

## Recovery Act Updates

### Changes as of March 16, 2009

President Obama and Secretary Geithner have announced [new provisions](#) to the [American Recovery Reinvestment Act of 2009](#). Among other things, the bill makes major changes to US Small Business Administration (SBA) [lending and investment programs](#) that will help small businesses.

The Treasury Department will also commit up to \$15 billion to help unlock the frozen credit markets by purchasing small business loan securities to **free up more capital** to jumpstart lending for small business owners.

We've talked with our partners at SBA and here's what small business owners need to know with regards to the loan programs:

#### 90 Percent Guarantee

The bill allows SBA to temporarily raise guarantees on its 7(a) loan program to as much as 90 percent for some loans through calendar year 2009, or until the funds are exhausted. Increasing the SBA guarantee percentage will **provide banks with the greater confidence they need to extend credit** during the current recession and make more capital available to small business owners. At present, SBA can guarantee loans up to 85 percent on loans up to \$150,000, and up to 75 percent on loans greater than \$150,000. The 50 percent guarantee on SBA Express loans would remain unchanged.

- [Read SBA's press release](#)

#### Fees for Borrowers Eliminated

The bill also temporarily eliminates fees for borrowers on SBA 7(a) loans and for both borrowers and lenders on 504 Certified Development Company loans, through calendar year 2009, or until the funds are exhausted. This will mean **more capital available to small businesses at a lower cost**. The fee elimination is retroactive to February 17, the day the Recovery Act was signed. SBA is developing a mechanism for refunding fees paid on loans since then.

- [Read SBA's press release](#)

#### Business Stabilization Loans

The bill creates a new SBA loan program to provide **deferred-payment loans** of up to \$35,000 to viable small businesses that need the money to make payments on an existing, qualifying loan for up to six months. These loans will be 100 percent guaranteed by SBA. Repayment would not have to begin until 12 months after the loan is fully disbursed. The bill provides \$255 million for this new program. These loans will help ensure that small businesses have time to re-focus their business plans in order to succeed in the long run.

#### Microloans

The bill **expands SBA's Microloan program**, which provides small loans (up to \$35,000) paired with technical assistance to start-up, newly established or growing small businesses. The bill provides funding to increase loans from SBA to participating microlenders by \$50 million through September 30, 2010, and adds \$24 million in grants to provide technical assistance to borrowers. Historically, these loans reach low-income individuals, women and minorities in both rural and urban areas. Expanding this program through the stimulus bill will help ensure these entrepreneurs are not left behind in the credit crunch.

#### Refinancing

The bill also gives SBA the power to use the 504 Certified Development Company program to **refinance existing loans for fixed assets**, providing fresh support for small business

expansion. This change will help business owners expand their current development projects and create jobs in their communities.

## Secondary Market Expansion

The bill authorizes SBA to establish a **secondary market for pools of “first lien” loans** under the 504 program. These “first lien” loans from commercial lenders currently have no SBA guarantee. The bill authorizes SBA to deploy federal guarantees for pools of these first lien loans, so that they can be sold to investors in a secondary market. Providing liquidity for these first mortgages will help encourage lenders to continue participating in SBA’s 504 loan program, which provides a key source of capital for community development and other projects.

The bill also empowers SBA to set up a Secondary Market Lending Authority that would make direct loans to broker-dealers that participate in the secondary market for SBA-guaranteed 7(a) loans. These broker-dealers would use the funds to purchase SBA-backed loans from commercial lenders, assemble them into pools and sell them to investors in the secondary loan market. This program may help address some of the issues facing the secondary market for SBA loans and may ultimately help SBA lenders make new loans to borrowers.

## Investment Program

The bill helps SBA-licensed Small Business Investment Companies (SBICs) and families of SBIC funds **better leverage the capital used to invest in small businesses**. The bill sets maximum levels of funding the agency can provide to these companies at up to three times the private capital raised by those companies, or \$150 million, whichever is less. It also raises the percentage any one SBIC can invest in a single small business to 10 percent of total capital, and raises from 20 percent to 25 percent the percentage of any licensee’s dollar investments that must be made in “smaller” businesses.

## Surety Bonds

The bill also **raises the maximum contract amount that can be covered** by an SBA guaranteed surety bond from \$2 million to \$5 million, and, under certain circumstances, for contracts amounting to \$10 million, and provides additional funds to cover the costs of expanding this program. Small businesses need surety bonds in order to bid on and obtain many federal and other contracts. The changes are particularly helpful to small and emerging contractors looking to bid on public construction and service projects. SBA guarantees surety bonds to small businesses that private surety companies would not otherwise be able to extend.

- [Recovery Act More Than Doubles Surety Bond Guarantee Ceiling for Small Businesses](#)
- [Upcoming workshops about financing](#)
- [Learn more about SBA’s financial assistance programs](#)

## COBRA Tax Credit

The Recovery Act of 2009 includes changes to the health benefit provisions of [COBRA](#). If your small business has had to lay off workers due the recession, this may be important for you to know. Under the new law, eligible former employees, enrolled in their employer’s health plan at the time they lost their jobs, are required to pay only 35 percent of the cost of COBRA coverage. Employers must treat the 35 percent payment by eligible former employees as full payment, but the **employers are entitled to a credit for the other 65 percent of the COBRA cost** on their payroll tax return.

The IRS unveiled new information on [their website](#) that includes an extensive set of [questions and answers](#) for employers. In addition, the website contains a [revised version](#) of the quarterly payroll tax return that employers will use to claim credit for the COBRA medical premiums they pay for their former employees.

## **Related Links**

[Recovery Act FAQ](#)

[Provisions likely to be of most importance to ALL small business owners](#)