

# American Recovery and Reinvestment Act of 2009

## Implementation of Section 501 & 502

### Fee elimination and 90 percent guaranty

Link to the Recovery Act is located at:

[www.sba.gov/sd](http://www.sba.gov/sd)

# Recovery Act Provisions



- Section 502
- 90 percent guaranty for 7(a) loans submitted under the following programs:

# Recovery Act Provisions

<u>Loan Program</u>	<u>Max Loan Amt</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
• <b>SBA Express is not affected</b>		

# Recovery Act Provisions



1. The Recovery Act did not change the maximum guarantee amount, which remains at \$1,500,000.
2. Therefore, for those loan programs that have a maximum loan amount in excess of \$500,000, in order to receive a 90% guaranty, the loan amount cannot exceed \$1,666,666.

# Recovery Act Provisions

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- For loans greater than \$1,666,666 the maximum guaranty will be calculated as follows:
  - \$1,500,000 (maximum guaranteed amount) divided by the loan amount rounded down to the second decimal.
  - Example: \$1,680,000 loan: divide \$1,500,000 by \$1,680,000 equals 89.2857 round down to 89.28% guaranty.

# Recovery Act Provisions

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- For loans to borrowers with existing SBA-guaranteed loans, the new loan will also have a guaranty percentage less than 90% when necessary to comply with the \$1,500,000 limitation.
- The SBA 7(a) loan authorization will be available shortly at <http://www.sba.gov/banking> and will incorporate the above changes.

# Recovery Act Provisions

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- Section 501
- 7(a) loan guaranty fee elimination.
- For 7(a) loan approved by SBA on or after February 17, 2009, SBA will temporarily eliminate upfront guaranty fees for all eligible loans.
- On-going lender fee unchanged.

# 7(a) fee elimination example

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- Fees for 7(a) loans are based on guaranteed portion of the loan and depend on size of loan. Fees range from 2% to 3.75%
- Example of temporary fee elimination savings:
  - \$300,000 loan with 75% guaranty would have 3% guaranty fee or \$6,750
  - With 90% guaranty @ 3%, savings will be \$8,100

# Recovery Act Provisions

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- For eligible loans approved between February 17, 2009 and the March 16, 2009, the SBA will make funds available to refund payments for these fees. The refund mechanism is in development and anticipated to be operational by May 6, 2009. If a borrower has already paid lender for the fee, Lender must reimburse the borrower from the SBA refund.

# Recovery Act Provisions

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## Expiration date

The increased guaranty percentage to 90% and the elimination of the guaranty fee will be available until the aggregate dollar amount of 7(a) loans made under this authority exhausts the funds dedicated to that purpose. The SBA currently estimates the program level will be approximately \$8.7 billion. Depending on the loan volume in the 7(a) program, SBA estimates that the increased guaranty percentage and elimination of upfront guarantee fee will be available through approximately, December 31, 2009.

# Recovery Act Provisions

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## 504 Development Company

### Program Fee Eliminations

For 504 loans approved on or after February 17, 2009-

Temporary elimination of two program fees:

- First mortgage lender fee (currently  $\frac{1}{2}\%$  of 1<sup>st</sup> mortgage amount)
- CDC application/processing fee (currently 1.5% of debenture amount)

# 504 fee elimination example

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- \$600,000-typical 504 loan project of 50/40/10%:
  - 1<sup>st</sup> mortgage fee (1/2% of 1<sup>st</sup> mortgage amount) based on 50% of project or \$300,000= savings of \$1,500 to lender.
  - CDC application fee (1.5% based on CDC portion amount or typically 40% of project or \$240,000)=savings of \$3,600 to borrower.

# Recovery Act Provisions

## Additional provisions under the Recovery Act.

### Microloan Expansion:

- Provides extra funding for loans and technical assistance to SBA backed micro-lenders

### ARC Stabilization Loans:

- Offers 100% guaranteed deferred payment of loans up to \$35,000 to help viable small businesses facing immediate economic hardship make payments on existing qualifying loans.
- Expand 504 refinancing project: allows borrowers to refinance an existing eligible loan as part of a new 504 small business expansion project.

# Recovery Act Provisions

## Surety Bond Program Expansion:

- Allows more small business to compete for contracts by raising the maximum amount for contracts that qualify for SBA surety bonds to \$5 million and up to \$10 million for certain contracts.

## SBIC Program Expansion:

- Increase the maximum levels of funding SBA can provide to SBICs.
- Secondary market guarantee for 504 first mortgage: provides liquidity to lenders by allowing SBA to guarantee 504 first mortgage pools sold into the secondary market.

## 7(a) Secondary Market Lending Authority:

- Increase liquidity in the secondary market for SBA loans by directly lending money to brokers to purchase SBA 7(a) loans.

# Recovery Act Provisions

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FAQ for Participating Lenders  
can be found at this link:

- [http://www.sba.gov/localresources/district/sd/sd\\_Lenders\\_Page.html](http://www.sba.gov/localresources/district/sd/sd_Lenders_Page.html)

The Recovery Act and FAQ for Small Business  
Owners can be found at this link:

- <http://www.sba.gov/recovery/index.html>



## Recovery Act Provisions

If you have any questions or to schedule individual lender training, please contact:

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