



City Of Strongsville Business Network Breakfast

May 21, 2009

SBA Loan Programs

and the American Recovery and
Reinvestment Act of 2009

www.sba.gov



The new PNC

- **The PNC Financial Services Group is one of the nation's top five banks**
- Regional banking franchise in 13 states and the District of Columbia
- 59,000 employees
- 6,400 ATMs
- 2,585 branches
- \$286 billion in assets*
- Strong regulatory capital and liquidity positions
- Ranked # 7 in the Nation for SBA lending
 - FYE 9/30/08 made 2,096 loans totaling \$239 million
 - Cleveland SBA District top producer for 10 years

*information as of March 31, 2009



U.S. Small Business Administration (SBA)

- Established in 1953
- Increase opportunities for Small Businesses
- Advocate for Small Businesses
- Disaster Recovery Assistance
- Minority Development program “8a”
- Business Incubator & Counselor
(CDC, SBDC, SCORE, One Stop Capital Shops)



Financing Your Business

SBA financial assistance programs can help you:

- Start a business
- Grow a business
- Export goods and services
- Recover from a disaster

SBA is primarily a guarantor of loans made by lending institutions.

The SBA typically does not offer grants or **direct** loans to start or grow small businesses.



Financing Your Business

Do You Know SBA Financing Options?

- Small business loans
 - Term Loans
 - Revolving Lines of Credit
- Loans to buy or construct buildings
- Buy equipment
- Buy inventory
- Working capital
- Acquire business
- Refinance business debts (with limitations)



Why consider an SBA Guaranteed Loan?

Many situations apply but most common are:

- Collateral is insufficient
- Start-up or certain types of businesses
- Historical cash flow does not support repayment. Projections do.
- New, rapidly expanding business
- Longer maturity needed
- Leverage (less than standard equity capital to invest)



SBA's Basic Lending Criteria

- Meet small business size standards
- Good character
- Management experience
- Historical cash flow & realistic projections
- Sufficient equity
- Potential for long term success
- Meet personal resource test



The 7(a) Loan Program

- SBA's primary business loan program
- Broad eligibility requirements (must be small, for profit, good character, demonstrate a need, etc.)
- Can use for a wide range of financing needs
- Maximum loan amount of \$2 million
- Fully amortizing (no balloon maturities)
- Maximum guaranty of \$1.5 million



The SBA 504 Loan Program

- The CDC/504 program is a long-term fixed rate financing tool for economic development in the community.
- Used for financing major fixed assets
 - Land and building; purchase, construction or renovations
 - Heavy machinery or equipment
- Owner occupied real estate (investment r/e ineligible)
 - Existing building 51% occupancy
 - New construction 60% occupancy and grow to 80%
- No maximum loan amount.
- **Cannot** be used for working capital or inventory, consolidating or repaying debt.

Typical 504 Loan Project

- A bank loans 50% of the project.
(First mortgage position @ market rate)
- The CDC loans 40% (the SBA piece)*
(Second mortgage position @ below market fixed rate)
May's rate was 5.37% for real estate & 4.48% for equipment
- The borrower injects 10%
(If either a start-up businesses or special purpose facility – 15%)
(If both start-up businesses & special purpose facility – 20%)

*Maximum 504 loan amount

- \$1.5 million (regular 504 loans)
- \$4.0 million (small manufacturers)

*Job creation criteria

- one job for every \$65,000
- one job for every \$100,000



The American Recovery and Reinvestment Act

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act “Recovery Act”

- A package of higher loan guarantees
- Reduced loan fees
- A new SBA program
- Secondary market incentives, and
- Enhancements to current SBA programs

Designed to help unlock credit markets and begin economic recovery for the nation’s small business sector.



The American Recovery and Reinvestment Act

90 Percent Guarantee

- Historically, SBA could guarantee loans up to 85 percent on loans up to \$150,000, and up to 75 percent on loans greater than \$150,000
- Recovery Act will allow SBA to raise its loan guarantee from current levels to as much as 90 percent for some loans.



The American Recovery and Reinvestment Act

SBA Loan Fee Eliminations

- SBA will temporarily eliminate upfront fees on all 7(a) loans with the exception of short-term loans
- Savings of up to \$53,750 on maximum SBA guarantee loan of \$2 million
- Recovery Act also temporarily eliminates the upfront borrower and third party lender fees on 504 projects

The American Recovery and Reinvestment Act

Recovery Act provides Enhancements to current loan programs

- Alternative Size Standards for 7(a) loans
 - Temporary change through 9/30/2010
 - Parallels the size standards for SBA 504 loans
 - Tangible net worth \leq \$8.5 million (company & its affiliates)
 - Average net income \leq \$3.0 million (for prior 2 yrs)
- Relaxes the 504 Job Opportunity Requirements
 - Historically, SBA 504 projects required one job opportunity for every \$50,000 guaranteed by SBA
 - Recovery Act changes requirement to 1:\$65,000
- Allows limited amount of debt refinancing on 504 loan expansion projects

The American Recovery and Reinvestment Act

ARC Business Stabilization Loans (available 6/15/09)

- Recovery Act creates a new SBA loan program to provide loans of up to \$35,000 to *viable* small businesses undergoing *immediate financial hardship* that need the money to make payments on an existing, qualifying loan
- Loans are 100 percent guaranteed by SBA
- Repayment would not have to begin until one year after the loan is fully disbursed
- Intended to give small businesses some temporary relief until cash flow gets back on track

ARC loans will be offered by some SBA lenders for as long as funding is available or until 9/30/2010, whichever comes first.



U.S. Small Business Administration (SBA)

How do you apply for these loans?

- Borrowers apply for loans directly through lending institutions (participating banks, credit unions, CDCs)
- Lender may choose to:
 - Make loan w/o SBA guaranty
 - Make loan subject to SBA guaranty
 - Decline to make the loan



U.S. Small Business Administration (SBA)

**For more
information
about the SBA's
part in small business recovery
go to:**

www.sba.gov/recovery

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