President Obama Announces New Efforts to Improve Access to Credit for Small Businesses

Improving access to credit by small businesses is a crucial step in supporting economic recovery and job creation. Since the financial crisis began, small businesses have faced a perfect storm: the pulling back of lending by banks, deterioration in the value of real estate that they often rely on for collateral and weakened sales. The Obama Administration is committed to using all of our available tools to help small businesses access capital, create jobs and support a durable economic recovery.

The Administration has already taken several important steps to get credit flowing again to small businesses and to encourage job growth:

- The American Recovery & Reinvestment Act (ARRA) temporarily raised the guarantee on Small Business Administration (SBA) 7(a) loans and eliminated upfront borrowing fees on 7(a) and 504 loans;

- Under the Financial Stability Plan, the Administration has – in addition to its other steps to stabilize the financial system – introduced efforts to unfreeze the secondary markets that have traditionally supported nearly half of all SBA lending. Treasury has also introduced new rules to require the largest recipients of TARP funds to report their small business lending monthly and, for the first time, require all banks to report small business lending every quarter;

- ARRA cut taxes for small businesses, including allowing them to immediately deduct up to $250,000 of investment, carry back losses for five years, and exclude 75% of capital gains from small business investment from taxes.

These efforts have helped produce results. Compared to the depths of the recession, average weekly SBA loan volume is up over 70% and SBA secondary markets have returned closer to historical levels. In total SBA funding has supported nearly $13 billion of lending since ARRA was enacted on February 17, 2009.

But there is still a long way to go. That is why the President is announcing new measures today as part of an ongoing effort to help small businesses access credit and create jobs.

(I) Taking Further Steps to Provide Small Businesses With Access to Credit By Supporting Community Bank Lending Through the Financial Stability Plan

- Improving access to credit for small businesses by providing lower-cost capital to community banks that submit a plan to increase small business lending
- Supporting small business lending in the hardest-hit rural and urban communities by making low-cost capital available to Community Development Financial Institutions

(II) Seeking Legislation To Increase Maximum SBA Loan Sizes – Allowing More Businesses To Access The Credit They Need To Expand And Create New Jobs

- Raising lending limits on SBA’s 7(a) and 504 programs:
    - From $2 million to $5 million;
    - Up to $5.5 million for manufacturing companies under the 504 program;
- Raising lending limits on the Microloan program from $35,000 to $50,000

(III) Convening a Treasury-SBA Small Business Lending Conference to Work With Regulators, Lenders and Congress to Ensure Credit Is Available to Small Business.

DETAILED BACKGROUND ON THE PRESIDENT'S NEW PROPOSALS

(I) Taking Further Steps to Provide Small Businesses With Access to Credit By Supporting Community Bank Lending Through the Financial Stability Plan: Today, President Obama announced new steps under the Financial Stability Plan to encourage small business lending by providing capital support to community banks.

Current Support for Bank Lending. One of the tools used under the Financial Stability Plan to encourage and support lending, including to small businesses, was the Capital Purchase Program (CPP) which allowed banks to apply for capital at a dividend rate of 5% for the first five years (stepping up to 9% after five years). Along with our efforts to restore the markets that help get credit to consumers and businesses, stabilize the housing market, and increase confidence in our banks, this program helped us begin repairing our financial system.

The Need for Change. In response to continued challenges facing small businesses seeking credit from banks, the President is announcing further steps to encourage lending from smaller banks that will support economic recovery and job creation in their communities. Treasury is committed to taking targeted steps to support small banks, whose lending is much more directed towards small businesses than their larger counterparts:

Small Business Lending By Banks, June 2009	
Bank Size Class	**Small Business Loans as a Percentage of All Business Loans**
Assets less than $1 billion	56%
Assets more than $1 billion	21%

The Proposals. The Treasury Department will work to implement the following initiatives:

1. ***Improving Access To Credit For Small Businesses By Providing Lower-Cost Capital To Community Banks That Submit A Plan To Increase Small Business Lending***

   - **Community banks under $1 billion in assets will have access to lower-cost capital.** This new initiative will be available to viable banks with less than $1 billion in assets.

   - **Participating banks will be required to submit a small business lending plan.** Receiving this capital would be contingent on first submitting a plan in which participants would explain how the capital will allow them to increase lending to small businesses. In addition, participants will be required to submit quarterly reports detailing their small business lending activities.

   - **Capital will be available to community banks at a 3% rate.** Banks – subject to approval by their federal banking regulators – will be eligible to receive new capital at an initial dividend rate of 3% – compared to the 5% dividend available under the original Capital Purchase Program and the extended window for applications. Banks will be eligible to receive this capital totaling up to 2% of risk-weighted assets. The dividend will increase to 9% after five years to encourage timely repayment.

- **Treasury will work with community banks and small businesses to develop program terms that encourage availability of credit.** In the coming weeks, Treasury will work with community banks and the small business community to finalize program terms to best support small business lending, including the amount of capital available to participating institutions and the treatment of existing CPP participants that wish to replace existing capital with investments under the new program.

2. ***Supporting Community Development Financial Institutions (CDFIs) Lending to Small Businesses in the Hardest-Hit Rural and Urban Communities.***

- **Supporting small business lending in underserved rural and urban communities by providing low-cost capital to community development financial institutions (CDFIs).** Many economically hard-hit communities have experienced higher levels of job loss exacerbated by poor credit availability for local businesses and barriers to access to traditional financial institutions. To encourage lending to small businesses in these communities, Treasury is creating an initiative for certified Community Development Financial Institutions (CDFIs) that document that over 60% of their small business lending and other economic development activities target low-income communities or underserved populations, as they do now to maintain CDFI certification. Institutions that would like to participate in the program but have not yet been certified as CDFIs will be given an expedited review by the CDFI Fund.

- **Capital will be available to CDFIs at a 2% rate.** Under this program, certified CDFI banks and thrifts – subject to approval by their federal banking regulators – will be eligible to apply for capital at a 2% rate for up to 8 years. After 8 years, the rate will step up to 9% to encourage repayment. CDFI banks and thrifts will be eligible to receive up to 2% of risk-weighted assets.

- **CDFI credit unions will be eligible to apply.** Along with banks and thrifts, certified CDFI credit unions – which were not eligible under the existing CPP program – will be allowed to apply for subordinated debt at rates equivalent to those offered to CDFI banks and thrifts.

- **Treasury will consult with all stakeholders to ensure program terms can support lending.** Treasury will consult with all stakeholders to ensure that final program terms can support new small business lending, including the amount of capital available to participating institutions and the treatment of existing CPP participants that wish to replace existing capital with investments under the new program. In addition, Treasury will continue to actively explore ways to increase access to liquidity for CDFI loan funds so as to foster more lending to small businesses.

(II) Increasing Maximum SBA Loan Sizes – Allowing More Businesses to Access the Credit They Need to Expand and Create New Jobs: Congressional leaders – including Senate Committee on Small Business and Entrepreneurship Chair Landrieu and Ranking Member Snowe and House Committee on Small Business Chair Velazquez – have called for legislation that would increase the size of key SBA loans. Today, the Administration is announcing support for legislation that would achieve that goal.

Entrepreneurs, small business owners, and lenders indicate that there is a market gap for larger SBA loans, which are needed to start and grow businesses. Increasing maximum loan sizes offered by banks, credit unions and other lenders will allow the SBA to ensure that more small businesses can get access to the credit they need to expand their operations and create new jobs. Raising the loan sizes would have no incremental long-run budget cost, although in the short-run there could be minimal transition costs for these proposals.

1. ***Increasing the Maximum 7(a) Loan Size to $5 Million***

What 7(a) Does. The 7(a) loan program – the SBA's largest – provides partial guarantees on loans for small businesses borrowing to invest in working capital, machinery and equipment, and real estate.

The Need for Change. Currently the maximum loan under the program is $2 million. But entrepreneurs and small business owners say they need bigger loans to start and grow their business. The percentage of 7(a) loans for more than $1.5 million has grown, from 13% of all loan dollars in 2005 to 21% in 2009. The loan size cap has not been increased in nearly a decade.

The Proposal. The President supports raising the 7(a) loan size from $2 million to $5 million. Historical results suggest that larger loans are better performing for SBA than smaller loans.

2. ***Increasing the Maximum Loan Size for 504 Loans That Support Business Expansion and Economic Development to $5 Million and $5.5 Million for Manufacturers***

What 504 Does. The 504 program provides guarantees on loans for real estate and other fixed assets to small businesses for expansion that will create and retain jobs.

The Need for Change. Currently the maximum loan under the program is $2 million (or $4 million for manufacturers). Like 7(a), this limit is increasingly restrictive: the percentage of 504 loans for more than $1.5 million has grown, from 15% of all loan dollars in 2005 to 28% in 2009.

The Proposal. By increasing the maximum 504 project loan from $2 million to $5 million for standard borrowers (supporting a total project of $12.5 million) and from $4 million to $5.5 million for manufacturers (supporting a total project of $13.75 million), this expansion will allow small businesses to undertake larger projects.

3. ***Increasing the Maximum SBA Microloan Size***

What the Microloan Program Does. SBA's long-standing microloan program supports small loans to start-ups and other small businesses.

The Need for Change. The program is limited to loans of $35,000, which is increasingly inadequate.

The Proposal. The Administration will support legislation to increase the maximum loan size under this program from $35,000 to $50,000.

(III) Calling for a Conference With Members of Congress, Regulators, Lenders and the Small Business Community on Small Business Lending

- **Secretary Geithner and SBA Administrator Mills will host a conference to discuss additional efforts.** Across the country and in Congress, significant concerns exist about the availability of credit for small businesses, whether there are additional steps policymakers should take to improve access to credit, and whether banks have been too constrained in their standards for small business lending. To further explore these challenges and potential policy responses, the President has asked Secretary Geithner and SBA Administrator Mills to convene a conference in the coming weeks to bring together regulators, Congressional leaders, lenders and small businesses to discuss additional efforts that can be taken to improve the availability of credit to small businesses.

- **Treasury, in consultation with SBA, will work with Congress to explore how programs to promote small business lending can be fostered.** As part of this effort, Treasury, in consultation with the SBA, will continue to work with Congress to explore how participation in programs explicitly designed to promote small business lending can be fostered.

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