is a summary of the key changes made to this version of the SOP. Many of the changes are in response to questions and comments received from lenders and CDCs through the SOP mailbox or through the district offices and processing centers. The changes identified below fall into two categories: simplification and risk management.

Changes Resulting in Simplification of the Loan Application Process including Expanding the Definition of Eligible Small Businesses and Expanding the Eligible Uses of Proceeds

A. Passive Income Definition: The definition has been modified to recognize changes in the business model for many types of businesses. This modification results in a more simplified definition that will permit more small businesses to be eligible for an SBA guaranteed loan. Until recently, businesses such as hair salons, nail salons, dance studios and others would typically hire the trades people that provided the services as employees. Now, many rent space to the tradesperson and then handle advertising, hiring cleaning services and the sales of merchandise. Under the previous guidance, these businesses were ineligible for SBA financing unless more than 50% of their revenue was from sources other than rent (the "sufficient services" test). The new guidance eliminates the "sufficient services" test in order to make SBA loan guarantees available to more of these types of businesses.

B. OREO transactions: Historically, a 7(a) lender could not finance Other Real Estate Owned (OREO) with a 7(a) loan because SBA perceived this as self-dealing. Based on numerous requests from 7(a) lenders to permit these same lenders to finance their OREO property with a 7(a) loan, SBA identified what it believes are sufficient controls to permit this type of financing while eliminating an actual or apparent conflict of interest. The SOP has been modified to permit the financing of OREO property as long as the application is submitted to the appropriate SBA processing center for a decision by SBA and the application meets certain stated conditions. The same conditions that will now apply to applications submitted under 7(a) have also been added to the 504 Loan Program, where lenders have traditionally been permitted to act as a third party lender for their OREO property. This will tighten the guidance in the 504 program to provide stronger risk management and provide consistency between the two programs.

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C. Interest Rate changes between application and first disbursement: Previously, the SOP required the interest rate to remain fixed until the first adjustment date identified in the note. In response to numerous requests from lenders as well as SBA's servicing centers, the SOP has been modified to permit a lender to reduce the interest rate after loan approval and prior to first disbursement as long as the borrower agrees in writing.

D. Debt refinancing: SBA has clarified a section of the SOP dealing with debt refinancing and partial change of ownership situations. The SOP has been revised to more clearly state that if a loan will be used to finance a partial change of ownership and also refinance the existing debt of the business, then the debt refinancing provisions do apply and need to be met in order for the application to be eligible.

E. EWCP: The SOP has been revised to include an expanded version of the sections of the SOP dealing with the Export Working Capital Program. The additions will clarify how this particular program should be used.

F. Amortization of Third Party Loan (TPL): This provision has been modified to permit the TPL to begin amortizing prior to the funding of the 504 loan as long as the borrower has provided his/her written consent.

G. Exception to Policy Authority: Language has been added to the SOP, at the beginning of each Subpart, to clarify the Director of the Office of Financial Assistance's authority to consider and make a decision on requests for an exception to a policy with respect to a particular loan request.

H. 504 Borrowed Equity: The treatment of borrowed equity in 504 loans has been revised to state that "If the borrowed equity is collateralized by assets other than the Project Property, the borrower must demonstrate repayment of the loan for the equity contribution from the cash flow of the business or other sources." Previously, the repayment of borrowed equity was not considered in the cash flow analysis of the business.

I. Public Policy Goal: Guidance has been added concerning the use of a military base closing as a public policy goal to permit a larger loan. The SOP has been revised to require the CDC to submit additional documentation if the base closure is more than 10 years in the past.

J. Small/Rural Lender Advantage: The S/RLA process has been modified to reduce the two tiers of analysis to only one tier. This change will streamline and simplify the S/RLA process.

Changes that Seek to Improve SBA's Management of Risk

K. Source of Equity and documentation: The guidance on the permissible sources of equity and documentation of equity injection has been expanded and moved from SOP 50 51 (which deals with purchases and liquidations) to SOP 50 10. As a result, lenders will be aware of what SBA requires regarding documentation of equity injection prior to closing and disbursing a loan.

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L. Business Acquisitions: The following revisions have been made: (1) tightening up the requirements concerning who is qualified to perform a business valuation; (2) changing the timing of the requirement to obtain a business valuation to before the application is submitted to the LGPC or, for applications processed under delegated authority, after receipt of the SBA loan number but prior to closing; (3) adding a statement that any difference between the sales price and the business valuation may not be financed with the SBA-guaranteed loan; and (4) adding language to require the lender to verify the financial information relied upon in the business valuation.

M. Delegated Lender Criteria: The initial approval and renewal criteria for delegated authority have been revised in order to have more consistency from program to program. In addition, language has been added to the CLP approval/renewal process discussion that requires the lender to continue to meet the requirements of 120.410, including adequate capitalization. Finally, the PLP-EWCP approval process has been revised.

N. SBA Form 912: The language in the SOP regarding who must complete SBA Form 912 has been amended to: (1) add “any person hired by the Applicant to manage day-to-day operations” (i.e., “key employee”); (2) address which members of a Limited Liability Company (LLC) must complete a 912 (each member owning 20% or more of the LLC, and each officer, director and managing member); and (3) clarify which partners of a partnership are required to complete a 912 (each general partner and all limited partners owning 20% or more of the partnership).

Miscellaneous Changes

O. Language defining job creation and retention has been added to the 7(a) subpart and the definition of “job opportunity” has been revised in the 504 subpart. Due to the nature of the two programs, there is a slight difference in the definitions.

P. Interest rate swaps: A description of interest rate swaps has been added to the SOP that allows the use of interest rate swaps under certain conditions.

Additional Information

Lenders, CDCs and other interested parties may continue to send suggestions concerning the SOP to SBA at SOP50-10Modernization@sba.gov. This e-mail box is set up to receive only.

1st Quarter "Peg" Rate and Direct Interest Rate

The optional peg rate for fluctuating interest rates on guaranty loans is 3 1/4 percent (3.250%) for the October - December quarter of FY 2011.

Pursuant to 13 CFR 120.921(b), the maximum legal interest rate for a commercial loan which funds any portion of the cost of a project (see 13 CFR 120.801) shall be the greater of 6% over the New York Prime rate or the limitation established by the constitution or laws of a given State.

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504 Debenture Funding Schedule for Calendar Year 2011

The purpose of this notice is to provide the recommended financing calendar for the SBA's 504 debenture program for calendar year 2011. This is to assist participating Certified Development Companies as well as SBA field offices in preparing debenture closing packages. In 2011 there will be no need to deviate from the traditional directions for generating the 504 financing calendar. *Pricing date* is the first Tuesday of the first full week of the month (beginning and including Sunday) and the *funding date* is the Wednesday of the week following the pricing date. The *Colson cut-off date* for loan submission is two weeks prior to the pricing date. The *pulled loan deadline* to remove a submitted loan from an offering pool is the close of business the Thursday before pricing.

Colson Cut-off Date	Pulled Loan Deadline	Debenture Pricing Date	Funding Date
Dec. 21, 2010 *	December 30	January 4, 2011	January 12
January 25	February 3	February 8	February 16
February 22 *	March 3	March 8	March 16
March 22	March 31	April 5	April 13
April 19 *	April 28	May 3	May 11
May 24	June 2	June 7	June 15
June 21 *	June 30	July 5	July 13
July 26	August 4	August 9	August 17
August 23 *	September 1	September 6	September 14
September 20	September 29	October 4	October 12
October 25 *	November 3	November 8	November 16
November 22	December 1	December 6	December 14

* These months include the sale of both 10 and 20 year debentures.

Directions for generating funding schedule:

Pricing Date = First Tuesday of first full week of month (beginning and including Sunday)

Funding Date = Wednesday of week following Pricing Date

Cut Off Date = Two weeks prior to Pricing Date

Pulled Loan Deadline = Close of Business the Thursday prior to Pricing Date

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