Small Business Recovery

Helping Small Businesses Help The Recovery

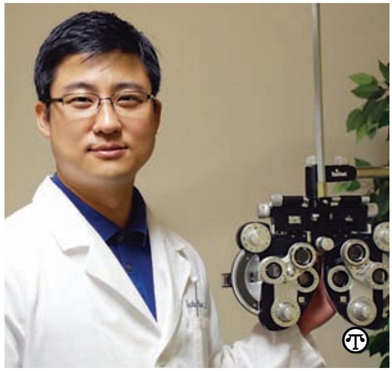
(NAPSA)—It seems the U.S. economic recovery may be largely driven by small businesses.

The companies represent 99.7 percent of all employer firms in the U.S. and employ just over half of private-sector workers, according to the U.S. Small Business Administration (SBA). But analysts say the key to these firms' success will be their ability to find funding during the coming months.

Small businesses and entrepreneurs typically need loans to finance new equipment, personnel, marketing and other matters. Such was the case for entrepreneur Dr. Justin Kim, whose eye care center was sorely in need of working capital to increase marketing efforts. Like many other small-business owners, Dr. Kim took advantage of new loan provisions set forth by the American Recovery and Reinvestment Act. They eliminate some borrower fees on SBA's largest loan program—the 7(a) program—and increase guarantees up to 90 percent.

Analysts say the fee elimination means more capital will be available to businesses at lower costs, while increasing guarantee levels will help provide banks with the greater confidence they need to extend credit during the economic crisis.

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 percent guarantee and the temporary fee elimination, would save a borrower about $8,100. In total, the new provisions are expected to support approximately $8.7 billion worth of 7(a) loans.



A new lending program could make working capital more affordable for many small businesses.

Finding Financial Support

Generally, SBA-backed loans provide a key source of financing for viable small businesses that have real potential but cannot qualify for loans from traditional sources. The loans are provided and funded by participating banks and other lenders.

To borrow, a business must be established for profit and must also meet SBA's size standards for a small business, among other requirements. To qualify for an SBA 7(a) guarantee, a small business must also meet the lender's criteria and the 7(a) program requirements. In addition, the lender must certify that it could not provide a loan under the proposed terms and conditions without the 7(a) guarantee.

Help Where It's Needed

Many of the loans that SBA backs go to underserved markets. In fact, the administration's loans are more likely to go to a business that might be minority owned, woman owned or located in an area with lower income and higher unemployment than conventional bank loans.

June Gold is one of the many female business owners who qualified for financing under the new provisions. The president of a software and program development firm, she was originally turned down for a $500,000 loan by a bank after her husband and company founder, Steve, suddenly died. The funding was denied despite contracts between Gold's firms and two large pharmaceutical companies, leaving her in need of money to hire skilled staff and continue marketing her products.

Her luck changed when she chanced upon a workshop that directed her to a bank in the area that handles SBA loans.

"They found a way to make it happen," says Gold. With her $400,000 7(a) loan, she hired a seasoned salesperson and is expanding operations. Last year, her company posted $1.2 million in sales.

To learn more, for a list of approved lenders or tips on starting a business, visit the Web site www.sba.gov.

Note to Editors: *This is the first in a series of 11 articles from the Small Business Administration on Recovery Act initiatives and how small businesses can get the help they need to survive and thrive.*