

DO YOU KNOW?

With SBA Your Business Can ARC the Recession Gulch

When Representative **Kurt Schrader**, Chair of the Subcommittee on Finance and Trade of the House Small Business Committee, held a field hearing on small business financing in Salem during August, much of the criticism landed on SBA loan programs. Some speakers called them ineffective, said the Statesman Journal, and too restrictive to help the larger of the small Oregon enterprises.

The stimulus bill – the **American Economic Recovery and Investment Act of 2009** – contains a package of incentives to unlock credit markets that included changes to existing SBA loan programs and added several new programs, for example the **ARC Loans** (American Recovery Capital Loan Program). **ARC** loans are specialized working capital facilities for up to \$35,000 with deferred payments, no SBA fee and no interest. The stimulus bill did not alter the basic framework for SBA lending, which requires a partnership with lending institutions, usually banks. Only in its disaster loan program is SBA able to make loans directly. The buy-in of banks to offer SBA loans is absolutely essential; it is crucial if SBA loans are to be available to companies. Their participation is entirely voluntary and - necessary, if SBA is to play a role in the economic recovery.

In July 2009, SBA reported that nearly \$30 million in **ARC** loans had been approved for 919 companies in 306 different industries, made by 353 lenders in 47 states. The **ARC** loan program will continue into 2010 and has a goal of 10,000 loans. In Oregon, 15 banks have signed up to offer them; see the list of **ARC** loan banks at http://www.sba.gov/idc/groups/public/documents/or_portland/or_arclenders.pdf.

Information on this new loan program which is intended to help businesses stay current on their existing loans, shows that Oregon ranks in the bottom nationally at the end of July, with only four banks and 22 approved ARC loans. By comparison, Montana has 10 active **ARC** lenders and 31 approved loans. Minnesota and Wisconsin each has scores of participating lenders and have together generated 28% of the **ARC** loans

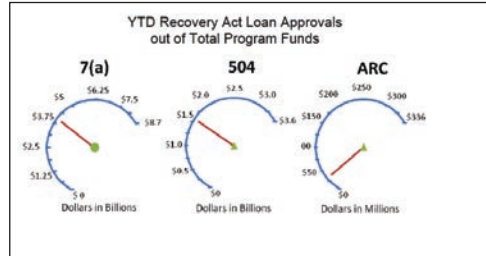
Approved ARC Loans by State:			
TOP 5		BOTTOM 5	
Minnesota	181	Alaska	0
Wisconsin	154	Hawaii	0
Utah	66	Delaware	1
Iowa	57	Nevada	1
Ohio	55	Connecticut	3

made to-date.

As banks choose all or only some of SBA's loan programs, they receive in return a federal guarantee, sometimes up to 100%, for each loan. Banks have target customers and a line of core products. Their most compelling reason for lending with or without an SBA guaranty is only in a small part community-driven; it is usually anchored in the bank's business plan and its internal criteria for being profitable and staying in business. Most banks have target customers, a line of loan products and

their own credit standards for loan approval. For all applications, the ability to pay the loan back is a top condition.

Lenders may be slow in embracing the **ARC** program, but SBA lending is picking up. A just released report on SBA lending nationwide shows at the end of July [3/4th through the fiscal year], more than half [55%] of SBA loan dollars for FY 2009 [\$8.7 billion for 7(a); \$ 3.6 billion for 504 and \$336 million for **ARC** loans] have been allocated for approved loans. While this is short of the usual lending levels at the end of the third quarter,



Source: SBA Report 2009

it is indicative of a more positive trend compared to levels in the fall of 2008 when SBA lending dropped precipitously.

At a time of general

economic dislocation, working capital issues are often not the only thing to consider. As economic conditions change, retrenching or restructuring may be essential. Without a business plan that redirects a business-as-usual approach, banks are not likely to provide financing to a company in distress. In the short run, target marketing to identify niche business opportunities is needed. The obvious task is competition research: who are the survivors and how do they manage. When import-competition has shifted the economic ground, a business may need to be restructured. There are short term survival and long-term repositioning issues to consider.

Most importantly, management has to be willing to ask the tough questions:

- What is our high margin product/service;
- How can our business target high revenue producers;
- Are there innovative product applications to diversify our customer pool;
- Would a strategic alliance or merger be a promising direction;
- What is our acceptance of an equity injection for ownership share;
- Can existing assets be sold to raise capital;
- Where can mentors be found; and
- What will it take to keep our existing, good customers.



After the assessment stage, the business needs to chart a course that has prospects for sales and survival. On this it can then develop a business plan for a solid loan request that is approvable.

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