

Op-Ed . . . Recovery Act

Recovery Act Gives SBA Tools to Boost Small Businesses

By Carlos G. Mendoza, Fresno District Director

The Administration is taking actions to make a big dent in the small business credit crunch by offering new incentives to small business borrowers and lenders through the American Recovery and Reinvestment Act and Department of Treasury actions.

With tax incentives and steps to encourage lending, the Recovery Act recognizes that small businesses are part of the solution to getting our economy moving again. The bill's primary goals for the U.S. Small Business Administration are jump-starting job creation, re-starting lending, and promoting investment in small businesses.

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 credits. For lenders, it temporarily eliminates 504 loan fees. The fee eliminations are retroactive to February 17, the day the Recovery Act was signed. SBA is developing a mechanism for refunding fees paid on loans since then.

The Act also supports guarantees of up to 90 percent on most types of 7(a) loans to qualified small businesses. The temporary loan fee eliminations and 90 percent guarantee provisions will apply to approximately \$8.7 billion in 7(a) loans and \$3.6 billion in 504 loans. SBA estimates this will cover lending in both programs through calendar year 2009.

In addition, the Treasury Department will commit up to \$15 billion in TARP funds to help unfreeze the small business lending market, which will particularly benefit community banks, credit unions and other small lenders. Treasury will purchase existing and new SBA-backed loans made by banks, freeing up more capital so these banks can restart SBA-backed lending to local small businesses. This is yet another step in President Obama's plan to assist small businesses during this economic crisis.

SBA staff is working hard to implement the rest of the Recovery Act's programs for small businesses. There are a lot of moving parts, but our aim is put these programs in place as quickly and effectively as we can so they have the broadest and most rapid effect possible on small business credit markets.

The Act provides SBA with \$730 million in total funding. This includes \$375 million to cover the costs of temporarily eliminating loan fees and raising guarantee limits on some loans; extra funding for SBA-backed Microlenders; and \$255 million for a new loan

program to help viable small businesses with immediate economic hardship make payments on existing loans.

The Recovery Act also authorizes SBA to use its 504 program to refinance existing loans for fixed assets as part of a business expansion project; to use its guarantee authority to establish a secondary market for bank loans made under the 504 loan program; and to make loans to broker-dealers who buy SBA-backed loans from lenders and pool them for sale to investors on the secondary loan market.

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, more than double the previous \$2 million maximum.

Another element of the Recovery Act that is already in place is SBA's Microloan program. These non-profit, community-based lenders make loans of up to \$35,000 to small businesses and start-ups. Because this program is already operating, you can go to a Microlender today and apply for a loan. The Act funds \$50 million in new loans by these Microlenders, plus \$24 million to help pay for the technical assistance and training they provide to loan applicants.

We have already seen significant interest in a new program, America's Recovery Capital, or ARC Stabilization Loans, by lenders and small businesses alike. Once in place, this temporary new program will offer deferred-payment loans of up to \$35,000 to viable small businesses that need help making payments on an existing, qualifying loan for up to six months. These loans will be 100 percent guaranteed by SBA. Repayment would not have to begin until 12 months after the loan is fully disbursed, giving small businesses time to re-focus their business plans in order to succeed in the long run.

The bill helps SBA-licensed Small Business Investment Companies by raising the level of SBA funding they can receive to make venture capital investments in small businesses. It also raises the percentage of their investments that must be made in smaller businesses from 20 percent to 25 percent.

Finally, I want to emphasize that all of SBA's existing programs are open for business – we are backing loans, and providing technical assistance, training, and contract help to entrepreneurs every day.

In short, SBA is working overtime to get these provisions in place to begin knocking down the obstacles that are keeping credit from flowing to small business entrepreneurs, whose proven ability to create new jobs and commerce is second to none, and in whose hands the next phase of our economic recovery rests.

For additional information please contact the SBA at (559) 487-5791.

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