

**Provisions of the
American Recovery and Reinvestment Act
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My name is Witmer Jones; I'm the District Director for the U.S. Small Business Administration. We're a federal agency that provides a variety of services and assistance to small businesses.

I'm here to speak to you about the provisions of the American Recovery and Reinvestment Act of 2009, which I will refer to going forward as the Recovery Act.

First, before I talk about the Recovery Act, I need to talk about some things that the SBA is not. The SBA does not make grants to small businesses; the SBA also does not make direct loans to small businesses except in times of a natural disaster. In addition the SBA cannot finance investment real estate, we do become involved through our loan guarantees in financing real estate that an eligible small business has to occupy at least 51% of the total square footage.

Now, on to the Recovery Act, there are a number of provisions in this Act that change how small businesses can access capital. Some of these provisions are operational right now and some of the rules are still being written.

The first and probably the most important is that the SBA can now guarantee 90% of the risk on a loan. By taking 90% of the risk on the loan, this enables your lending institution to make a loan that you would otherwise not receive. Prior to the passing of this Act our guarantees ranged from 75% to 85%. I'll give you an example of how this helps you; if a business were seeking a half million-dollar loan under our old rules, we would have guaranteed 75% of that loan. That means the bank would have been at risk for \$125,000 in these tough economic times. \$125,000 in most cases may be more than the lender is willing to take in terms risk. With these changes, if you seek a loan for a half million dollars right now, the lender will be at risk for \$50,000. That is a significant change in exposure for the ability of your bank or lending institution to make your loan. Additionally, we want small businesses to keep as much of the loan proceeds as possible so that they can use it to build their business.

We are now, temporarily, as part of this Act, suspending our fees. Prior to this, we were fully funded by user fees, which meant that on a half million-dollar loan, the business would pay \$11,250. Now, there will be no fee.

The next significant changes are to the secondary market; the guarantee on an SBA loan can be used so the loan can be sold by the lending institution. With these economic times, the secondary market has dried up. Your bank, or other participating lenders,

could no longer sell the loan to get the capital back so they could relend it. Even for credit worthy businesses, the secondary market availability of capital ceased.

Right now, Treasury has two different provisions that are being used to free up the secondary market. The SBA has received authority to make loans to broker dealers to buy pools of loans so that soon, the secondary market will be flowing. This means that your lender can make loans and then sell them and get the money back to relend.

One of our most popular programs is the 504 program, business real estate, for owner occupied real estate and heavy equipment. Again, we want to see businesses make use of this program, so that the fees are substantially reduced. How the program works, the bank makes a first mortgage for half the cost of the project and the SBA guarantees 100% of the second mortgage, while the business typically puts in 10%. Up until now, there has been no secondary market for the first mortgage. What that means is the bank has to have adequate capital, and even credits worthy deals were being turned down. So we are now starting a new secondary market for pools of banks' first mortgages. Small businesses will be able to access capital for the 504 programs. Because their local bank will be able to get money back and relend it.

Another program the SBA has is called Micro-Loans, which is not to be mixed-up with micro-credit New Hampshire. Micro-loans is a program where the SBA makes a large loan to a non-profit intermediary lender. In this case, here in New Hampshire, the Northern Community Investment Corporation, out of their Plymouth office, lends micro-loans go up to \$35,000. They are for credit worthy businesses that have not shown that they're bankable. Under this program, as part of the Act, we're making additional sums of money available to the micro-lenders so that a small business that gets turned down by their bank will have another opportunity as long as it makes a case for payment ability to borrow up to \$35,000.

The next provision of the Recovery Act that is a particular interest to businesses is a new program called American Recovery Capital (abbreviated ARC). The program makes a loan through a bank with an SBA guarantee of 100% so the bank will have no risk up to \$35,000. Those loans are designed to allow viable, struggling businesses to make loan payments for up to six months, or \$35,000, whichever is less. There will be no fees on this program and no interest charged to small businesses. The Small Business Administration will pay the interest on such loans. These loans will have no payments for the first twelve months, and will be paid off over the next four years, with a total maturity of five years. Again, no payments the first year, and no interest payments.

There are some other provisions of the Recovery Act. There is a program called the Small Business Investment Companies, for venture capital groups. There is money to help fund these groups so that companies that qualify for venture capital may have greater access to such funds.

How do you find out more about the Recovery Act? If you have access to the Internet, go to www.sba.gov/recovery, which will have all the up-to-date information on the Recovery Act. For general information on the Small Business Administration programs here in New Hampshire and for a list of participating lending institutions you can go to

www.sba.gov/nh. And for general information on all SBA programs including online courses, just go to www.sba.gov. In addition, if you do not have access to the Internet or cannot find your questions answered on the Internet sites, you may call our office any time at 603-225-1400.

While not part of the Recovery Act, the SBA has some very important services that you should be aware of and make use of as you get your business plan together to seek financing. That is what our resource partners provide for management assistance. We have three resource partners; the Women's Business Center, the Small Business Development Center, and Score. All three of these organizations provide free or low-cost business counseling, and you should really make use of this to restructure your business and make sure your business plan is up to date for when you approach your lending institution. Those are the provisions of the Recovery Act, and again, you can get those provisions by going to www.sba.gov/recovery. Again, if you need to call our office with any questions on small business assistance the number is 603-225-1400. Thank you.