



James A. Kocsi
SBA NJ District Director

Small Biz Journal

Full Complement of Stimulus Programs Now in Play for Small Business Owners

By James A. Kocsi

Small business owners will find that a full complement of programs is now in place to help them overcome the difficult economic conditions that they may be facing. Once President Obama signed the American Recovery and Reinvestment Act into law on February 17, 2009, the U.S. Small Business Administration moved quickly so that small business owners across the country could enjoy the benefits of the \$730 million that SBA received from this legislation. This money allows the SBA to help small businesses recover from the effects of the recession.

A higher guaranty of 90 percent on most SBA loans is encouraging our lending partners to make loans to small business owners and the elimination of fees associated with SBA loans is sparking new interest from entrepreneurs who are in need of capital. The good news is that additional programs are now available to help small business owners.

America's Recovery Capital (ARC) Loan Program

SBA introduced its America's Recovery Capital loan program on June 15th. The new initiative provides a 100 percent guaranty on loans up to \$35,000 and is available to established, viable, for-profit small businesses that need short-term help to make their principal and interest payments on existing and qualifying business debt.

ARC loans will be disbursed over a period of up to six months and 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. SBA will pay the interest on ARC loans to the lenders at the variable rate of Prime plus two percent.

Repayment for ARC loans does not begin until 12 months after the final disbursement. After the 12-month deferral period, borrowers will pay back the loan principal over a period of five years. ARC loans can be made by any lender who participates in SBA's Guarantee Loan Program.

Refinance Existing Debt on Fixed Assets

Another important piece to The Recovery Act is an expansion to our 504 Certified Development Company program. For the first time, the program can refinance existing loans for fixed assets, which will help provide fresh capital for small business expansion. The fees for this program have also been temporarily eliminated with Recovery Act funds.

The permanent changes to this program will allow small businesses to restructure eligible debt to help improve a company's cash flow which, in turn, will enhance its viability and support growth and job creation. The 504 loan program can be used to purchase business real estate or fixed

Small Biz Journal

assets, such as heavy equipment or machinery, and expand current development projects. Now with this refinancing feature, small business owners can secure lower interest rates, which mean lower loan payments and less money going out the door each month in debt payments. The bottom line is that under this program small business owners will now have more cash on hand to support operations and create additional jobs.

Increased Venture Capital Funding Available

Small business owners will now find it much easier to access venture capital under SBA's Small Business Investment Company program. The Recovery Act expands SBA's venture capital program to increase the pool of investment funding available to Small Business Investment Companies (SBICs).

SBICs are privately owned and managed venture capital firms which are licensed and regulated by the SBA. SBICs use a combination of funds raised from private sources and mezzanine capital investments in small businesses. Mezzanine capital is a blend of traditional debt financing and equity financing that allows privately held companies to attain financing without going public and potentially ceding ownership of their company. There are 13 SBICs located in New Jersey looking to invest in small ventures. Well known companies like Apple Computer, Costco, Federal Express and Staples secured their initial funding through SBA's SBIC program.

The Recovery Act makes SBICs eligible for greater SBA guaranteed funding and requires SBICs to invest 25 percent of their investment dollars into "smaller" businesses. Also, the amount of funding an SBIC may invest in a single small business is set at 10 percent of an SBIC's total capital rather than the previous limit of 20 percent of an SBIC's private capital only. This translates to an effective 50 percent increase in funding available to a single business by an SBIC.

Maximum SBA funding levels to SBICs will increase up to three times the private capital raised by the SBIC, up to a maximum of \$150 million for single SBICs, or up to \$225 million for multiple SBICs that are under common control.

These limits are even higher for SBICs that are licensed after October 1, 2009, that certify that at least 50 percent of their investments will be made in small businesses located in low-income areas, up to \$175 million for single licensees and up to \$250 million for jointly controlled multiple licensees.

All of these steps, along with other Recovery Act provisions, are aimed at increasing access to capital and assisting small businesses to create and retain jobs.

For additional information on The American Recovery and Reinvestment Act, please visit the following Web sites: www.recovery.gov, www.sba.gov/recovery, www.sba.gov/inv, and www.sba.gov/financing. Additional information on these programs may also be obtained by calling Assistant District Director for Lender Relations, William Boone of the New Jersey District Office at (973) 645-2179.