



Small Businesses and Stimulus

Baker & Daniels LLP

Melina M. Kennedy

melina.kennedy@bakerd.com

317.237.8288



Small Business

- Small businesses employ half our country's and Indiana's workers
- Over past 10 years, small businesses have created 70% of all new jobs
- U.S. Small Business Administration (SBA) major federal agency for small business programs in U.S.
- More recently, due to the economy, secondary market has been frozen and SBA loans drying up



SBA and American Recovery and Reinvestment Act ("Recovery Act")

- The Recovery Act contained several provisions relating to SBA and small businesses to jump start more loans and make secondary market more liquid
- SBA agency provisions:
 - \$25 million for starting new programs



Recovery Act (cont.)

- \$375 million to reduce or eliminate SBA loan fees and increase SBA guarantee share
- \$225 million for new loan program for small businesses to meet existing debt payments
- \$30 million to expand SBA's micro loan program, including \$24 million in technical assistance grants to micro lenders



Recovery Act (cont.)

90 Percent Guarantee

- Currently, SBA can guarantee up to 85% of loans less than \$150,000 and 75% on loans greater than \$150,000
- Recovery Act allows SBA to raise loan guarantees to 90% to encourage lenders to provide capital



Recovery Act (cont.)

- Will continue through calendar year 2009, or until funds are exhausted
- Maximum SBA guaranteed amount is \$1.5 million
- Should provide banks with more confidence and mean more capital available



Recovery Act (cont.)

Business Stabilization Loans (“ARC loan”)

- Just announced Monday
- New program to provide loans of up to \$35,000 to viable small businesses to pay existing debt; available June 15, 2009
- 100% guaranteed by SBA



Recovery Act (cont.)

- Have 6 months to use it
- Repayment begins 12 months after loan is fully disbursed
- Will operate like a line of credit



Recovery Act (cont.)

Micro Loans

- Loans up to \$35,000 – additional funding to increase loans and provide more technical assistance

Refinancing

- Provides additional power to SBA to refinance existing loans for fixed assets



Recovery Act (cont.)

Secondary Market Expansion

- Permits SBA to adjust secondary market lending authority to help address liquidity issues facing secondary market for SBA loans

Increased Size Standards

- Net worth less than \$8.5 million OR
- Average net income less than \$3 million over past 2 years, excluding any carry over losses



Recovery Act (cont.)

Surety Bond Provisions

- SBA Surety Bond Guarantee Program – SBA provides a guarantee to a participating surety company of 70% of bond amount
- Surety bonds protect a project owner against financial loss if contractors default



Recovery Act (cont.)

- Surety bonds often required to bid for construction contracts
- Recovery Act increases maximum surety bond amount covered by this program from \$2 million to \$5 million



Recovery Act (cont.)

Elimination of Fees

- Currently, up front and ongoing fees apply
- Recovery Act eliminates fees for borrowers in SBA 7(a) loans
- Through calendar year 2009 or until funds are exhausted
- Fee elimination is retroactive to February 17



Recovery Act (cont.)

Prohibition of Use of Funds

- The Recovery Act states that funds can't be used for:
 - Casino or gambling establishments
 - Aquarium
 - Zoo
 - Golf course
 - Swimming pool



Recovery Act (cont.)

Immigration Laws

- No loan guarantee can be made to an entity found to engage in a pattern of hiring “unauthorized alien” – must provide certification to that end



Other Recovery Act Opportunities

- Contracting opportunities:
 - www.recovery.gov
 - www.fbo.gov
 - www.web.sba.gov/subnet/search/index.cfm
- Job Training/Grants
 - Accessed through state work force agencies and work force boards



Other Recovery Act Opportunities (cont.)

- Watch for health care progress and implications for small businesses (down the road):
 - Catastrophic relief
 - Tax credits
 - Access to health exchange