

Inside This Issue:

Loan Report	1
News for Our Lending Partners	2
National Small Business Week: Save the Date! May 17-19, 2009	3
Recovery Act Outreach Continues	4
Key Tax Highlights of the American Recovery and Reinvestment Act	6
Recovery Act Contracting Opportunities: Qs & As	7

In News for Our  
Lending Partners:

- *Detecting Fraud in Small Business Administration Lending Programs*
- *Recovery Act - Treatment of cancellations of loans approved prior to the Recovery Act*
- *Recovery Act - Changes to 504 Job Opportunity Requirements*



Your Small Business Resource

Loan Report as of April 30, 2009

**7(a) and 504 Loans Combined**

Bank	Number Approvals	Dollars (In Thousands)
Huntington National Bank	92	\$12,593
Charter One Bank/RBS Citizens	45	\$3,131
National City Bank	40	\$7,418
KeyBank	38	\$5,835
US Bank	37	\$5,373

**504 Loans**

Bank	Number 504 Approvals
National City Bank	7
FirstMerit Bank	4
Huntington National Bank	3
CFBank	2
Charter One Bank/RBS Citizens	2
First Federal Bank	2
Home Savings & Loan Bank	2
Lake National Bank	2
Lorain National Bank	2
Park View Federal	2

CDC	Number 504 Approvals	Dollars (In Thousands)
Cascade Capital Corp.	12	\$4,890
Growth Capital Corp.	10	\$2,811
Lake County SBAC	10	\$3,523
Northwest Ohio Dev. Ass't.	4	\$3,038
West Central Partnership	2	\$2,038
Horizon Certified Dev. Co.	1	\$1,172
Mentor Economic Ass't. Corp.	1	\$194
SEM Resource, Inc.	1	\$1,732
Stark Development Board	1	\$1,315

# NEWS FOR OUR LENDING PARTNERS

## *Detecting Fraud in Small Business Administration Lending Programs*

SBA recently released Information Notice 9000-1793, which provides information, tips and recommendations to detect and deter fraud in the Small Business Administration (SBA) business loan programs. This is important information for our lending partners, who are often the first line of defense in identifying and reporting fraud to the SBA Office of Inspector General (OIG).

Every year, the OIG obtains multiple convictions of borrowers and loan agents that have committed fraud in the SBA business loan programs. The OIG's concerns about potential fraud have increased in light of the recent passage of the American Recovery and Reinvestment Act, which implements new lending programs and is intended to expand significantly SBA loan volume.

Detecting and reporting fraud is in the best interest of all program participants. Fraud undermines public confidence in the public benefits of SBA lending programs, which support economic opportunity, small business growth and job creation. In addition, fraud can lead to higher program costs for borrowers and lenders, alike.

The SBA OIG would like to make you aware of fraud patterns that it continues to see in its loan fraud investigations so you can be on the lookout for such fraud. Lenders and other program participants are urged to exercise a high level of diligence if there is suspicious activity and to report suspected fraud to the OIG Hotline at 1-800-767-0385 or [OIGHotline@sba.gov](mailto:OIGHotline@sba.gov).

We encourage all lenders to review Information Notice 9000-1793. Please contact your Lender Relations' Specialist at (216) 522-4180 if you would like a copy of this notice, or view it online at [http://www.sba.gov/idc/groups/public/documents/mi\\_detroit/mi\\_9000-1793.pdf](http://www.sba.gov/idc/groups/public/documents/mi_detroit/mi_9000-1793.pdf).

## *Recovery Act - Treatment of cancellations of loans approved prior to the Recovery Act*

On March 16, 2009, SBA Policy Notice No. 5000-1097 announced changes in SBA 7(a) and 504 program fees. On the same date, SBA issued Policy Notice No. 5000-1098 to announce changes to the maximum guaranty for 7(a) loans. These fees and maximum guaranty percentages were changed by the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") (P.L. 111-5) (February 17, 2009). The purpose of the Recovery Act is to stimulate new economic activity, and assist in our nation's economic recovery. The fee changes apply to 7(a) loans approved on or after February 17, 2009 and to 504 loans approved or pending approval on or after that date. The guaranty percentage changes apply to 7(a) loan applications (except SBA Express loans) received by SBA on or after March 16, 2009.

The question has arisen from the SBA lending industry as to whether an SBA loan approved before February 17, 2009, may be cancelled and resubmitted to receive the benefit of the change in fees. In addition, the question has arisen as to whether loans approved prior to March 16, 2009 (the implementation date of Section 502 of the Recovery Act), may be cancelled and resubmitted to take advantage of the increase in the maximum guarantee percentage of up to 90 percent.

In both scenarios cancellation and resubmission of the same loan would use the limited appropriations made available under the Recovery Act to provide fee relief and/or an increased guaranty on loans already approved without the need for the provisions of the Recovery Act and would be contrary to the intent of the new law to stimulate new lending.

Therefore, SBA will not permit cancelled 7(a) and 504 loans that were approved by SBA prior to February 17<sup>th</sup> to be resubmitted as reduced-fee Recovery Act loans, unless the resubmitted loan is not a replacement for the original loan, as determined by SBA on a case by case basis. Similarly, SBA will not permit cancelled 7(a) loans approved prior to March 16, 2009 (the implementation date for Section 502 of the Recovery Act) to be resubmitted as Recovery Act loans eligible for a maximum guaranty of up to 90 percent, unless the resubmitted loan is not a replacement for the original loan as determined by SBA on a case by case basis. Requests for such consideration must be submitted by the lender to the Standard 7(a) Loan Guaranty Processing Center in Citrus Heights, California. The request will be reviewed and a recommendation will be forwarded to the Director/Office of Financial Assistance for approval.

In making a case by case determination on resubmitted loans, the existence of one or more of the following factors will make it more likely that SBA will approve the request: i) the loan was cancelled for reasons other than the passage of the Recovery Act (e.g., the loan was cancelled because the location for the new business was not available; subsequently another location became available and a new loan was requested); ii) the new loan is for a different purpose (e.g., the original loan was for working capital but the new loan is for the acquisition of real estate); iii) the new loan is likely to achieve additional economic stimulus (e.g., the previous loan would have preserved jobs but the new loan will also create new jobs); or, iv) the new loan could not be made but for the provisions of the Recovery Act (e.g., the loan was cancelled because the borrower failed to meet a key provision (e.g., appraisal value) in the original loan authorization and, therefore, the lender would not make the loan now but for the higher guaranty level.) Based on past cancellation experience in SBA's loan programs, SBA expects that only a limited number of borrowers with cancelled loans will meet the criteria for a new loan with reduced fees and/or a higher guaranty. *(continued on page 3)*

## News for Our Lending Partners *(Continued from page 2)*

It is possible for a lender to apply for a waiver for one part of the Recovery Act (e.g., 90 percent guaranty) without seeking a waiver for the other. In general, waivers for fee relief, simply to save the borrower the expense, will not be approved.

In addition, changes to all loans approved prior to February 17, 2009, including loan increases, will be processed as changes to the original loan in accordance with SBA's standard practice, and loan fees will be assessed under the rules in effect at the original approval date.

Finally, if limited debt refinancing is added to a project under the 504 Development Company Program as permitted by the Recovery Act, changes will be processed as amendments to the original loan and not as a new loan, in accordance with SBA's standard practice.

### ***Recovery Act - Changes to 504 Job Opportunity Requirements***

Under SBA's Development Company Loan Program (504 Program), a 504 loan is required to create or retain a minimum number of jobs within two years of the disbursement of the loan as a result of the project or to meet other defined economic development objectives (13 CFR 120.861 – 120.862). The standards for determining whether a project meets the job creation or retention requirements are set forth in section 501(e) of the Small Business Investment Act.

To stimulate the growth of small business and create more job opportunities, section 504(b) of the American Recovery and Reinvestment Act of 2009 (ARRA), P.L. 111-05, enacted February 17, 2009, amends the minimum number of jobs that are required to be created or retained per dollar amount guaranteed by SBA by increasing such dollar amount from \$50,000 to \$65,000 as follows:

- (1) A Project must create or retain one Job Opportunity per \$65,000 of 504 loan funding, or
- (2) For Projects that are eligible under the 504 Program under 13 CFR 120.862, a CDC's portfolio must reflect an average of one Job Opportunity for every \$65,000 guaranteed by SBA.

The above changes apply to new loan applications received on or after February 17, 2009.

The remaining amounts listed below are unchanged:

- (1) A Project must create or retain one Job Opportunity per \$100,000 of 504 loan funding in the case of a project of a small manufacturer.
- (2) For Projects in Alaska, Hawaii, State-designated enterprise zones, empowerment zones and enterprise communities, labor surplus areas, as determined by the Secretary of Labor, and for other areas designated by SBA, the CDC's portfolio may average not more than \$75,000 per job created or retained.

The borrower will enter the number of jobs to be created or retained as a result of the project in the Section 504 Loan Application, and the CDC will verify that the number of jobs meets the job creation or retention requirements. Also, the job impact data will continue to be entered into the Agency's database, and the application data combined with data from annual CDC reports will continue to be used to report the total number of jobs created or retained. ♦

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

## SBA Expands Eligibility for 7(a) Loans to Spur Recovery Opportunities for Small Businesses

**Washington, May 1, 2009:** More small businesses will be eligible for U.S. Small Business Administration-backed loans, meaning greater access to much-needed capital in this tough economy, as a result of a temporary alternate size standard for the agency's largest lending program. SBA's alternate size standard for its 7(a) loan program will go into effect early next week through Sept. 30, 2010. As a result of the temporary change, more than 70,000 additional small businesses – including auto and RV dealerships, auto industry suppliers and others – could be eligible to apply for SBA 7(a) loan.

"This is just one more step we are taking to make sure small businesses have access to capital to keep their doors open and employees working during these tough economic times," SBA Administrator Karen Mills said. "We have seen signs that small businesses that are just outside the traditional 7(a) size standard are being shut out of the conventional lending market. This temporary change will help those businesses weather these tough times and help move our nation closer to economic recovery."

The temporary 7(a) loan size standard will parallel the standard for the agency's 504 Certified Development Company loan, and will allow businesses to qualify based on net worth and average income. The net worth for the company and its affiliates can't be in excess of \$8.5 million and average net income after federal income taxes (excluding any carry-over losses) for the preceding two completed fiscal years can't be more than \$3 million. The alternate size standard is available at the offices of *The Federal Register* today and will be published as an interim final rule early next week.

The temporary change to the 7(a) loan size standard is not unprecedented. SBA took similar actions in 1993, as a result of the recession of the early 1990s, and again in 2005 as part of a program aimed at helping small businesses in the wake of hurricanes Katrina and Rita. This change also means more small businesses can take advantage of benefits made possible through the Recovery Act. On March 16, the SBA implemented two key provisions of the Recovery Act that raised the guarantee on 7(a) loans to 90 percent and reduced fees for borrowers. Since then, the agency has seen average weekly 7(a) loan volume increase by more than 25 percent and new SBA loans made by nearly 450 lenders who had not made loans since October 2008. ♦

For more information about SBA's revisions to its small business size standards, visit <http://www.sba.gov/size/indexwhatsnew.html> and click on "What's New about Small Business Size Standards."

## Recovery Act Outreach Continues

The Cleveland District Office has been continuing with its efforts to inform lenders and small business owners about the new Recovery Act, which provides SBA with powerful new tools and incentives designed to help lenders increase lending to small businesses. Lender roundtables were held (with the assistance of the Small Business Development Centers) throughout the Cleveland District. Congressional Outreach seminars for the public have been held with Congressman Tim Ryan, Congressman Steve LaTourette, Congresswoman Marcy Kaptur, Congresswoman Marcia Fudge, and U.S. Senator Sherrod Brown. Future seminars are scheduled with Congressman Charlie Wilson in East Liverpool, Ohio.

These roundtables and seminars have been attracting a huge amount of interest from bankers, small business owners, and entrepreneurs. Many of the events have been to overflow crowds. The SBA Cleveland District office is getting tons of calls about the new Recovery Act. Everyone is anxious to get business loan activity flowing and growing again. There is great hope that the SBA Recovery Act provisions, which includes increasing the SBA guarantee to 90%, the elimination of upfront guarantee fees, and the 100% guaranteed ARC Stabilization Loan program (for loans up to \$35,000 for businesses experiencing difficulty in making their loan payments) will be one of the key drivers helping ease the credit markets and begin the long awaited economic recovery. ♦ (additional photos on page 7)

### Senator Sherrod Brown and SBA Cleveland: Outreach Seminar April 13, 2009



*Gil Goldberg, District Director, Cleveland SBA District Office and Stacey Banks Houston of the Urban League of Cleveland*



*Senator Sherrod Brown*



*The seminar was standing room only.*



*Heidi Ihlenfeld and Farnaz Harbaugh of National City Bank Business Banking*



Congressman Steve LaTourette and SBA Cleveland District Director Gil Goldberg



Attendees had the opportunity to discuss small business issues with Congressman LaTourette and SBA District Director Goldberg.



First Merit Bank's Jacquelyn Santek, Business Banker; Bruce Kephart, President/CEO of Northeast Ohio; and GerriAnn Bagdonas, Commercial Lender



Over two hundred members of the small business community attended.

Congresswoman Marcia Fudge and SBA Cleveland: Outreach Seminar April 14, 2009



Panelists Anita Khayat, President, SCORE Cleveland; Mark Hansel, SBA Cleveland; James Duffy, SBA Cleveland; Congresswoman Marcia Fudge and Gil Goldberg, SBA Cleveland District Director



Panelist James Duffy, SBA Cleveland, and Congresswoman Fudge



Sharon Cole, Business and Economic Liason for Congresswoman Fudge; Mark Hansel, SBA; Gil Goldberg, SBA District Director; Congresswoman Fudge; Sonya Wagasky, SBA; James Duffy, SBA; and Stephen Caviness Staff Assistant for Congresswoman Fudge.



Vic Reed of Vic Reed's Foods with the Congresswoman

# American Recovery and Reinvestment Act of 2009:

## Key Tax Highlights

Congress approved and the President signed new economic recovery legislation, the American Recovery and Reinvestment Act of 2009 (ARRA) two months ago. Here are some key tax highlights for small businesses and their employees:

### Net Operating Loss Carryback

Small businesses with deductions exceeding their income in 2008 can use a new net operating loss tax provision in ARRA to get a refund of taxes paid over the past five years instead of the usual two. To accommodate the change in tax law, the IRS has updated Publication 536, Net Operating Losses (NOLs) for Individuals, Estates and Trusts, as well as the instructions for Form 1045 and Form 1139, which small businesses will use to take advantage of the carryback provision. An IRS news release and question-and-answer document have more information on the net operating loss carryback provision. Technical information is contained in Revenue Procedure 2009-19.

### Section 179 Deduction

A qualifying taxpayer can choose to treat the cost of certain property as an expense and deduct it in the year the property is placed in service instead of depreciating it over several years. This property is frequently referred to as section 179 property. Under ARRA, qualifying businesses can continue to expense up to \$250,000 of section 179 property for tax years beginning in 2009. Without ARRA, the 2009 expensing limit for section 179 property would have been \$133,000. The \$250,000 amount provided under the new law is reduced if the cost of all section 179 property placed in service by the taxpayer during the tax year exceeds \$800,000. The new law does not alter the section 179 limitation imposed on sport utility vehicles, which have an expense limit of \$25,000.

### More Help for Small Business

The Recovery Act also includes the following business-related provisions:

**Reduction of Estimated Tax Payments:** Normally, small businesses have to pay 110 percent of their previous year's

taxes in estimated taxes. The Recovery Act permits small businesses to reduce their estimated payments to 90 percent of the previous year's taxes.

**Extension of Bonus Depreciation Deductions:** Through 2009: Bonus depreciation is extended through 2009, allowing businesses to take a larger tax deduction within the first year of a property's purchase.

**Capital Gains Tax Break for Investment in Small Business:** Investors in small business who hold their investments for five years can exclude from taxation 75 percent of their capital gains.

### Other Provisions for Employers and Employees

**Increased Transportation Subsidy:** Employer-provided benefits for transit and parking are up in 2009 (see related article).

**Up to \$2,400 in Unemployment Benefits Tax Free in 2009:** Individuals should check their tax withholding.

**COBRA: Health Insurance Continuation Subsidy:** The IRS has extensive guidance for employers, including an updated Form 941, as well as information for qualifying individuals.

**First-Time Homebuyer Credit Expands:** Homebuyers who purchase in 2009 can get a credit of up to \$8,000 with no payback requirement.

**Enhanced Credits for Tax Years 2009, 2010:** Details available on the earned income tax credit, additional child tax credit and American Opportunity Credit, a new higher education benefit.

**Payroll Checks Increased This Spring:** The Making Work Pay Tax Credit will mean \$400 to \$800 for many Americans. The IRS has issued new withholding tables for employers (see related article on withholding).

**Money Back for New Vehicle Purchases:** Taxpayers who buy certain new vehicles in 2009 can deduct the state and local sales taxes they paid.

The IRS's American Recovery and Reinvestment Act of 2009 Web site at [www.irs.gov/newsroom/article/0,,id=204335,00.html](http://www.irs.gov/newsroom/article/0,,id=204335,00.html) has more information and links to all of this information.

Subscribe to e-News for Small Businesses at <http://www.irs.gov/businesses/small/article/0,,id=154825,00.html> to get the latest information about IRS's ARRA implementation and other IRS news and information. ♦

## Recovery Act Contracting Opportunities

### Questions and Answers

**Q. Is there an opportunity for small businesses to get contracts under the Recovery Act?**

**A.** Yes. The SBA is committed to helping small businesses get connected with contracting opportunities as a result of the Recovery Act. SBA's Procurement Center Representatives are working with federal agencies to ensure that small businesses get their fair share of the prime and subcontracting opportunities stemming from the Recovery funds. The Recovery Act requires agencies to provide maximum opportunities for small businesses to compete for contracts. The SBA is working with its district offices and resource partners to make small businesses aware of the contract dollars and information to pursue registration/certification at the state/local levels. Small businesses seeking contract opportunities as a result of the Recovery Act should visit [Recovery.gov](http://Recovery.gov), an online portal with links to Recovery Act informational pages on federal agencies' Web pages and their weekly update reports. At [Recovery.gov](http://Recovery.gov), small businesses can get an idea of the areas that federal agencies are targeting for Recovery Act contracts as well as opportunities at the state and local level. Federal agencies are expected to submit program specific Recovery Act plans with contracting opportunities for small businesses by May 1, 2009. Federal agencies will report contracts awarded using Recovery Act funding to the General Service Administration's Federal Procurement Data System-Next Generation (FPDS-NG) database, which is the government's official source for federal contracting data. Contracting data will also be available on [Recovery.gov](http://Recovery.gov).

**Q. How do small businesses learn about contracting opportunities at the state and local level under the Recovery Act?**

**A.** Although these will be federal dollars, they will in many cases be provided directly to the states and localities. The State and local governments, municipal utility and school districts will award contracts using their currently established procedures. Each State's recovery website can be reached through [Recovery.gov](http://Recovery.gov). The priority will be for projects that are "shovel/project ready," those that can be rolled-out quickly, putting individuals back to work. This means that small businesses must be "contract ready," i.e., registered/certified to do business with the State and local governmental entities which will most likely be the primary contracting agencies for these projects.

**Q. Is there a central location where federal contracting opportunities and requests for proposals are located?**

**A.** All federal government contracting opportunities over \$25,000 will be posted to FedBizOpps. Small businesses can access this site at: [www.fbo.gov](http://www.fbo.gov). They can also learn about possible subcontracting opportunities by the prime contractor (large or small) that receive the contract award. Small businesses can identify prime contractors for subcontracting opportunities through the Electronic Subcontracting Reporting System (eSRS) at [www.esrs.gov](http://www.esrs.gov).

**Q. Does the SBA offer other tools and services for small businesses seeking federal contracting opportunities?**

**A.** The SBA and its resource partners, including Small Business Development Centers, SCORE, Women's Business Centers and Veteran Outreach Centers can provide technical, financial and contracting assistance to small businesses. For more information on these organizations visit [www.sba.gov](http://www.sba.gov). Procurement Technical Assistance Centers, funded by the Department of Defense, are also good sources of procurement assistance. A listing of PTAC organizations is located at: [www.dla.mil/db/procurem.htm](http://www.dla.mil/db/procurem.htm). Some of the government contracting tools currently available to small businesses include a free online course, Business Opportunities: A Guide to Winning Federal Contracts, which is a self-paced guide and easy-to-follow training course that can be accessed by visiting [www.sba.gov/training](http://www.sba.gov/training), clicking on the menu of free online courses and selecting the first course listed under Government Contracting. Participants will receive a certificate of completion upon completing the 30-minute tutorial.

Other tools include a brochure entitled Opening Doors to Federal Government Contracting Opportunities available at [www.sba.gov/openingdoors](http://www.sba.gov/openingdoors) and three fact sheets – Federal Contracting Opportunities for HUBZone Entrepreneurs, Federal Contracting Opportunities for Women-Owned Small Businesses and Federal Contracting Opportunities for Service-Disabled Veteran-Owned Small Businesses available at: <http://www.sba.gov/tools/resourcelibrary/publications/index.html>.

Small businesses seeking contract opportunities can also contact the Office of Small Disadvantaged Business Utilization (OSDBU) in any of the procuring federal agencies. These offices assist small businesses with obtaining contracts and subcontracts with federal agencies and prime contractors. For a list of OSDBUs in the procuring federal agencies and their contact information, visit <http://www.osdbu.gov/offices.html>.

The Recovery Act provides entrepreneurs and lenders financial relief from the current economic crisis that will help encourage borrowing and lending to all small businesses, including start-ups. For small businesses, the Recovery Act temporarily eliminates SBA guaranteed 7(a) and 504 loan fees and offers tax benefits. For lenders, it temporarily eliminates 504 loan fees. The fee eliminations are retroactive to February 17, 2009, the day the Recovery Act was signed. Also under the Act, small businesses that need surety bonds to compete for construction and service contracts can qualify for SBA-backed surety bonds of up to \$5 million (and in some cases, \$10 million), more than double the previous \$2 million maximum. Visit [www.sba.gov/recovery](http://www.sba.gov/recovery) for more information on small business and the Recovery Act. ♦