

Small Business Administration
American Recovery Reinvestment Act
Interview with Eric Zarnikow

Ron Johnson: How does a small business owner get needed financing in troubled economic times? The U.S. Small Business Administration's Business Loan Program has new features to help entrepreneurs. Hi, I'm Ron Johnson with SBA, your small business resource, and with me is Eric Zarnikow. He's SBA's associate administrator for capital access here to discuss how the American Recovery Reinvestment Act benefits small businesses.

It's great to have you with us, Eric.

Eric Zarnikow: Thanks, Ron. It's great to be here.

Ron Johnson: Tell us, what is SBA's role in helping American small businesses recover in tough economic times?

Eric Zarnikow: The SBA has a very important role in helping small businesses. One of our main missions is to expand access to capital for small businesses, making it easier for them to get loans, to start, or expand, or grow a small business. And our role really is to expand the amount of capital that is available to small businesses by taking some of the risk away from the banks through a partial government guarantee.

In addition, we also have great resource partners where small businesses could get counseling, what goes into running a small business, making sure that being an entrepreneur is really for them. And we also have a lot of great online resource tools that are available for people as well on our website at www.sba.gov.

Ron Johnson: Now can I qualify for a loan if I'm just starting a business?

Eric Zarnikow: You know, one of the things SBA does, and a lot of our partial government guarantees actually go to support a start up business. So SBA loan programs are available for both start up businesses as well as established businesses. The business does need to be organized for profit. It needs to meet our size standards, and it needs to be a small business. And we're really focused on helping access to capital for businesses that can't get capital through conventional lending channels, so we're actually broadening the access to capital for small businesses. In the end, it needs to be a creditworthy small business. You'll need to work with a lending partner as part of getting a loan that's backed by the SBA, but there are resources that are available to people who are just starting a business.

Ron Johnson: What changes has SBA made in its loan programs to ease the money crunch for small businesses?

Eric Zarnikow: There's really several important changes that have been implemented as part of the Recovery Act. First, we've eliminated some of the fees. Our 7-A and 504 loan programs, these are fees that borrowers would normally pay on loans that they get under the program, so it's lowered the cost for a borrower. In addition, in certain loans in our 7-A program, we're providing a 90 percent guarantee, which is up from the normal 75 to 85 percent guarantee. In addition, we've also taken a step to working with the Treasury Department to unfreeze the secondary market for SBA loans, and you might ask why is that important. It's important because about 40 percent of the SBA guaranteed portion of loans each year are sold onto a secondary market, which provides a certain source of cash for banks to be able to make new loans. So by unfreezing the secondary market, it expands access to capital for small businesses.

Ron Johnson: What does the 90 percent guarantee mean to the small business owner who needs a loan?

Eric Zarnikow: You know what? The 90 percent guarantee means is that you're more likely to get the loan. As I mentioned, we provide a partial government guarantee of a loan

that's made by a bank, a credit union, small business lending corporation, or certified development company. And in today's environment, there's a lot of concern by banks about taking risk. The economy's in a recession. Times are tougher. We've seen that banks have tightened credit standards. But by providing a 90 percent guarantee, it reduces the risk that the lender is taking and makes it more likely that they'll make the loan. So it's providing additional access to capital for small businesses.

Ron Johnson: Let's say a small business needs an SBA-guaranteed loan. On a typical loan, how much can it save in reduced or eliminated fees?

Eric Zarnikow: An example of that would be for a \$300,000 loan with a 90 percent guarantee. The normal guarantee fee would be three percent, so the elimination or temporary elimination of the fees would save about \$8,100.

Ron Johnson: Eric, what is the maximum amount that can be bought?

Eric Zarnikow: Well, for our 7-A loan program, the maximum loan amount is \$2 million. Under our 504 program, the maximum portion that SBA guarantees is four million dollars, which supports a \$10 million total project size. I should also mention that we also have a surety bond guarantee program for

both small businesses that need to put up a surety bond in connection with a contract performance bond; we provide a partial government guarantee to a surety company. And as part of the Recovery Act, the amount of the surety bond that we can guarantee was increased from two million dollars to five million dollars, and in certain cases can be up to as much \$10 million.

Ron Johnson: Eric, a very common question. What types of small businesses typically get SBA loans?

Eric Zarnikow: A lot of the small businesses that we support are people who are looking to grow, or start, or expand a small business. And our loans more frequently go to under served markets, so a much greater percentage of SBA-backed loans go to businesses that might be owned by a minority, or a woman, or a business located in an area with lower income or higher unemployment. We're very proud of the track record that we have in helping under served markets.

As far as the types of businesses that get SBA loans, the major industries for 2008, for example, would have been services, retail trade, accommodation, food service, construction, and manufacturing.

Ron Johnson: Now, Eric, do you suggest that I go to my local lender in my area to take advantage of these new programs?

Eric Zarnikow: That's the best advice I would give a small business because we actually work through lending partners. I mentioned that we provide a partial government guarantee of a loan that's made by a bank or credit union or a small business lending corporation. So we'd recommend that you go to one of our local partners, and you can access those by going to our website at www.sba.gov and click on the button for "local resources," which will bring you to our district office, which would have a list of SBA lenders in your area.

Ron Johnson: It sounds like you have the financial aspects nailed down, but what else can the SBA do to help small businesses?

Eric Zarnikow: SBA has resource partners around the country through our Small Business Development Centers, Women's Business Centers, and our SCORE partners where small businesses can get counseling, training. Generally these are free, and they provide a lot of great resources for people who are looking at either thinking about starting a small business to make sure they really have the right skill sets and the personality to be a small business owner, or need some help in putting together a business plan or putting together a loan package. We also have a lot of great assistance on our website, and I've mentioned the website address. We have templates that

small businesses can use in developing a business plan, or putting together a loan package, or we have a number of online courses as well.

Ron Johnson: Owning your own business is part of the great American Dream. SBA's programs and services can help make that dream come true. For more information, visit the SBA website at www.sba.gov.

I would like to thank our guest, Eric Zarnikow, from SBA's Office of Capital Access, for sharing this information and changes to SBA's loan programs under the American Recovery and Reinvestment Act of 2009. Until next time, this is Ron Johnson from SBA, your small business resource.

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