

## Summer 2009

### Update on SBA Resources: Are They Right for Your Business Needs?

As of mid-June, 2009, the U.S. Small Business Administration began accepting loan guarantee applications as part of America's Recovery Capital (ARC). This act has been authorized by Congress to provide up to \$35,000 to small businesses that need immediate cash to ride out the recession.

As a debt-relief vehicle for small businesses became available in mid-June, some experts feared banks would limit participation due to excessive paperwork on the risk-free, but skimpy, loans. But, the SBA is promising turnaround times of five to 10 days for loans that originate from an existing SBA lender. Anticipate longer turnaround times from lenders that don't frequently

It is reported that banks are not happy about making loans under the program due to the significant paperwork requirements - the boilerplate form is 50 pages long - but the SBA responds that this attitude is "short-sighted". The SBA's lead administrator suggests that the small businesses who survive the recession on the loyal, profitable customers that banks wants, not to mention that these businesses help to fuel the economic recovery.

Eric Zarnikow, SBA's associate administrator for capital access who is working with the ARC program says, "We've reduced the lender's risk and we're refinancing the expenses for borrowers. We think this program will really help lenders maintain their relationships with small businesses."

Under the ARC Act, the SBA has received \$730 million in additional funding, with more than a third of that amount earmarked for ARC loans. The balance is to be used to cut lending fees across an array of SBA programs and improve its ability to process applications. The SBA will also pick up interest on its loans as well as reducing fees for loans originated under SBA guarantees.

The special SBA-sponsored program is to be offered through September 2010 - or until program funds run dry. A small business can only access this fund one time. The SBA is reportedly backing 100 percent of loans disbursed by banks as well as allowing for a great deal of latitude for how the loans are applied. Loans may be use for the payment of mortgages, home-equity lines and/or credit card debt if the loans are used for business purposes.

These SBA-backed loans are exclusively limited to viable, for-profit businesses experiencing hardship and that demonstrated positive cash flow in 2008 or 2007. These business concerns can be no more than 60 days overdue on any loan being repaid under the program.

The SBA allows local lenders to determine if a "state of hardship" exists, to include negative 20-percent swings in sales or business expenses, along with these financial hallmarks:

- a supplier going out of business;
- frozen credit lines;
- difficulty making loan payments;
- inability to restructure debt;
- difficulty meeting payroll;