U.S. Small Business Administration

Cleveland District Office News

Information for the Small Business Community

Cleveland District Office
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Loan Report as of June 30, 2009

7(a) and 504 Loans Combined

Bank	Number Approvals	Dollars (In Thousands)
Huntington National Bank	118	$16,472
Charter One Bank/RBS Citizens	54	$3,495
KeyBank	51	$9,591
National City Bank	44	$8,712
US Bank	43	$6,558

504 Loans

Bank	Number 504 Approvals
National City Bank	10
FirstMerit Bank	7
Fifth Third Bank	4
CFBank	3
Huntington National Bank	3
KeyBank	3

CDC	Number 504 Approvals	Dollars (In Thousands)
Growth Capital Corp.	17	$4,167
Cascade Capital Corp.	15	$7,928
Lake County SBAC	12	$6,223
Northwest Ohio Dev. Ass't.	6	$4,391
Stark Development Board	3	$2,013
West Central Partnership	2	$2,038
Horizon Certified Dev. Co.	1	$1,172
Mentor Economic Ass't. Corp.	1	$194
SEM Resource, Inc.	1	$1,732

NEWS FOR OUR LENDING PARTNERS

Change to 504 Certified Development Company Loan Program Regarding Debt Refinancing as a Result of Recovery Act

Small businesses seeking to expand will be able to refinance existing loans used to purchase real estate and other fixed assets as a result of permanent changes to the U.S. Small Business Administration's 504 Certified Development Company loan program. The changes were authorized in the American Recovery and Reinvestment Act of 2009.

The permanent changes will allow small businesses to restructure eligible debt to help improve their cash flow which, in turn, will enhance their viability and support growth and job creation. The 504 loan program can be used to purchase business real estate or fixed assets, such as heavy equipment or machinery, and expand current development projects.

"This is one more piece of the Recovery Act that is going to have a direct impact and put more money in the hands of small business owners just when they need it most," SBA Administrator Karen G. Mills said. "Lower interest rates mean lower payments and less money going out the door each month in debt repayments. That means more cash on hand to keep their doors open, their employees working and to even expand and create more jobs."

Mills pointed out that the 504 program's refinancing changes are the latest in several Recovery Act provisions that have been implemented by the SBA in recent weeks. On March 16, the agency temporarily raised to 90 percent the guarantee level on many of its 7(a) program loans and reduced fees on both 7(a) and 504 loans, and also doubled to $5 million the surety bond guarantee level for small businesses competing for construction and service contracts.

The 504 loan program is administered through 271 Certified Development Companies across the nation. SBA today began implementation of the changes by publishing them as a permanent rule in the *Federal Register.*

The changes announced include:

Debt Refinancing: Legislation allows 504 program projects to include a limited amount of debt refinancing if there is a business expansion and the debt refinanced does not exceed 50 percent of the projected cost of the expansion. "Expansion" includes any project that involves the acquisition, construction or improvement of land, building or equipment for use by the small business. The following are some of the conditions under which borrowers will be eligible for refinancing:

The debt being refinanced was incurred to acquire land, to construct a building or to purchase equipment. The assets acquired must be eligible for financing under the 504 program.

- The existing debt is collateralized by fixed assets.
- The existing debt was incurred for the benefit of the small business.
- The new financing provides a substantial benefit to the borrower when prepayment penalties, financing fees, and other financing costs are taken into account.
- The borrower has been current on all payments of existing debt for one year prior to the date of refinancing.

Servicing and Liquidation Authority of 7(a) Lenders

On April 12, 2007, SBA published regulations on liquidation and debt collection activities that amended 13 CFR Part 120 governing business loans. The new regulations became effective on May 14, 2007. Section 120.536 standardized across the various 7(a) loan programs the servicing and liquidation actions that require prior SBA approval, and reminded lenders to maintain in their loan files supporting documentation for actions taken in connection with a loan not requiring prior SBA approval. This documentation is essential for SBA's review of the lender's handling of a loan if it is submitted for guaranty purchase and for SBA's determination as to whether the lender's actions were prudent, commercially reasonable (consistent with generally accepted commercial lending practices) and in accordance with loan program requirements.

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SBA's regulations at 13 CFR § 120.535 set forth the following general standards for loan servicing, liquidation and debt collection litigation actions:

> a. Service using prudent lending standards. Lenders … must service 7(a) … loans in their portfolio no less diligently than their non-SBA portfolio, and in a commercially reasonable manner, consistent with prudent lending standards, and in accordance with Loan Program Requirements. Those Lenders … that do not maintain a non-SBA loan portfolio must adhere to the same prudent lending standards for loan servicing followed by commercial lenders on loans without a government guarantee.

With the exception of the actions specifically identified in 13 CFR § 120.536, SBA has now delegated to all 7(a) lenders identical unilateral servicing authority as indicated above. SBA's Commercial Loan Servicing Centers (CLSCs) in Fresno and Little Rock and the Herndon National Guaranty Purchase Center (NGPC) are unable to approve actions within a lender's unilateral servicing authority because of the high volume of such actions.

As a helpful guide for lenders to determine which actions they may take unilaterally, SBA has developed a matrix for both servicing and liquidation actions that replaces previous matrices that addressed servicing and liquidation actions separately. The new combined matrix is available on SBA's websites for the Fresno, Little Rock and Herndon centers accessible through www.sba.gov/banking.

As indicated above, for all loan servicing actions lenders must continue to document the justifications for their decisions and retain these and supporting documents in their loan files for future SBA review if the loan is submitted for guaranty purchase, as well as for lender oversight purposes. A lender's actions will be evaluated in the purchase process to determine whether they constituted a reasonable business decision made in connection with good faith efforts to keep a borrower's business open.

It is important that lenders notify SBA with respect to the unilateral actions identified in the combined matrix that are identified as requiring SBA notification. Such notice is necessary to update SBA's loan database and to maintain accurate records for loans that will be sold in the secondary market.

SBA encourages all lenders to become familiar with and use E-tran, which permits lenders to make many changes to their SBA loan record using a direct connection via the internet. SBA is offering special training and assistance in relation to servicing, the use of E-tran, as well as the servicing and liquidation matrix.

4th Quarter "Peg" Rate and Direct Interest Rate FY 2009

The optional peg rate for fluctuating interest rates on guaranty loans is 3 1/2 percent (3.5%) for the July – September quarter of FY 2009. Pursuant to 13 CFR 120.921(b), the maximum legal interest rate for any third party lender's commercial loan which funds any portion of the cost of a 504 project (see 13 CFR 120.801) shall be 6% over the New York Prime rate or, if that exceeds the maximum interest rate permitted by the constitution or laws of a given State, the maximum interest rate will be the rate permitted by the constitution or laws of the given State.

Version 2009.3 of 7(a) Authorization Boilerplate and Wizard Issued

SBA has announced the release of Version 2009.3 of the National 7(a) Authorization Boilerplate and Wizard. Version 2009.3 changes reflect: (1) a new abbreviation for the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"); (2) clarification on the sunset provisions of Sections 501 and 502 of the Recovery Act; and (3) the addition of "Restricted Use" certifications for Recovery Act Section 501 and 502 loans.

Users of the 7(a) Boilerplate and Wizard should read the "What's New" section located at the beginning of the Boilerplate to familiarize themselves with the major differences between Version 2009.2 (March 2009) and Version 2009.3.

Please note that in order to prepare an authorization for a loan under Section 501 or Section 502 of the Recovery Act using the Wizard, you must make a selection by checking a box at the beginning of the Wizard. *(continued on page 4)*

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Highlights of the prior Version 2009.2 Wizard and Boilerplate which are still in effect include:

- A "Check Box" to select Section 501of the Recovery Act (SBA Guarantee Fee payment)
- When the user checks the 501 box, a paragraph that requires the SBA to pay the Guaranty Fee replaces the standard 7(a) Guarantee Fee paragraph(s).
- A "Check Box" to select Section 502 of the Recovery Act (up to 90% guarantee)
- When the user checks the 502 box, user may enter a guarantee percentage up to 90% (up to a $1,500,000 SBA guaranteed share), and a new Borrower's Certification is added that addresses employee immigration status.
- Clarification that the interest rate on a variable rate loan is rounded to two decimals.

Highlights of the new Version 2009.3 Wizard and Boilerplate include:

- The American Recovery and Reinvestment Act of 2009 will now be referenced as the "Recovery Act".
- Clarification that Section 501 (SBA Guarantee Fee payment) of the Recovery Act ends September 30, 2010 or when funds are exhausted, which ever comes first.
- Clarification that Section 502 (the 90% guarantee) of the Recovery Act ends February 17, 2010 or when funds are exhausted, whichever comes first.

risk associated with the SBA Lender's secondary market sale in determining whether to provide SBA's prior written consent. In order to conduct that evaluation, SBA may, among other things, conduct an on-site risk-based review of the financial institution and the credit quality of its loans, analyze the SBA lender's financial performance and SBA loan portfolio, and/or request additional information and documentation from the financial institution. Depending on the results of this evaluation, SBA may not approve the sale of loans in the secondary market, or may require an escrow account be established or other financial assurances be provided to cover potential losses resulting from repairs and denials and to mitigate risk.

SBA recognizes that this action may affect the timing of negotiated loan settlements and secondary market sales. Therefore, if an SBA lender is subject to a supervisory action citing unsafe and unsound banking practices, including a Cease and Desist Order, or a Going Concern opinion from its independent financial statement auditor, and wishes to sell loans into the secondary market, it must notify SBA within five business days (or as soon as practicable thereafter) of the issuance of the action or opinion, or immediately if pre-existing, and provide copies of the relevant documents to SBA for review, preferably prior to negotiating secondary market sales. SBA is committed to perform its evaluation as quickly as possible to minimize settlement delays. This evaluation would generally be commenced within 14 days of an SBA Lender notifying SBA of a Cease and Desist order or other supervisory action or if a Going Concern opinion is included in the audited financial statements or the SBA Lender's interest in selling loans in the secondary market.

SBA believes that such evaluations may help reinforce investor confidence in the secondary market. However, the evaluations are solely for SBA's purposes and should not be relied upon by others.

If you have any questions on this or any SBA loan matter, please contact our Lender Relations division at (216) 522-4180. ◆

Export to Canada

Canada represents the number one export market for both large and small firms from the state of Ohio. If you are ready to start exporting, or simply want to grow your export sales in Canada, RepCAN 2009 will provide U.S. companies in all industry sectors, an efficient, cost-effective opportunity to enter Canadian markets and establish profitable commercial relations with prospective agents, distributors, end-users and joint venture partners in "Canada First".

This multi-sector business matchmaking/exhibit has three stops - Toronto, Ontario, September 28-29, Montreal, Quebec, September 30 - October 1 and Vancouver, British Columbia October 5-6, 2009. To ensure the highest level of support and success, participating U.S. companies are limited to qualified U.S. exporters and will be awarded on a first-come, first-served basis, with registrations closing on July 31, 2009. For more information, contact Todd Hiser at todd.hiser@mail.doc.gov or 216-522-4756. ◆

ARC Loans Made Available to Small Business June 15th

Starting June 15, SBA began accepting loans for a temporary new program called America's Recovery Capital. "ARC" loans of up to $35,000 are designed to provide a "bridge" for viable small businesses with immediate financial hardship – to keep their doors open until they get back on track.

"These ARC loans are another tool in the SBA toolkit which provide critical support to small businesses struggling to make it through these tough economic times," said Administrator Karen G. Mills.

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 and qualifying business debt. ARC loans are 100 percent guaranteed by the SBA and have no SBA fees associated with them.

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 will 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 will be made by commercial lenders, not SBA directly. For more information on ARC loans, visit www.sba.gov

For more information about all of the SBA's programs for small businesses, call the SBA Answer Desk at 1-800 U ASK SBA or TDD 704-344-6640, or visit the SBA's Web site at http://www.sba.gov.◆

American Recovery and Reinvestment Act of 2009 Provides Energy Incentives for Businesses

The American Recovery and Reinvestment Act of 2009 (ARRA) provides a number of energy tax incentives for both small and large businesses. Businesses and individuals who take advantage of these energy-saving steps this year may result see bigger tax savings next year. Here are some of the major provisions that apply:

Extension of Renewable Energy Production Tax Credit: This law extends the "eligibility dates" of a tax credit for business facilities that use wind, closed-loop biomass, open-loop biomass, geothermal energy, municipal solid waste, qualified hydropower and marine and hydrokinetic renewable energy. The "placed in service date" is now Dec. 31, 2012 for wind facilities and Dec. 31, 2013 for the other facilities.

Election of Investment Credit in Lieu of Production Credit: Businesses that operate facilities that produce electricity from wind and some other renewable resources after Dec. 31, 2008 can now choose either the energy investment tax credit or the production tax credit.

Repeal of Certain Limits on Business Credits for Renewable Energy Property: ARRA repeals the $4,000 limit on the 30 percent tax credit for small wind energy property and the limitation on property financed by subsidized energy financing for property placed in service after Dec. 31, 2008.

Coordination with Renewable Energy Grants: Business taxpayers can apply for a grant in lieu of claiming either the energy investment tax credit or the renewable energy production tax credit for property placed in service in 2009 or 2010.

Temporary Increase in Credit for Alternative Fuel Vehicle Refueling Property: Qualified property placed in service in 2009 and 2010 is now eligible for a 50 percent credit, and the per-business location limit increases to $50,000. Property relating to hydrogen remains at the 30 percent rate, but the per-business location limit rises to $200,000.

In addition, there are several other energy credits available that small businesses should be aware of, such as:

Residential Energy Property Credit: The new law increases the energy tax credit for homeowners who make energy efficient improvements to their existing homes. The new law increases the credit rate to 30 percent of the cost of all qualifying improvements and raises the maximum credit limit to $1,500 for improvements placed in service in 2009 and 2010. The credit applies to improvements such as adding insulation, energy efficient exterior windows and energy-efficient heating and air conditioning systems.

Plug-in Electric Drive Vehicle Credit: The new law modifies the credit for qualified plug-in electric drive vehicles purchased after Dec. 31, 2009.

Plug-In Electric Vehicle Credit: The new law also creates a special tax credit for two types of plug-in vehicles — certain low-speed electric vehicles and two- or three-wheeled vehicles.◆

More information on these business energy tax incentives are available on IRS.gov at www.irs.gov/newsroom/article/0,,id=204335,00.htm. To keep up with ARRA and other IRS tax news, subscribe to e-News for Small Businesses at http://www.irs.gov/businesses/small/article/0,,id=154825,00.html or type in "e-News for Small Businesses " in the search box on IRS.gov and enter.

SBA Participates in Second Annual Small Business Symposium

On June 10th, SBA's Cleveland District Office participated in the second annual Small Business Symposium entitled "Road to Recovery" held at Lakeland Community College in Kirtland.

The Small Business Symposium, a half day seminar featuring presentations by experts that provide services to entrepreneurs, is a collaborative effort of the Workforce Development & Continuing Education Division at Lakeland Community College, the Lake County Port Authority's Ohio Small Business Development Center, the Lake County Development Council, the Lake County Chamber of Commerce, the Mentor Economic Assistance Corporation (MEACO), and the SBA.

Road to Recovery featured presentations on various topics, including "Accessing Capital in a Recovering Economy", "Selling to the Government", and "Managing Your Balance Sheet for Recovery." The symposium also featured a panel of area bankers, who provided their perspectives on accessing capital during the recovery.◆

SBA Cleveland District Director Gil Goldberg

Speaker Kordell Norton of Synergy Solutions

Panelists (left to right) Tim Cahill and Bruce Kephart of First Merit Bank, Michael Toth of KeyBank, Richard Flenner of Lake National Bank, Mark Kaydo of Huntington National Bank, and Thomas Caldwell of Middlefield Banking

Over seventy people attended the Symposium

SAVE THE DATE! for the Seventh Annual Veteran Owned Business Symposium

Tuesday November 10, 2009

Kent State University—Student Center Kent, Ohio

Plan on joining us in supporting and encouraging our Veterans' business development and growth!

Contact: Jane Stewart, NEO-PTAC jstewart@LCPORT.org 440-357-2294

SBA's New Pilot Loan Program for Dealer Floor Plan Financing Now in Effect

Auto, RV and other dealerships can now apply for SBA-guaranteed floor plan financing, which will make it easier for these small businesses to borrow against their inventory and increase their cash flow.

The new pilot program is one of the many tools SBA is making available to help increase access to capital and technical assistance to small business, and complements other steps already taken under the Recovery Act to help small businesses at this critical time.

"In recent months, we've seen a dramatic decrease in the availability of credit for financing dealership inventories," said SBA Administrator Karen G. Mills. "We want to be a partner for these small businesses and help ensure they have the resources they need to help keep their businesses open, save jobs and survive these tough economic times."

Floor plan financing is a revolving line of credit that allows a dealership to obtain financing through SBA's 7(a) program for inventory that can be titled, such as autos, RVs, manufactured homes, boats and trailers. As each piece of collateral is sold by the dealer, the loan advance against that piece of collateral is repaid. As the loan is repaid, the dealer can borrow against the line of credit to add new inventory.

The DFP pilot program will run through Sept. 30, 2010, after which SBA will determine whether to extend it further. DFP loans can be made by any lender already participating in SBA loan programs. Lenders who are not already participating in SBA lending, can become an approved SBA lender if they are interested in offering DFP loans.

Since the DFP pilot program is a new initiative that provides a guarantee for a specialized product, the agency is working with and training lenders who may be interested in offering this type of financing. SBA expects there will be a ramp-up period for these lenders.

DFP loans will be available for a minimum of $500,000 up to the $2 million allowable under the 7(a) program. With a maximum repayment term of five years, the loans will come with a 60-75 percent government guarantee, depending on the type of collateral and the lenders advance rate against the wholesale price of the inventory. Borrowers will also benefit from the temporary elimination of fees on 7(a) loans made possible by the American Recovery and Reinvestment Act of 2009.

Borrowers interested in obtaining a DFP loan should contact their lender or their nearest SBA field office to get a list of SBA-approved lenders in their area who may be participating in the program. Local district offices and contact information can be obtained at the SBA Web site at http://www.sba.gov/localresources/index.html. ◆

SBA's Export Loan Products Enhanced

The recently enacted Economic Recovery Act has significantly enhanced the SBA's export Loan products. First, there are the changes for the Export Express program – a super flexible program designed to meet the needs of small business exporters. For the most part, lenders use their own application, procedures and forms and receive an SBA loan number within 24 hours of submission. All Express Lenders have Export Express authority. Export Express has a maximum of $250,000 and can be:

- A general operating Line of Credit (up to 7 years)
- Used for Standby LCs when required as a bid or performance bond for export purposes
- Transaction Specific Line of Credit (up to 7 years)
- A Term loan (up to 25 years depending on the use of proceeds)

Basically, the funds can be used for any business expense that will help a company to start to export, export more or export better. The Changes include:

- An increased guaranty percentage of 90%
- Guaranty fees have been waived on Export Express Loan with a maturity of more than 12 months

The guaranty fee waiver is temporary until the funds allocated for this purpose are exhausted (projected at December of 2009). It is important that banks and exporters are aware of these changes before the changes conclude.

Second, there are the changes to the Export Working Capital Program. The Guaranty fee has been waived for deals in excess of 12 months. This represents significant savings to the exporter. Lenders are still able to charge any fees and interest rate that they negotiate with their client. Again, the fee waiver is in place until December 2009 or until the funds are exhausted.

For additional information on any of these changes, contact Patrick Hayes on 216-522-4731 or patrick.hayes@sba.gov◆