



Small Business Information Memo

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THE SBA TO THE RESCUE: EXPANDING ELIGIBILITY FOR SECTION 7(A) LOANS

If you are a small business owner looking to expand your business or an entrepreneur looking to start a business, the U.S. Small Business Administration (SBA) has some good news for you. As part of the American Recovery and Reinvestment Act of 2009, the SBA is eliminating some borrower fees and temporarily increasing guarantees up to 90 percent on the Section 7(a) Loan Program, the SBA's largest loan program. In addition, the SBA has implemented temporary, alternate size standards for 7(a) loans, so that more small businesses will be eligible to apply for and obtain SBA backed loans and has created special ARC loans.

I. What are Section 7(a) SBA Loans?

Section 7(a) loans are the most basic and most commonly issued loan in the SBA loan program. All 7(a) loans are provided by participating lenders and are only available on a guarantee basis. This means they are provided by lenders who choose to structure their own loans according to the SBA's requirements and who apply and receive a guarantee from SBA on a portion of this loan. The SBA does not fully guarantee 7(a) loans, thus the lender and the SBA share the risk if the borrower is not able to repay the loan. A key concept of the 7(a) guarantee loan program is that the loan actually comes from a commercial lender, not the Government. If the lender is not willing to provide the loan, even if they may be able to get an SBA guarantee, the SBA can not force the lender to change its mind.

II. How Do You Obtain a 7(a) Loan?

To obtain a 7(a) Loan, the applicant must first meet the eligibility requirements specified by the SBA. The eligibility requirements are designed to be as broad as possible in order for the lending program to accommodate the most diverse variety of small business financing needs. All businesses that are considered for financing must: (1) meet the SBA size standards on an industry type basis¹, (2) be for-profit, (3) not already have the internal resources to provide the financing, and (4) be able to demonstrate repayment.

III. How is the SBA Changing the Standards to qualify for a 7(a) Loan?

On May 5, 2009, the SBA implemented a temporary alternate size standard for the agency's largest lending program, allowing more small businesses to be eligible for SBA-backed loans. The SBA's alternate size standards for its 7(a) loan program will be effective until September 30, 2010.

The temporary 7(a) loan size standard will parallel the standard for the agency's 504 Certified Development Company (CDC)² Program, and will allow businesses to qualify based on net worth and average income. Under the SBA's CDC program, a business concern must meet either the size eligibility criteria of the 7(a) loan program, *or* have a tangible net worth not in excess of \$8.5 million and an average net income after federal income taxes (excluding carry-over losses) for the preceding two completed fiscal years not in excess of \$3 million. This interim final rule temporarily extends eligibility for 7(a) loans to businesses that meet the alternate size criteria for the CDC Program. These temporary size standards make financial assistance available to some small businesses that otherwise would not have qualified for the 7(a) loan program.

¹ For more detailed information on the SBA's size standards, please visit their website at <http://www.sba.gov/contractingopportunities/officials/size/index.html>.

² For a more extensive explanation of the CDC program, please visit the following website: <http://www.sba.gov/services/financialassistance/sbaloantopics/cdc504/index.html>.



IV. How does ARRA Impact the SBA Expansion of 7(a) Loan Eligibility?

This temporary alternate size standard also means that more small businesses can take advantage of the benefits made possible by the American Reinvestment and Recovery Act (ARRA). On March 16, 2009, the SBA implemented two key provisions of ARRA that raised the guarantee on loans and significantly reduced fees for potential borrowers.

Pursuant to the changes that went into effect on March 16, any participating lender can now request a guarantee from the SBA of up to 90% for each eligible loan. This temporary available increase in guarantees will help provide banks with greater confidence in extending credit during the current economic downturn.

Additionally, for any new eligible 7(a) loan, the SBA will temporarily eliminate the up-front fees that lenders pass along to borrowers. These fees, which can reach 3.75% for larger loans, increase the cost of borrowing for small business and make it more difficult for them to access the credit they need to expand or make new investments.

V. What are ARC loans?

Beginning on June 15, 2009, SBA will start guaranteeing America's Recovery Capital (ARC) loans. ARC loans are deferred-payment loans of up to \$35,000 available to established, viable, for-profit small businesses that need short-term help to make their principal and interest payments on existing qualifying debt. ARC loans are *interest-free* to the borrower, 100 percent guaranteed by the SBA, and have no SBA fees associated with them.

These ARC loans are designed to free up capital and put more money in the hands of small business owners who are struggling to make debt payments due to the poor economy. ARC loans will provide funds to be used for payments of principal and interest for existing, qualifying small business debt including mortgages, term and revolving lines of credit, capital leases, credit card obligations and notes payable to vendors, suppliers and utilities.

ARC loans will be offered by some SBA lenders for as long as funding is available or until September 30, 2010, whichever comes first. Repayment will not begin until 12 months after the final disbursement. Borrowers don't have to pay interest on ARC loans. After the 12-month deferral period, borrowers will pay back the loan principal over a period of five years. For more information on ARC loans, visit <http://www.sba.gov/recovery/arcloanprogram/index.html>.

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