

SBA TALKING POINTS
AMERICAN RECOVERY AND REINVESTMENT ACT
February 18, 2009

SBA Applauds the Economic Stimulus Plan

The American Recovery and Reinvestment Act will have a significant impact on small businesses and on the credit crunch, providing tax incentives and financing opportunities that will help them create jobs.

Declines in SBA lending volume last year, which are continuing in FY 2009, reflect problems in the broader credit markets, and present a significant hurdle to small business seeking credit. This tightening is due to a variety of factors, including a deteriorating economy, a lack of liquidity in the banking system, the reluctance of many lenders to extend new loans, weaker finances at small businesses, and uncertainty about taking on new debt on the part of many entrepreneurs.

The American Recovery and Reinvestment Act makes SBA part of the solution, providing it with specific tools to make it easier and less expensive for small businesses to get loans, give lenders new incentives to make more small business loans, and help unfreeze the secondary markets to boost liquidity in the credit markets.

There's a lot to digest in the legislation, and SBA has established teams to tackle a wide variety of policy decisions, system modifications, regulatory changes, legal requirements, reporting requirements, and new program launches authorized by the President and Congress.

More details on implementation will be coming over the next few weeks.

The bill provides \$730 million to SBA and makes changes to the agency's lending and investment programs so that they can reach more small businesses that need help. The funding includes:

- \$375 million for temporary fee reductions 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, enough to finance up to \$50 million in new lending and \$24 million in technical assistance grants to microlenders
- \$20 million for technology systems to streamline SBA's lending and oversight processes
- \$15 million for expanding SBA's Surety Bond Guarantee program
- \$25 million for staffing up to meet demands for new programs
- \$10 million for the Office of Inspector General

Reduced fees, 90 Percent Guarantee

The bill authorizes SBA to temporarily reduce or eliminate loan fees for borrowers and/or lenders in its 7(a) guaranteed loan program and the 504 Certified Development Company loan program. The bill also allows SBA to raise its loan guarantee from the current levels to as much as 90 percent. At present, SBA can guaranty non-Express loans up to 85 percent on loans up to \$150,000, and up to 75 percent on loans greater than \$150,000. These steps will make it less costly for small businesses to get SBA-backed loans from their lenders, and create incentives for lenders to make more small business loans by reducing their costs and their risks.

Microloans

The bill expands SBA's existing Microloan program, which provides loans in amounts up to \$35,000 for entrepreneurs who are generally not considered "bankable" by the traditional lending

community. The bill provides funding to increase loans from SBA to participating Microlenders by \$50 million through September 30, 2010, and to increase by \$24 million grants to those lenders, which use the funds to provide technical assistance to their borrowers.

Business Stabilization Loans

The bill authorizes SBA to establish a loan program to provide 100 percent guarantees on deferred-payment, loans to viable small businesses that have a qualifying small business loan and are experiencing immediate financial hardship. The loans can be up to \$35,000, and are to be used to make payments on an existing loan for up to six months. Repayment would not have to begin until 12 months after the loan is disbursed. The Act provides \$255 million for this new program.

Refinancing

The bill also gives SBA the power to use the 504 Certified Development Company program to refinance existing loans for fixed assets, providing fresh support for small business expansion.

Secondary Market Expansion

The bill authorizes SBA to establish a secondary market for pools of “first lien” loans under its 504 Certified Development Company loan program. These loans – strictly for specific projects involving fixed assets such as land, buildings, and machinery and equipment – typically involve a 10 percent down payment by the borrower, a 40 percent participation by SBA and a loan from a commercial lender for 50 percent of the project. The loan from the commercial lender has no SBA guarantee. This provision authorizes SBA to deploy federal guarantees for pools made of the non-federally guaranteed private sector lender portion of the project, so that they can be sold to investors in the secondary market.

The bill empowers SBA to set up a Secondary Market Lending Authority that would make direct loans to broker-dealers that participate in the secondary market for SBA-guaranteed loans. These broker-dealers would use the funds to purchase SBA-backed loans from commercial lenders, assemble them into pools and sell them to investors in the secondary loan market.

Venture Capital

The bill simplifies the maximum levels of funding the agency can provide to SBA-licensed Small Business Investment Companies (SBICs), setting it at up to three times the private capital raised by those companies, or \$150 million, whichever is less, except that when two or more SBICs are owned and controlled by the same investors, the amount can't be more than \$225 million. The maximums are higher for SBICs that pledge to invest more than half their dollars in businesses located in low-income areas. The bill also raises the percentage any one SBIC can invest in a single small business to 10 percent of total capital, and raises from 20 percent to 25 percent the percentage of dollar investments that must be made in “smaller” businesses.

Surety Bonds

The bill provides \$15 million for the Surety Bond Guarantees Revolving Fund, which supports SBA-backed surety bonds issued by private surety companies to small businesses, which need them in order bid on many contracts and ensure that they perform on contracts they win. The bill also raises the maximum bond amount to from \$2 million to \$5 million, and, under certain circumstances, for total work orders or contracts amounting to \$10 million.

Infrastructure

The bill provides \$20 million for improvements to its information technology systems.