

September 2010 Wisconsin Bankers

Pending SBA Legislation and the Potential Impact

As the U.S. Congress begins its summer recess, the fate of the funding that would extend the American Recovery and Reinvestment Act (ARRA), is in limbo. ARRA eliminated the guarantee fee for the SBA 7(a) loan guarantee program and increased SBA's guarantee to 90%. For the SBA 504 program some of the origination fees were eliminated along with the 1/2% fee on the Third Party Lender's first position loan. Since it was implemented in February 2009, the benefits from ARRA had helped significantly in restoring the loan volume of both the SBA 7(a) and 504 programs. During a time of reduced conventional commercial lending, the SBA programs have provided a way for lenders to fund the needs of their commercial customers while helping to mitigate the risk to the lending institution.

Connected with the legislation that would extend the ARRA funding through 12/31/2010 are several other measures that could significantly enhance both the SBA 7(a) and the SBA 504. In both cases, the maximum loan size would be increased. The 7(a) the maximum guarantee would increase from \$1.5 million to \$3.75 million. The maximum loan amount would be \$5 million, compared to the current \$2 million maximum. The legislation would also increase the guarantee to 90% (now 75%-85%) and makes a temporary increase in the maximum guarantee amount to \$4.5 million through 1/1/2011.

For the SBA 504 Program, regular loan maximums would be permanently increased to \$5 million (now \$1.5 million) as would public policy goal loans, which are now \$2 million. Small manufacturer loans would increase from the current \$4 million to \$5.5 million along with energy loans. With these increases, the SBA 504 could play an important part in projects of \$12 million or more. For an existing business constructing or purchasing a general purpose building, the SBA 504 participation at 40% would leverage a \$12.5 million project, a significant increase over the current \$5 million level under the same conditions.

The legislation would also provide for a one year, from the date of enactment, increase in the maximum loan under the Express Loan Program to \$1 million, compared to the current \$350,000 limit. Since the Express Loan Program can be used to guarantee revolving lines of credit, this increase should help lenders to expand their ability to lend on current assets while limiting their exposure.

One of the key provisions of the legislation will expand the SBA 504's ability to refinance debt. This provision, which will be in place for two years, will allow the SBA 504 to refinance qualified free-standing debt, which is not a part of a regular 504 expansion project. The legislation expands the refinance provision that was authorized on a permanent basis in the stimulus bill (ARRA) and should help address the anticipated problems in the commercial real estate market as existing balloon loans begin to come up for renewal. Under this legislation, SBA 504 could participate (30% to 40% level) in the refinance of the balloon note in a subordinated position to the bank's first position loan on 50% of the refinancing need. The borrower would contribute 10% to 20%, hopefully in the form of equity in the real estate.

SBA's dealer floor plan financing is also expanded under this legislation through 9/30/2013. It increases the eligible loan amount from \$500,000 to \$5 million, to provide an open-end extension of credit to finance certain retail goods which are titled under State law (automobiles, RVs, boats and manufactured homes) which are purchased by a dealer for resale. The term of these loans can be no more than 5 years with an SBA guaranty of 60% to 75% of the amount of the credit. The lender may allow the borrower to draw amounts equal to 100% of the value of the goods to be purchased.

There are other provisions of the bill that address the Export Working Capital and Export Express Programs along with new Alternative Size Standards. On the whole, this legislation would be a great benefit to both the business and lending communities, if approved. The borrower will gain from the reduction in fees and increased access to capital that is line with the life of the assets being financed. The lender will benefit from the increased guarantee and the mitigation of risk in a fairly volatile economy and banking environment.