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UNLOCKING CREDIT FOR SMALL BUSINESSES

Fact Sheet

[Read Secretary Geithner's Remarks.](#)
[View the Q&A for Small Business.](#)

The Obama Administration firmly believes that economic recovery will be driven in large part by America's small businesses, which have generated about 70 percent of net new jobs annually over the past decade. But as the flow of credit has dried up during this recession, small business owners who were prudent and responsible have been set back by the behavior of others in our financial system who were not. Businesses with strong credit histories have seen loan applications denied due to conditions that have nothing to do with their own actions and are now struggling to expand their businesses, make their payments or even keep workers on their payrolls. As a result, while the U.S. Small Business Administration (SBA) typically guarantees about \$20 billion in loans annually, new lending is trending below \$10 billion this year.

The Obama Administration has already taken several positive steps to ensure that small businesses have access to the credit they need to support an economic recovery. The American Recovery and Reinvestment Act signed by the President provides for increased guarantees and reduced fees for certain Small Business Administration loans. In February, the Treasury Department made a special effort under the Consumer and Business Lending Initiative to improve terms for securities backed by SBA loans in the TALF.

Today, as part of an effort Treasury Secretary Timothy Geithner first outlined in introducing the Financial Stability Plan (FSP) in February, we are taking immediate action to help ensure that credit – the lifeblood of America's small businesses and its economy – gets flowing again to

entrepreneurs and business owners. As another part of the Consumer and Business Lending Initiative, the Treasury Department will – by the end of the month – begin making direct purchases of securities backed by SBA loans to get the credit market moving again, and it will stand ready to purchase new securities to ensure that community banks and credit unions feel confident in extending new loans to local businesses. These purchases, combined with higher loan guarantees and reduced fees, will help provide lenders with the confidence that they need to extend credit, knowing they both have a backstop against their risk and a source of liquidity. These measures will complement other steps the Administration is taking to help small businesses recover and grow, including several tax cuts under the Recovery Act.

Unlocking Credit for Small Businesses

1. ***Jumpstart Credit Markets For Small Businesses By Purchasing Up to \$15 Billion in Securities***
 - ***Stand Ready to Purchase Securities Pooled from the SBA's***
 - Largest Loan Program for Small Businesses***
 - ***Stand Ready to Purchase Securities Pooled from the SBA's Community Development Loan Program***
2. ***Temporarily Raise Guarantees to Up to 90 Percent in SBA's 7(a) Loan Program***
3. ***Temporarily Eliminate Certain SBA Loan Fees to Reduce the Cost of Capital***
4. ***Call by Secretary Geithner for New Reporting Requirements on Bank Lending to Small Businesses and Greater Efforts to Extend Small Business Loans***
5. ***Issue Guidance for an Expanded Carryback Provision as Part of the Recovery Act's Comprehensive Tax Cut Package for Small Businesses***

1. **Jumpstart Credit Markets For Small Businesses By Purchasing Up to \$15 Billion in Securities**

- ***Begin Direct Purchases of Securities Backed by Loans from SBA's 7(a) Program:***

Traditionally, SBA lending has been supported by an active secondary market, as community banks and other lenders sell the government-guaranteed portion of their loans, providing them with new capital to make additional loans. But since last fall, this secondary market – which has historically supported over 40 percent of SBA's 7(a) lending program – has frozen up. As a result, both lenders, including community banks and credit unions, and the "pool assemblers" that securitize their loans have been left with government-guaranteed SBA loans and securities on their books. This has prevented them from making or buying new loans. Today, the Treasury Department announces that – in order to get credit moving immediately to small businesses – it will:

3. **Temporarily Eliminate SBA Loan Fees to Reduce the Cost of Capital**
 - ***Elimination of Borrower and Lender Fees for 504 Loans:*** On any new eligible 504 applications submitted beginning today, SBA will temporarily eliminate the Certified Development Company (CDC) processing fees charged to borrowers and the third-party participation fees charged to lenders. As a temporary provision authorized by the Recovery Act, these measures will reduce costs to both borrowers and lenders participating in the 504 program, which has a demonstrated record of supporting community development and creating jobs.
 - ***Elimination of Up-Front Fees for 7(a) Loans:*** For any new eligible 7(a) loan, the SBA will temporarily eliminate the up-front fees that lenders pass along to borrowers. These fees – which go up to 3.75 percent for larger loans – increase the cost of borrowing for small businesses and make it more difficult for them to access the credit they need to expand or make new investments.
 - ***Rebates for Fees Paid Since February 17th:*** For borrowers or lenders charged any of these fees on loans approved on or after February 17th, the SBA will provide a refund, to ensure that Recovery Act provisions create the maximum possible economic stimulus.
 - ***A Pledge to Quickly Turn Around Loans:*** To maintain a high level of service to potential borrowers and lenders alike, the SBA also pledges that complete loan applications will be turned around quickly by the SBA – usually in as little as two to three days.
4. **Call by Secretary Geithner for New Reporting Requirements on Bank Lending to Small Businesses and Greater Efforts to Extend Small Business Loans**
 - ***Require the 21 Largest Banks Receiving Financial Stability Plan Assistance to Report Their Small Business Lending Every Month:*** As part of the President's commitment to increasing transparency and accountability, Treasury will – for the first time – require the 21 largest banks receiving capital from the government to report how much small business lending they do every month.
 - ***Call for Quarterly Reports of Small Business Lending By All Banks:*** Today, Secretary Geithner called for every bank nationwide to report their total lending to small businesses in their regular quarterly reports, rather than just once a year. Secretary Geithner will ask bank regulators to take steps to amend the quarterly Report of Condition to achieve this important objective. This will offer more current information about trends in small business lending, while at the same time providing important information about how well government programs are working to stimulate these loans.
 - ***Issue Call for All Banks to Make Efforts to Increase Small Business Lending:*** Today, Secretary Geithner called on all banks – whether or not they receive FSP assistance – to make an extra effort to extend small business loans to creditworthy borrowers. In light of the extraordinary assistance provided to the banking system, Secretary Geithner emphasized that lenders should take a special responsibility for providing the credit that small businesses need to operate, expand and add jobs.
5. **Issue Guidance for An Expanded Carryback Provision as Part of the Recovery Act's Comprehensive Tax Cut Package for Small Businesses:**
 - ***Establish Five-Year Carryback Provision to Increase Tax Refunds for Small Businesses:*** Today, the IRS will issue guidance for a provision in the Recovery Act that allows businesses with gross receipts of up to \$15 million to "carry back" their losses for up to five years, effectively allowing them a rebate on taxes paid in previous years. The Joint Committee on Taxation estimates that this measure will increase liquidity for small businesses by \$4.7 billion by September 30, 2009.
 - ***Continue Implementation of Recovery Act's Comprehensive Tax Cut Package for Small Businesses:*** The carryback provision is only one of several measures in the

Recovery Act that will improve liquidity for small businesses by lowering their taxes, including:

- ***Incentives to Invest in Plant and Equipment by Allowing Small Businesses to Write Off Up to \$250,000 of Investment:*** The Recovery Act allows small businesses to immediately write off up to \$250,000 of qualified investment in 2009, providing an immediate tax incentive to invest and create jobs.
- ***Additional Liquidity Support By Reducing Estimated Tax Payments:*** Normally, small businesses have to pay 110 percent of their previous year's taxes in estimated taxes. But with incomes down for many small businesses this requirement is too burdensome – and causing a cash crunch. The Recovery Act allows small businesses to reduce their estimated payments to 90 percent of the previous year's taxes, helping to boost their liquidity and better align their estimated taxes with their actual taxes in a year of severe economic contraction.
- ***Extension of Bonus Depreciation Deductions Through 2009:*** The Recovery Act also extends through 2009 bonus depreciation, allowing businesses to take a larger tax deduction within the first year of a property's purchase.
- ***Incentives for Investors to Put Money in Small Businesses:*** Finally, the Recovery Act includes a measure that will exclude from taxation 75 percent of the capital gains for investors in small businesses who hold their investments for five years. In his budget, the President proposes to go further, eliminating all capital gains taxes on small businesses and making this measure permanent.

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