



# SBLC WEEKLY

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## **SBA AND THE STIMULUS LAW**

Here at SBLC, we do not spend too much time talking about Small Business Administration (SBA) programs. Our two favorite programs are the Office of Advocacy and the Small Business Development Centers as they are programs that deliver meaningful help to a broad spectrum of the small business community. Generally, not many small businesses find the lending programs to be particularly attractive - if there are any other alternatives. However, in these economic times, we cannot afford to leave stones unturned. The recently signed American Recovery and Reinvestment Act provides some more dollars to various SBA loan and investment programs with some specific targeted direction on how to use those funds to make those programs more relevant in these economic times. The "news" is more inside the beltway-ish but provide some insights into what small businesses might expect in the next few months that might warrant a second look at a SBA program. We suggest you go the SBA site ([www.sba.gov](http://www.sba.gov)) for more detailed information on the basic programs (e.g. 7(a) and 504 lending) themselves.

**SBA Loan programs – 7(a) and 504 programs –Fee Reductions:** The law allocates \$375 million to allow for temporary elimination of or reductions in the fees the SBA charges to lenders and borrowers in the 7(a) and 504 loan programs. When determining the amount and structure of the waivers/reductions, The SBA is supposed to give borrowers and smaller banks priority in receiving fee relief.

**Temporary Increase in SBA Guarantee Levels:** The law allows the SBA to – on a

case-by-case basis – temporarily raise the guarantee level (up to 90 percent) for 7(a) loans, other than loans made through the SBA Express program. Currently, the maximum guarantee levels are 75 percent for loans over \$150,000, and 85 percent for loans of \$150,000 or less.

**Business Stabilization Program:** The law will help banks provide relatively small, short-term loans to small business borrowers experiencing immediate financial hardship. Specifically, the new program will temporarily allow the SBA to (i) fully guarantee "stabilization" loans that cannot exceed \$35,000, and (ii) fully subsidize a small business borrower's interest payment on the stabilization loan. A borrower does not have to begin repaying the stabilization loan until 12 months after receiving it, and the loan must be paid in full within 5 years.

**Microloans:** The law appropriates \$30 million for the SBA's microloan program, with \$24 million dedicated to microloan technical assistance and \$6 million for new microloans. The microloan program provides very small loans to qualifying micro-businesses (typically businesses with less than 10 employees) by making funds available to non-profit, community-based lenders – called intermediaries – which, in turn, make loans to eligible micro-borrowers in amounts up to \$35,000. Borrowers are also provided with corresponding technical assistance to ensure that the loan proceeds are used effectively.

**SBA Secondary Market Stimulus:** Many SBA lenders – in both the 504 and 7(a) programs – rely on a secondary market for SBA loans. These lenders sell a portion of the SBA loans they have already made to

broker-dealers. The broker-dealers, in turn, pool the loans and sell them to investors in the secondary market. The secondary markets for SBA loans have frozen. The law permits the SBA to make loans to broker-dealers. These loans would then be used by the broker-dealers to finance the purchase of additional SBA loans from banks. Another provision in the law will help unfreeze the secondary market for "first lien" loans in the 504 program by guaranteeing pools of these loans.

**Small Business Venture Capital Stimulus:** The law simplifies the formula used to determine the maximum amount of SBA financing ("leverage") available to Small Business Investment Company (SBICs). Among other improvements to the SBIC program, the law also makes "transition" leverage available to commonly-controlled SBICs, which will allow successful SBICs to operate a second or third fund, while maintaining the safeguards necessary to mitigate the SBA's risk in the investment.

**Surety Bond Stimulus:** The law temporarily increases the SBA's guarantee limit from \$2 million to \$5 million, and it appropriates an additional \$15 million for the SBA's surety bond revolving fund.

## **BUDGET**

The President will speak to Congress on Tuesday. Budgetary issues, short and long term, will begin to occupy our time. Congress' budget process, and specifically, reconciliation, has been used in the past to try to move items such as estate tax reform through the legislative process. Some rumors are swirling that the same process could be used to move some items we may not like. We are trying to get a handle on it. Stay tuned.