

# Overview of SBA Economic Development Programs and the Impact of the Recovery Act



April 21, 2010



# Overview of Recovery Act: Goals

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## **1. Restore Access to Capital for Small Businesses:**

Increase Lending across SBA Loan Programs  
Restore Healthy Secondary Markets

## **2. Support Vulnerable Businesses:**

Provide America's Recovery Capital (ARC)  
Loans  
Expand Micro Lending

## **3. Facilitate Recovery Opportunities:**

Surety Bond Guarantees  
Small Business Contracting Opportunities



# Stimulus Bill Changes

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## Program Changes

7(a) and 504 Fee Reductions—eliminated borrower guaranty fees in 7(a) and borrower application fee and third party lender fee in 504

7(a) 90% Guarantees—increased 75% and 85% guarantees to 90%

Expanded Micro Loans

504 loans may now have a refinancing component

Surety Bond Program Changes—higher bond limit in certain circumstances

## New Programs

America's Recovery Capital Loans (ARC Loans)

Secondary Market for 504 First Mortgages

Secondary Market Lending Authority to make emergency loans to broker dealers if credit market seize up again

- **Creation or retention of small business jobs:**  
From Feb. 17, 2009 to the present, small businesses are reporting that Recovery Act-backed 7(a) and 504 loans will help them create or retain over 610,000 jobs, including over 183,000 new jobs.
- In addition, small businesses report that Non Recovery Act-backed loans approved during the same period are helping them to create or retain over 32,000 jobs.

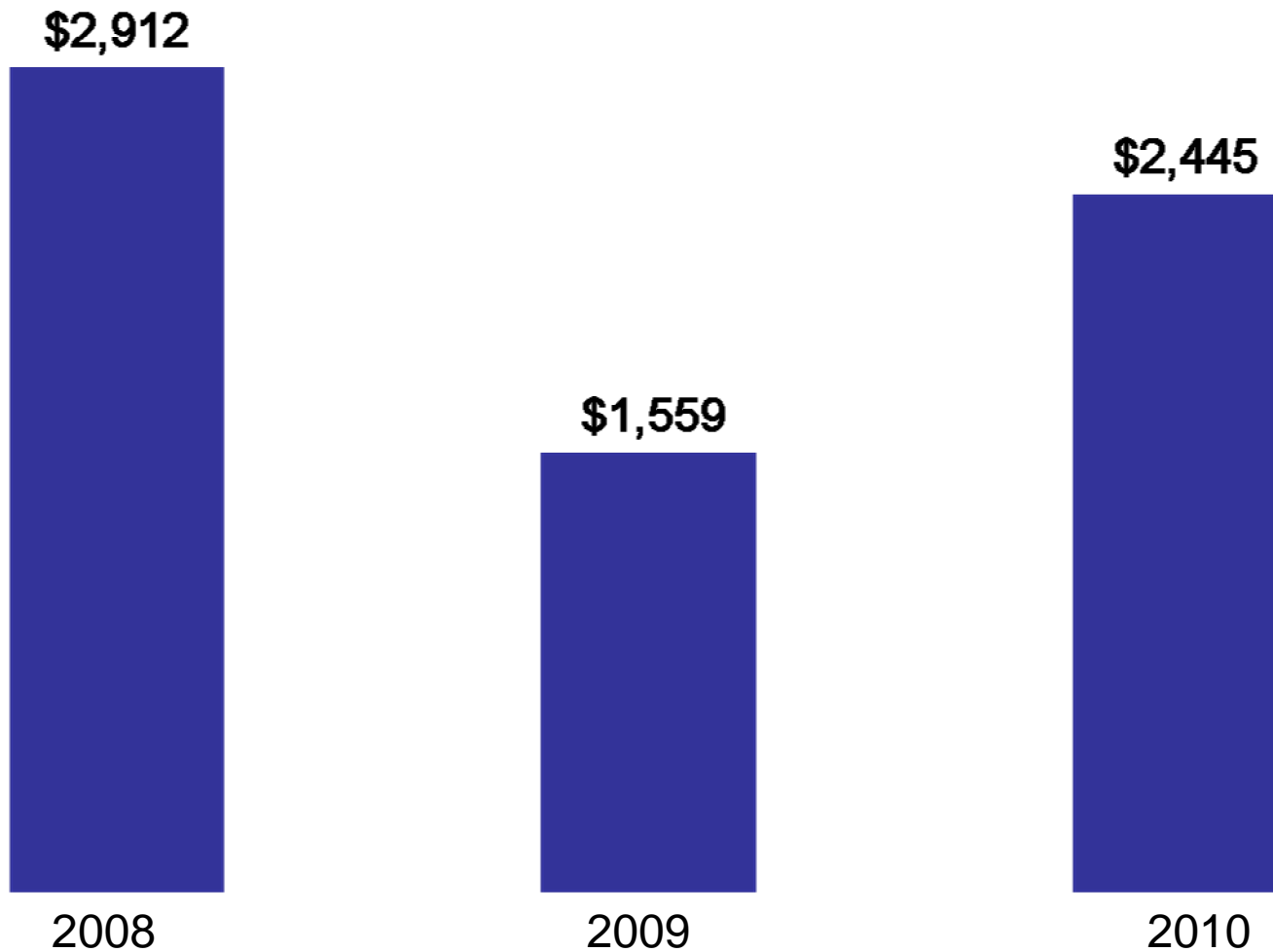


## Recovery Highlights

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- **Significantly increased loan activity:** As of March 31, SBA approved over \$22 billion in loans with Recovery Act provisions, and supported more than \$25 billion in lending to small businesses.
- Year to date 7(a) production is up over 100% compared to FY2009 and 504 production is up 56% over the same period.

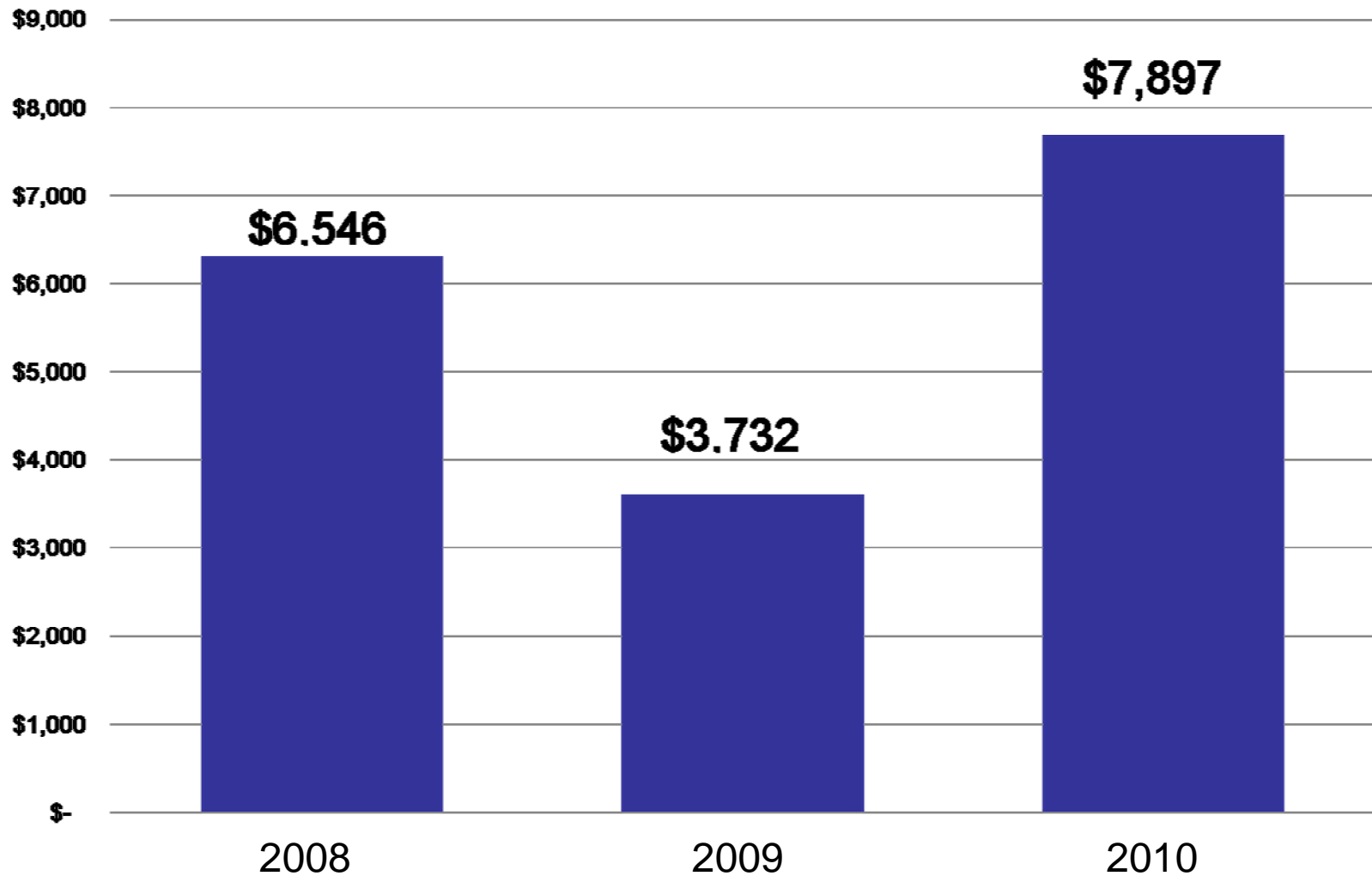
## 504 Production in \$'s as of 4/9





# 7(a) HAS DOUBLED YTD

## 7(a) production in thousands





# Recovery Highlights

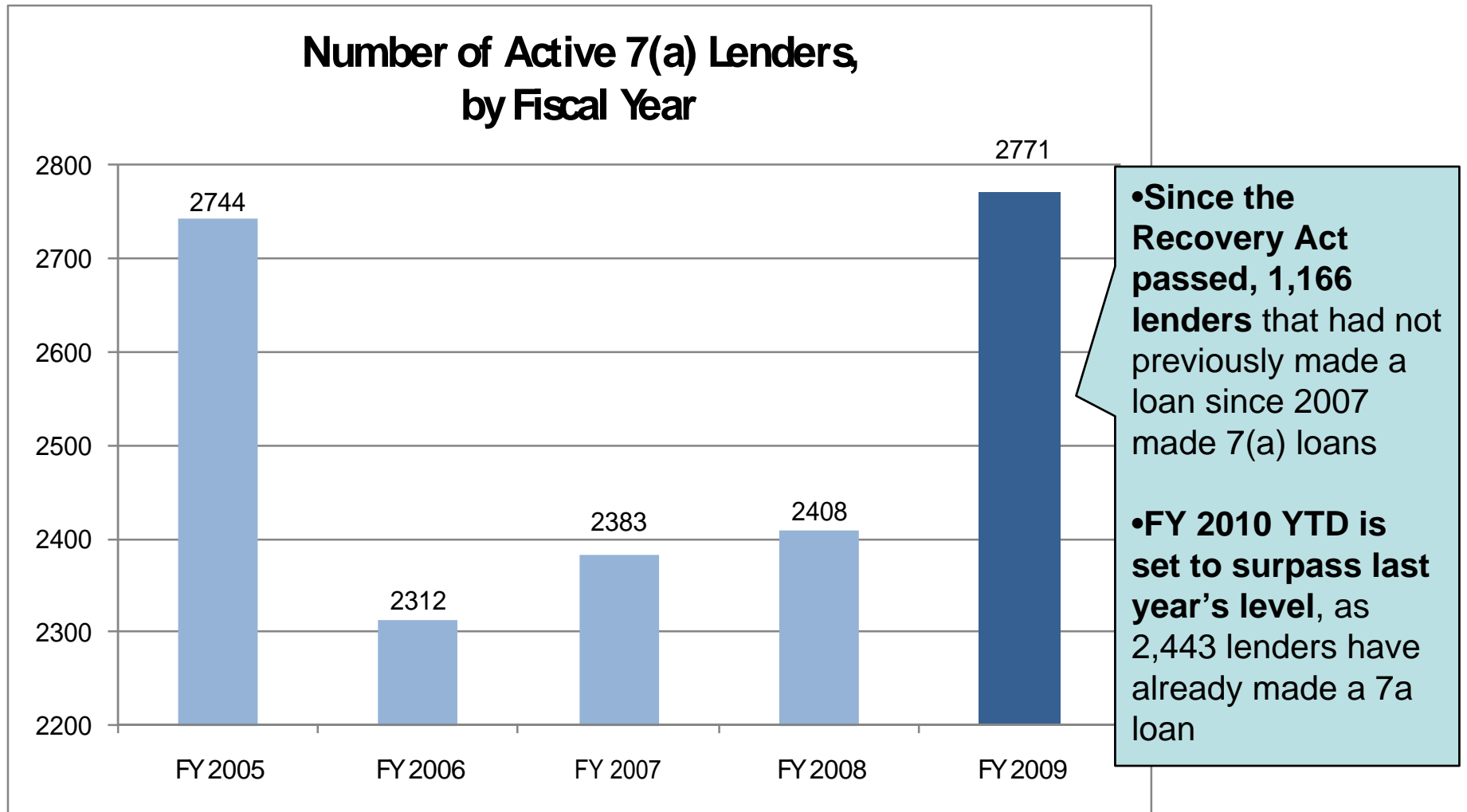
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- **Lenders joining or returning to the programs:**
  - From Feb. 17, 2009 to the present, over 1,166 lenders that had not previously made a loan since at least 2007 made a 7(a) loan.





## 7(a) Lender participation has grown, signaling greater partnership opportunities for CDCs





## Funding for Fee Reduction and 90% Guaranty

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### Funding History

\$375 million covering loans through late November

\$125 million covering loans from late December to late February

\$60 million covering loans through most of March

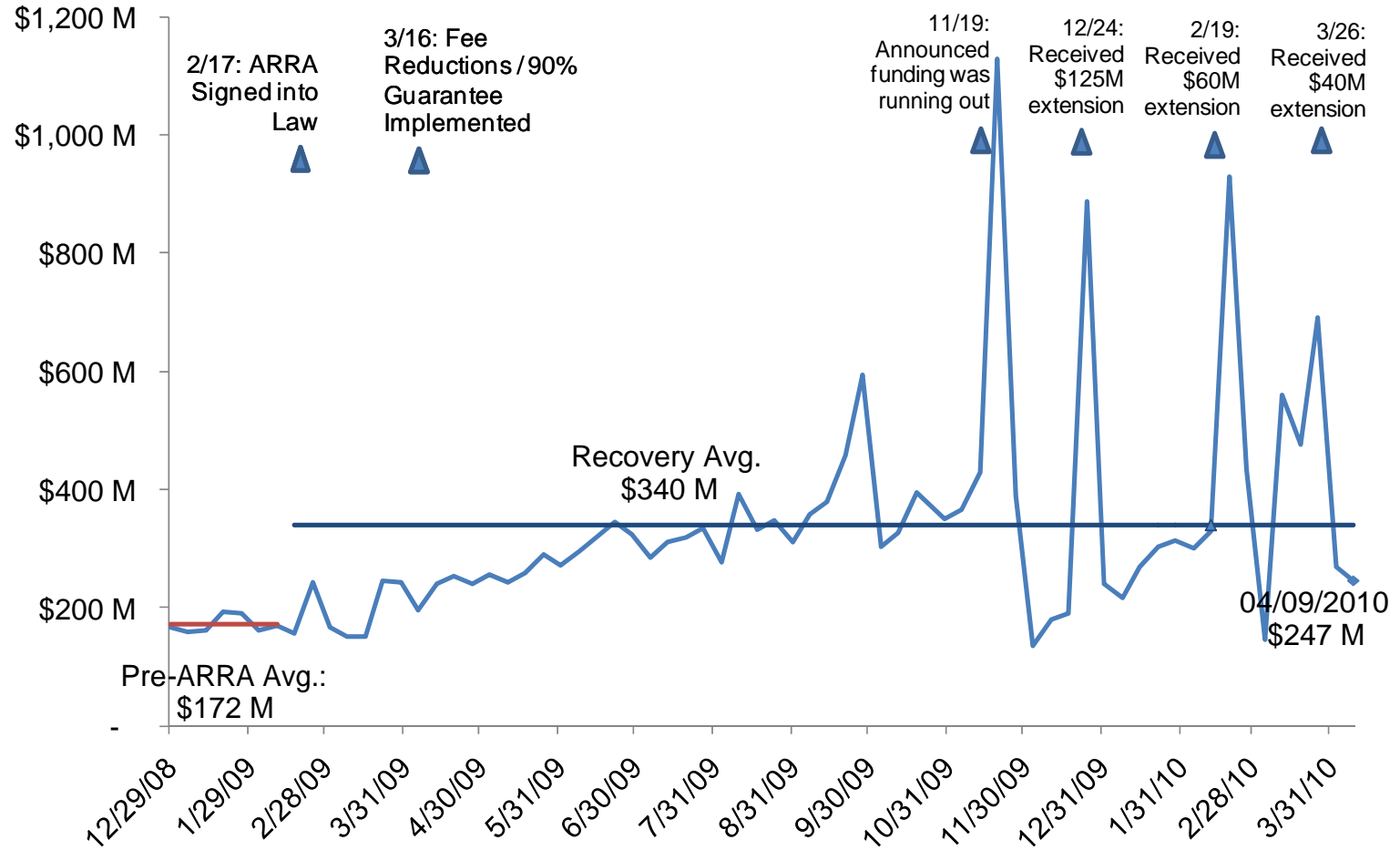
\$40 million covering loans through mid April

\$80 million (passed 4/15) intended to last through May 31

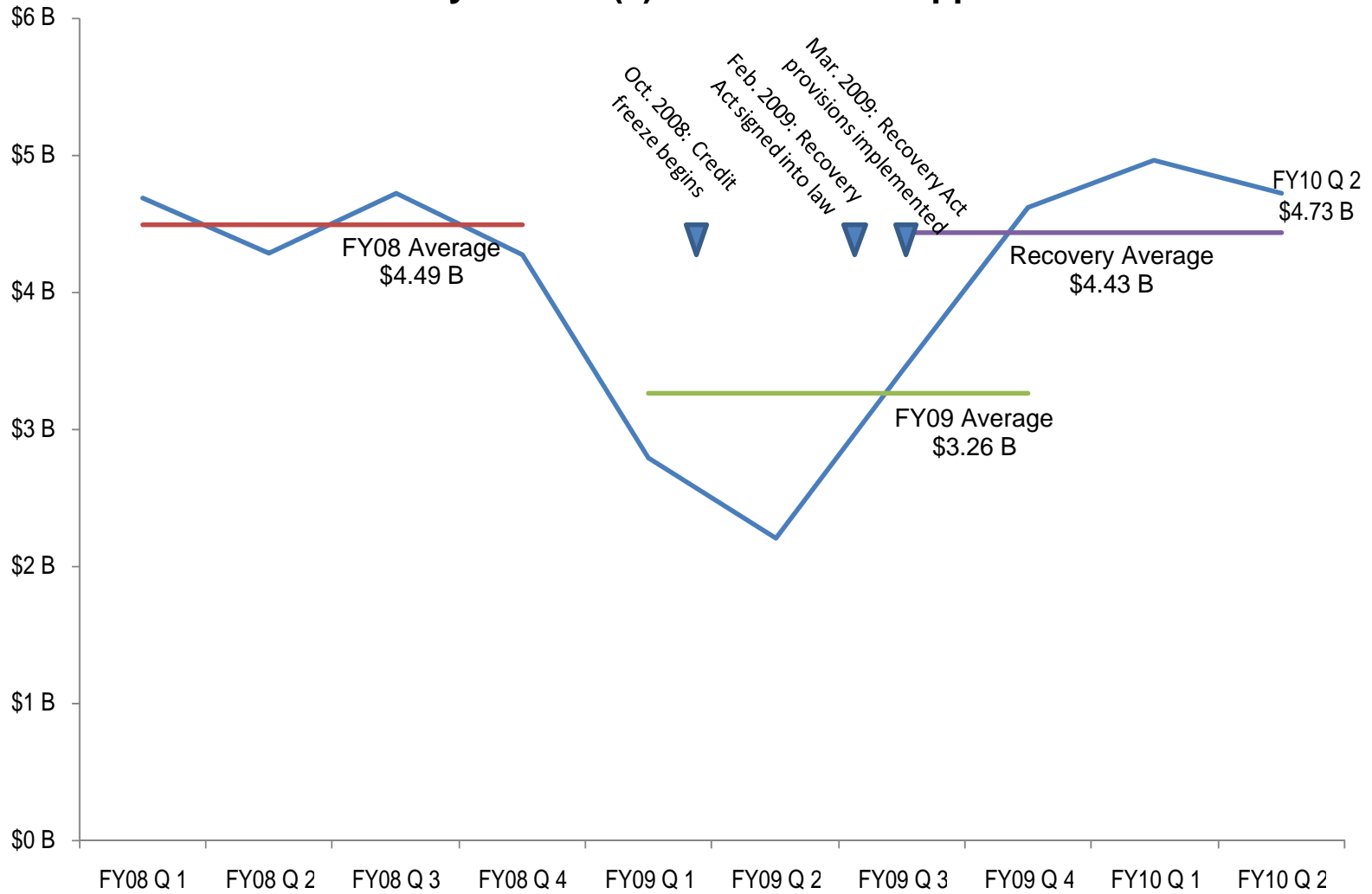


## Weekly 7(a) and 504 Loan Volume: As of April 9, 2010

**Weekly 7(a) and 504 Loan Volume**  
Normalized, \$ Million



## Quarterly Gross 7(a) and 504 Loan Approvals



# The Queue

- Designed to give applicants the information necessary to make a decision whether to go forward or wait to see if additional funding is provided.
- Was turned on and off as funding was received.
- Provided SBA with a FIFO tracking system, so applications could be funded efficiently when funding was received.
- Has been compared to the wait list for standby seats at the airport—at least you know where you are on the list.



## Recovery Highlights—ARC Loans

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- **SBA implemented the ARC loan program:** As of April 9, 2010 SBA approved 7,000 loans totaling \$229 Million were made by 1,229 lenders in all 50 states.



## 7a SECONDARY MARKET RECOVERY

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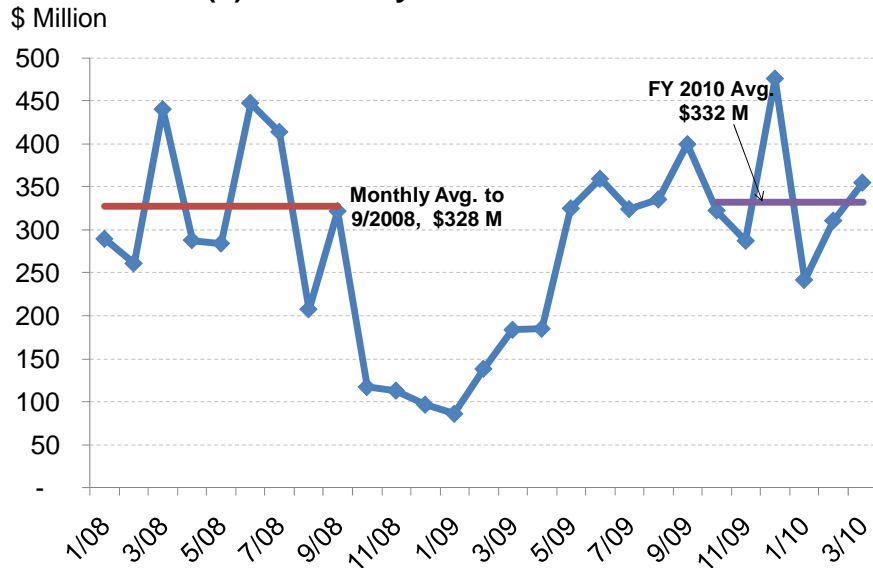
- The secondary market has recovered.
  - **Improved secondary market volume:** Over the past ten months (June 2009 – March 2010), the average monthly loan volume settled from lenders to broker-dealers in the 7(a) secondary market has been \$340 million and \$354 million settled in March 2010.
  - **Recovering premiums:** In March, 87% of the loans settled, representing 82% of total dollars, were sold at or above premiums of 106 – a return to 2007 premium levels. By comparison, in January and February 2009, zero loans sold at premiums above 106.



# Monthly Secondary Market Metrics: March 31, 2010

## Volume

7(a) Secondary Market Settled Value

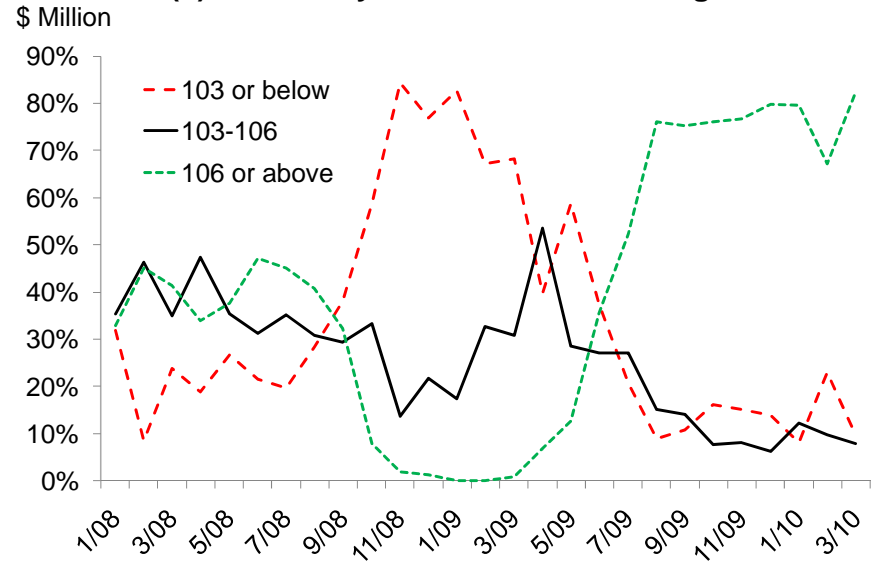


*Recovery Continuing:* Over the past ten months, the average monthly loan volume settled from lenders to broker-dealers in the 7(a) secondary market has been \$340 million, which is above pre-recession averages.

In March 2010, \$354 million settled in this market.

## Pricing

7(a) Secondary Market Premium Ranges



*Premiums Recovering:* Premiums have begun to recover in the 7(a) secondary market, and for the past 7 months have been at 2007 levels.





## Recovery Highlights--Secondary Market

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The Treasury Department recently executed a purchase of loans to test the backstop system developed in case of a market freeze. The purchase went well. If there is a return to the credit lock up, the Treasury program is ready to help.



## Other Actions Taken

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### **Alternate Size Standards**

Announced in May of 2009

#### **Temporarily amends size criteria for 7(a) program:**

A small business can qualify in one of two ways:

1. Falls below normal size standard, or
2. Has less than \$8.5 Million in net worth, and averages post-tax net income of less than \$3 Million (for past two years). Consistent with Certified Development Company (CDC) Program.

#### **Impact:**

Expands number of small businesses eligible for SBA loans, estimated up to 70,000 additional businesses.

Improves access to capital across all industries, but particularly relevant for auto industry (dealerships, suppliers, etc).



## The Administration has made several proposals to further support small business

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### Extend the Recovery Act Provisions

**Increased guarantees and reduced fees**, continuing these highly successful incentives to increase small business lending.

### Larger Loan Limits

**Permanently increase the cap on 7(a), 504 and microloans** to provide support to a wider array of small businesses.

- Increase 7(a) loans to \$5 Million

- Increase 504 loans from \$2 Million to \$5 Million, and from \$4 Million to \$5.5 Million for manufacturers

### Commercial Real Estate Refinancing

**Temporarily allow eligible commercial real estate mortgages to be refinanced into SBA 504 loans** to help small businesses avoid foreclosure and save jobs



# International Trade Goal

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- The President has set a goal of doubling international trade in the next 5 years.
- There are presently about 250,000 small businesses that export to at least one country.
- SBA will be working with exporters to encourage those that export to one country to increase that to two countries. This will increase American exports and the sales of these small exporters.



# SBA Export Assistance Programs

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- The mission of SBA's Office of International Trade is to
  - enhance the ability of small businesses to compete in the global marketplace;
  - facilitate access to capital to support international trade;
  - ensure that the interests of small business are considered and reflected in trade negotiations;
  - and support and contribute to the U.S. Government's international agenda.
  
- The SBA delivers its export loan program through a network of International Credit Officers located in [U.S. Export Assistance Centers](#) throughout the country. These specialists are available to explain SBA's export lending programs, the application process and to guide exporters in selecting appropriate payment methods. They can also link companies to specialists for increasing export sales and managing foreign payment risk.
  
- SBA offers a 90% guaranty to lenders that make Export Working Capital Loans to small business exporters.



# Small Business Lending Fund

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- Being Developed by the Treasury Department
- Banks would be able to borrow money from the Treasury at a dividend rate as low as 1% if they use the cash to make more small business loans this year than they did in 2009.
- Proposal would ask Congress for a separate lending facility that is not affiliated with TARP.
- Banks with less than \$1 billion in assets would be able to receive capital infusions of up to 5% of their assets--Banks with assets of \$1 billion to \$10 billion would be eligible to access investments totaling 3% of assets.
- The dividend rate for the capital would start at 5% and decrease as the bank increased its small business lending. The bank has five years to pay Treasury, allowing the bank to pay the Treasury back gradually.
- More than 8,000 of the country's 8,400 banks would be eligible to participate under these terms, according to government estimates.



# 504 First Mortgage Guaranty Program

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Developing a pooling program for 504 first mortgages

Program is temporary—designed to replace the private market that disappeared during the credit market freeze

Pool originators will form pools of first mortgages:

- 80% of the first mortgage can be sold to the pool
- 15% must be retained by the originating lender
- 5% must be retained by the pool originator

Pool will have a full faith and credit and timely payment guaranty from SBA—not the underlying loan.

Pools will be structured as pass through pools.

The pools will have a WAC and will pay as long as any of the underlying loans are outstanding.



# 504 First Mortgage Guaranty Program

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Pool Originators are approved by SBA. Existing 7(a) pool assemblers are grandfathered in—but they must send a letter letting us know they want to be a pool originator.

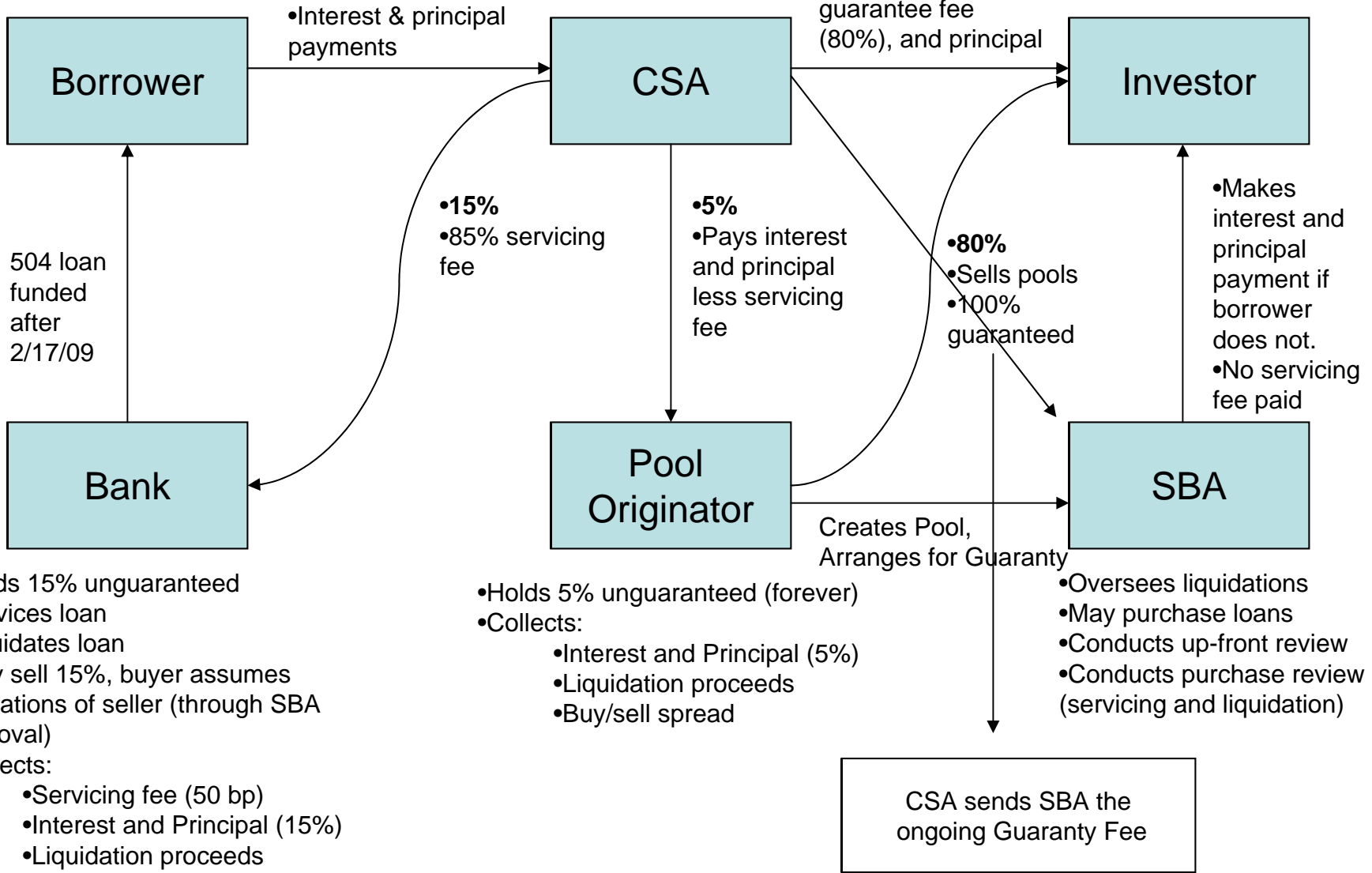
A lender can be a pool originator and hold 20% of a first mortgage and pool the remaining 80%.

There is an ongoing guaranty fee of 16.7 basis points that will be used to cover program losses.



# 504 Pooling Cash Flow

•Interest, less servicing and guarantee fee (80%), and principal





## SBA Contracting Assistance Programs

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- HUBZone program—the mission to promote job growth, capital investment, and economic development to historically underutilized business zones, referred to as HUBZones, by providing contracting assistance to small businesses located in these economically distressed communities.
- 8(a) Program--participants in the 8(a) program receive business development assistance from the SBA and other government agencies. The primary benefit is the ability to receive preferences in various types of government contracting competitions.



## SBA Contracting Assistance Programs

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- Procurement Center Representative - PCR's increase the small business share of Federal procurement awards for small business at major federal and military installations
- Commercial Market Representative - CMR's are stationed around the country to conduct compliance reviews of prime contractors, counsel small businesses on how to obtain subcontracts, conduct matchmaking activities to facilitate subcontracting to small business, and provide orientation and training on the Subcontracting Assistance Program for both large and small businesses.



# ARRA CONTACT ACTIVITY

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**Small businesses have received Recovery Act contracts.**

**Increase in small business involvement:** As of Apr 9, 29.8% of federal Recovery Act contract dollars, totaling \$7.3 billion, went to small businesses, which currently is above the small business set-aside target of 23%.

**Assistance to disadvantaged businesses:** Recovery Act contracts are reaching small disadvantaged businesses (11.8% of contract dollars), as well as HUBZone (7.9%), women-owned (4.9%), and service-disabled veteran-owned (4.2%) firms.



# Surety Bond Program

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Temporary increase in the maximum size surety bond from \$2 million to \$5 million.

Special \$10 million surety bond for certain contracts.



# Micro Loan Program

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SBA would like to add  
additional micro lenders

If interested, please  
contact the local District  
office



# Micro Loan Program

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- SBA received \$50MM in ARRA and \$25MM for FY2010 regular year funding.
- SBA has loaned \$38.5MM of the ARRA funding.
- Currently, there is a total of \$36.5MM available for Intermediary Loans.
- There are 20 new lenders, so the total is now 178 Intermediary Lenders throughout the country.
- We are accepting new applications. The process will start with your district office.
- Intermediaries are eligible for grant funds after they have been in the program making loans for about a year.
- You may e-mail your questions to [microloans@sba.gov](mailto:microloans@sba.gov) or call 202-205-6485.



# What's next???

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The Administration is working on securing funding for the 90% guaranty/fee waiver/borrower application fee/third party lender fee for the rest of the year—we know the current funding schedule is frustrating.

Stay tuned!



**THANK YOU  
FOR YOUR  
TIME**