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Recovery Act Invests in Small Businesses

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Small businesses throughout New Mexico are feeling the effects of various government initiatives designed to stimulate borrowing and lending in the nation's weakened economy.

The American Recovery and Reinvestment Act authorized \$730 million to cover the costs of temporarily eliminating loan fees and raising guarantee limits on some loans; to fund Small Business Administration-backed micro-lenders; and to create a new loan program to help struggling businesses pay existing loans. In addition, the Treasury Department earmarked \$15 billion in Troubled Assets Relief Program funds to help unfreeze the small-business lending market, which will benefit community banks, credit unions and other small lenders. Treasury will purchase existing and new SBA-backed loans made by banks, freeing up more capital so banks can restart SBA-backed lending to local small business.

Here's some of what the federal legislation provides:

It temporarily waives SBA-guaranteed 7(a) and 504 loan fees (retroactive to Feb. 17, when the legislation was signed) and guarantees up to 90 percent — up from 75 to 85 percent — of some types of 7(a) loans. The temporary loan fee eliminations and 90 percent guarantee provisions apply to approximately \$8.7 billion in 7(a) loans and \$3.6 billion in 504 loans, and the SBA estimates this will cover lending in both of these programs through the 2009 calendar year.

It authorizes SBA to use its 504 program to work with certified development companies to refinance certain existing loans.

It allows creation of a secondary market for 504 bank loans by extending federal guarantees to such loans, and it empowers SBA to make loans to broker-dealers that participate in the secondary market for SBA-guaranteed 504 loans.

It offers SBA-backed surety bonds of up to \$5 million and in some cases up to \$10 million — up from \$2 million — to small businesses that need surety bonds to compete for construction and service contracts.

It provides for \$50 million in new loans through SBA micro-lenders, plus \$24 million to help pay for the technical assistance and training that micro-lenders offer loan applicants. These nonprofit, community-based lenders make loans of up to \$35,000 to small businesses and start-ups.

It sets aside \$255 million for a temporary “America’s Recovery Capital” loan that offers deferred-payment loans of up to \$35,000 to small businesses that need help making payments on an existing non-SBA guaranteed loan. The new loans – 100 percent guaranteed by SBA – will help make payments for up to six months, and the borrower doesn’t have to begin repaying them until 12 months after the loan is fully disbursed.

It allows SBA-licensed Small Business Investment Companies to invest more money in growing businesses and a greater share of their investment resources — 25 percent, up from 20 percent — to smaller businesses.

The net effect of all these measures is to eliminate the obstacles that are keeping credit from flowing to small business entrepreneurs, in whose hands the next phase of our economic recovery rests.

For more information, visit www.sba.gov.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC) and its partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

