

# Business Wi\$e

## Federal Stimulus Package Benefits Small Business Owners

By Cynthia Brooks

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") was signed into law on February 17, 2009 and is commonly referred to as the stimulus package. The Recovery Act contains several provisions that are designed to assist small businesses. The Act makes changes to the Small Business Administration's lending and investment policies so that more start-up, growing and established small businesses qualify for the programs. Some of these provisions are only expected to be funded through the end of 2009 or 2010, so the time to apply is now.

To qualify for the stimulus package programs, a business must meet the SBA's definition of a "small business." The SBA defines a small business as a concern that is organized for profit; has a place of business in the United States; operates primarily within the U.S. or makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials or labor; is independently owned and operated; and is not dominant in its field on a national basis. The business may be a sole proprietorship, limited liability company, partnership, or corporation. In further determining what constitutes a small business, the definition varies according to industry. A business's size standard is usually stated in number of employees or average annual receipts, and represents the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA purposes.

Under the Recovery Act, the SBA is temporarily eliminating some borrower fees on two programs and temporarily increasing guarantees up to 90% on the 7(a) program, the SBA's most common loan program. The fee elimination means more capital available to businesses at a lower cost. The increase in guarantee levels helps provide banks with the greater confidence to extend credit during the current economic crisis, which will mean more capital available to small business owners. The Act temporarily eliminates fees for borrowers in the 7(a) program and is effective for loans approved after February 17, 2009, the date the Recovery Act was signed. The SBA will refund qualified fees that have already been paid on those loans to lenders, who will then be required to reimburse the borrowers who paid the qualified fees. Before the Recovery Act, a typical 7(a) loan of \$300,000 carried a guarantee fee of between 2 and 3 percent. That same loan today, with the new 90% guarantee and the temporary fee elimination, would save a borrower about \$8,100.

The Recovery Act recognizes that these economic times have caused many small business owners to have difficulty repaying debt they normally pay on time and with relative ease. As a result, the Act has implemented America's Recovery Capital Loan Program ("ARC"), which provides up to \$35,000 in short-term debt for viable small businesses that can show that they will return to viability after receipt of one ARC loan. ARC loans are interest free, carry a 100% guaranty from the SBA to the lender, and require no fees paid to the SBA. ARC loan proceeds are provided over a 6-month period and repayment of ARC principal payments are deferred for 12 months after the final disbursement of loan proceeds. Repayment of an ARC loan can be made for up to 5 years. To qualify for an ARC loan, a small business must have valid financial statements that show that it was

profitable for one of the past two years, and be able to reasonably project sufficient cash-flow to meet current and future loan payments over a 2-year period from the ARC loan approval date. Even existing SBA loans can be repaid with an ARC loan.

The Certified Development Company ("CDC") is a 504 SBA loan program that is a long-term financing tool that supports economic development within certain communities. Under the CDC/504 program, a growing small business can obtain long-term, fixed-rate financing for purchasing, renovating or expanding major fixed assets such as land, buildings, machinery and equipment. 504 loans are not made to businesses engaged in rental real estate investment. The Recovery Act allows 504 projects to include a limited amount of debt refinancing if there is a business expansion and the debt refinanced does not exceed 50% of the projected cost of the expansion. "Expansion" includes any project that involves the acquisition, construction or improvement of land, buildings or equipment for use by the small business. Under the program, a 504 loan is required to create or retain a minimum number of jobs within two years of the loan disbursement as a result of the project or to meet other defined economic development objectives. Some fees are also temporarily eliminated for both borrowers and third-party lenders on CDC/504 loans. For example, borrowers are not required to pay a 1.5% CDC processing fee.



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