

DAKOTA BUSINESS

March 2009

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Helping small businesses **start, grow and succeed.**



Your Small Business Resource

SBA PARTNERS WITH STATE AND FEDERAL AGENCIES TO INCREASE AWARENESS OF STIMULUS OPPORTUNITIES

By: Mike Gallagher
North Dakota District Office

The Small Business Administration, in partnership with The State Coordinators for The American Recovery and Reinvestment Act (ARRA) of 2009 and USDA-Rural Development, will offer a Webinar to economic developers, community leaders and the general public on Tuesday, March 31st. The program, scheduled from 1:30 – 3:00 pm CDT, will provide a general outline of the ARRA programs and opportunities and is intended to help coordinate a discussion on how small business and communities can participate in enhanced economic development and job opportunities resulting from the ARRA programs.

Under the ARRA, contracting, financing, housing and other program efforts are going to be available to help grow and strengthen the economy. With details of the program continuing to develop daily, state and federal agency are interested in developing an on-going dialogue that will help individuals and communities understand program changes as well as how existing programs can be used to build and strengthen communities.

The March 31st event will feature ARRA State



Coordinators: Sheila Peterson & Clare Carlson; Dale Van Eckhout, USDA Rural Development; and Mike Gallagher, Keith Bjornson and Alan Haut from the North Dakota District Office of SBA.

Through the Webinar format, participants will be able to view a PowerPoint presentation, listen to comments and ask questions through a conference call format. Through an on-line chat they will also be able to address questions to panel members. Participants must have a computer with a high speed internet connection and a separate phone line available for the audio portion of the program.

Since participation is limited to 90 lines, community members, Jobs Development Authority board members, Community Development Corporation officers, Housing Authority members and others are encouraged to come together in a community meeting to participate.

Registration is required through www.trainingnd.com/?id=56&page=Registration.

Enter your information, including your e-mail address, and you'll receive the access number and participant code in an e-mail reply.

The call will be recorded so that it can be viewed by anyone not able to participate. Following the program you'll receive a link to a brief survey to help us plan for future Webinars. ♦

Mike Gallagher has been a Business Development Specialist for the U.S. Small Business Administration since 1984, and the Deputy District Director since 2005. A graduate of the University of North Dakota, Mike is a Certified Public Accountant and a former business owner and educator. He can be reached at michael.gallagher@sba.gov.

The American Recovery and Reinvestment Act of 2009 (ARRA) Overview

Tuesday, March 31, 2009

1:30pm–3:00pm CDT

Where: Online Webinar

Cost: No charge

Register online at:

www.trainingnd.com

Did You Know?

North Dakota had 17,245 small employers in 2006 (most recent year of available data). The current portfolio of lending by SBA in North Dakota includes 1,412 loans that are current with their SBA obligations. Of these 352 are 504 loans. Additionally there were 148 SBA Business Disaster Loans approved in the past 10 years with an outstanding balance of \$15,222,569.

The Recovery Act and Your Small Business

March 19, 2009

12:00pm—1:00pm CDT

Online Web Chat

Eric Zarnikow, associate administrator for the Office of Capital Access at the SBA, will help small business owners get answers to their questions about what the Recovery Act means for the nation's small businesses.

You can join the live Web chat by going online to www.sba.gov and clicking the "Online Business Chat" icon. Web chat participants may also post questions online before the March 19th chat.

IMPLEMENTATION OF SECTION 501 OF THE RECOVERY ACT—FEE ELIMINATION PROVISIONS

On February 17, 2009, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (ARRA). Along with other provisions, ARRA authorizes SBA to reduce or eliminate certain fees on 7(a) and 504 loans. SBA carefully considered the amount of funding authorized by Congress and reviewed ways to make this provision of ARRA effective for small business. As a result, SBA will temporarily eliminate upfront guaranty fees for all eligible 7(a) loans approved by SBA on or after February 17, 2009. Considering the rate of lending and the amount authorized by Congress, SBA estimates that it will be able to eliminate upfront guarantee fees on loans approved through approximately December 31, 2009.

In addition to the elimination of the upfront guarantee fee on 7(a) loans, the SBA will also temporarily eliminate two program fees on the Agency's 504 Development Company Program: 1) Third-Party Participation Fees and 2) CDC Processing Fees. Based on current loan volume in the 504 program, SBA estimates that this fee elimination will continue through approximately December 31, 2009.

Through agreements with one hundred and one banks and eight credit unions in five hundred and nine locations throughout North Dakota, SBA continues to make loans available to those starting a small business or those who wish to expand or transfer the ownership of their business. SBA's 7(a) program can be used for any business purpose including land, building, fixtures, equipment and working capital needs. With maximum loan maturities of up to twenty-five years for real estate and equipment; and generally seven years for working capital, SBA lending helps business owners manage payment terms and cash flow.

"With interest rates at some of the lowest levels in current history and with the added benefit of significant savings offered by fee eliminations, it may make sense to look at expanding or starting your small business" says Jim Stai, district director for North Dakota SBA.

The 504 Loan Program provides long-term, fixed-rate financing for major fixed assets to eligible small- and medium-sized businesses. With current interest rates at 5.072% for 10 year financing

and 5.604% for 20 year financing, the 504 program provides long-term and stable financing for many small businesses. Coupled with lower equity requirements, the elimination of fees and the competitive interest rate, it may be the time for businesses to seize the opportunity to move forward on their growth or start-up projects. Through the three Certified Development Companies currently participating with SBA and lenders, the availability and accessibility of the 504 program has never been better.

Dakota Certified Development Corporation

4133 30th Ave. S., Suite 100
 Fargo, ND 58104
 (701) 293-8892
 (800) 611-8997 toll-free
 1200 Memorial Highway
 Bismarck, ND 58504
 (701) 328-5851

Lake Agassiz Certified Development Company

417 Main Ave.
 Fargo, ND 58103
 (701) 235-7885

Souris Basin Certified Development Company

925 20th Ave. SW
 Minot, ND 58701
 (701) 839-6641

ASK THE NORTH DAKOTA DISTRICT OFFICE

Q. - I read there are grants available through the Micro Loan program at SBA. How do I secure a grant through this program?

A. - Grants are provided for technical assistance to non-profit intermediaries offering loans through the Micro Loan program. Loans for \$35,000

or less are often difficult to secure through traditional means. Part of the reason is that they generally offer a greater risk and have greater costs per dollar of revenue for the lender. To help reduce the risk, SBA provides a grant to the intermediary, the Micro Lender, to provide assistance

and offer oversight to the small business securing the loan. The idea is that with this additional assistance the business will be more successful and the loan has a greater chance of repayment thus reducing the risk and adding to the long term viability of the business. ♦

INCREASED GUARANTY PERCENTAGE INCREASES LENDING OPPORTUNITIES

The American Recovery and Reinvestment Act of 2009 (ARRA) signed into law by President Obama on February 17, 2009, authorized SBA to guarantee up to 90 percent of a 7(a) loan. This includes most of SBA loan programs except for SBAExpress. SBAExpress remains at a 50 percent guaranty.

Prior to the signing of the Recovery Act, with two exceptions, the maximum guaranty percentage for all 7(a) loan programs ranged from 85 percent for loans of \$150,000 or less to 75 percent for loans greater than \$150,000.

A Lender may request up to a 90 percent guaranty for a 7(a) loan submitted under the following programs:

| <u>Loan Program</u> | <u>Max. Loan Amount</u> | <u>Max. Guaranty</u> |
|------------------------------|-------------------------|----------------------|
| Standard 7(a) | \$2,000,000 | \$1,500,000 |
| CLP | \$2,000,000 | \$1,500,000 |
| PLP | \$2,000,000 | \$1,500,000 |
| Small/Rural Lender Advantage | \$350,000 | \$315,000 |
| Community Express | \$250,000 | \$225,000 |
| Patriot Express | \$500,000 | \$450,000 |
| Export Express | \$250,000 | \$225,000 |
| Gulf Opportunity | \$150,000 | \$135,000 |

The Recovery Act did not change the maximum SBA guaranteed amount which remains at \$1,500,000. Therefore, for those loan programs that have a maximum loan amount greater than \$500,000 in order for the loan to receive a 90 percent guaranty, the loan amount cannot exceed \$1,666,666 (\$1,500,000 divided by 90 percent).

The increased guaranty percentage of up to 90 percent is offered in conjunction with the fee elimination. (See related article).

In visiting with North Dakota lenders, there is a general consensus that they have money to lend and are actively pursuing viable small

business loans. The increased guarantee percentage will help the lenders to meet regulatory requirements requiring a more prudent approach to lending. North Dakota lenders are known for their prudent business practices helping to insulate them from the dangerous financial outcomes that plague many of the larger financial institutions.

Changes in the guarantee percentage will aid in making lending available to more small businesses.

Although North Dakota may be somewhat insulated from the downturn that is currently affecting the national economy, we are not completely isolated and our lenders and businesses are impacted by regulations and the economic environment that results from downturns in the nation. Changes in the guarantee percentage will aid in making lending available to more small businesses. ♦

SBA Warns of Fraudulent Attempts to Obtain Bank Account Information from Small Businesses

Fraudulent letters have been sent out with what appears to be an SBA letterhead to small businesses across the country, advising recipients that they may be eligible for a tax rebate under the Economic Stimulus Act, and that SBA is assessing their eligibility for such a rebate. The letter asks the small business to provide the name of its bank and account number.

These letters have not been sent by or authorized by the SBA, and all small businesses are strongly advised not to respond to them.

The SBA is working with the SBA Office of Inspector General to investigate this matter. The Office of Inspector General asks that anyone who receives such a letter report it to the OIG Fraud Line at 1-800-767-0385, or email at oighotline@sba.gov.

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 AND SMALL BUSINESSES

In addition to the elimination of loan fees to borrowers and a 90% guaranty on most SBA 7(a) loans, the American Recovery and Reinvestment Act offers new SBA programs, secondary market incentives, and enhancements to current SBA programs that will help unlock credit markets and begin economic recovery for the nation's small business sector.

The bill provides \$730 million to SBA and makes changes to the agency's lending and investment programs so that they can reach more small businesses that need help. The funding includes:

- \$375 million for temporary fee eliminations on SBA loans and increased SBA guaranteed shares, up to 90 percent for certain loans
- \$255 million for a new loan program to help small businesses meet existing debt payments
- \$30 million for expanding SBA's Microloan program, enough to finance up to \$50 million in new lending and \$24 million in tech-

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THE RECOVERY ACT AND SMALL BUSINESSES

CONTINUED FROM PAGE 3

The Recovery Act is a national effort to grow the U.S. economy by stimulating job creation, freeing credit markets, and investing in small business. The Act contains a package of loan fee reductions, higher guarantees, new SBA programs, secondary market incentives, and enhancements to current SBA programs that will help unlock credit markets and begin economic recovery for the nation's small business sector.

SBA is working to enact the new programs created by the passage of the bill and make changes to the programs already in existence. Additional information on the Recovery Act is available online at www.sba.gov/recovery/.

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All of SBA's programs and services are provided to the public on a nondiscriminatory basis.

nical assistance grants to microlenders

- \$20 million for technology systems to streamline SBA's lending and oversight processes
- \$15 million for expanding SBA's Surety Bond Guarantee program
- \$25 million for staffing up to meet demands for new programs
- \$10 million for the Office of Inspector General

The bill also authorizes refinancing for certain SBA loans so borrowers can expand their businesses on favorable terms, and expands leverage capability for Small Business Investment Companies.

The stimulus bill takes a comprehensive approach and attacks several problems facing small businesses at once by reducing fees, guaranteeing a greater share of certain loans, expanding capacity in the Microloan program, providing new loans to help small businesses keep their doors open through economic hardship, as well as new mechanisms to help unfreeze the secondary markets for SBA-backed loans.

Declines in SBA lending volume last year, which are continuing in FY 2009, reflect problems in the broader credit markets, and present hurdles to small businesses that are seeking credit in the current economy. The financial crisis has created a variety of conditions that impact small businesses, including a lack of liquidity in the banking system, a reluctance of many lenders to extend new loans, tightened credit standards, weaker finances at small businesses, and uncertainty about taking on new debt on the part of many entrepreneurs.

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. These loans will help ensure that small businesses have time to re-focus their business plans in order to succeed in the long run. The details are currently developed on this program, but information will immediately be communicated to lenders and the public when this loan is available.

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. 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.

All areas of North Dakota have access to the Microloan program through two intermediaries: Lake Agassiz Regional CDC and Dakota CDC.

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.

The bill helps SBA-licensed Small Business Investment Companies (SBICs) better leverage the capital they use to invest in small busi-

nesses. 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.

InvestAmerica Venture Capital Group is a licensed SBIC in North Dakota. For more information contact them at 701-298-0003 or visit their Web site at www.investamericaventuregroup.com

With the construction season approaching in North Dakota and with the potential for contracts awarded with funds available through the American Recovery and Reinvestment Act, bonding may be an issue with North Dakota small businesses. 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. SBA guarantees surety bonds to small businesses that private surety companies would not otherwise be able to extend.

Surety Bonds are available through local insurance companies who participate with SBA. With more information available at the SBA WEB site or the Denver Area Office of SBA (303) 844-2607, ext.261. ♦