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CONTENT

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[When You Should \(and Shouldn't\) Use a Line of Credit](#)

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[Points to Consider When Taking a Small Business Loan](#)

[The Financing Outlook for Small Business](#)

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Recent Changes to SBA Loan Programs

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What have been the recent changes to SBA loan programs, and how can I determine the best options for my business?

The Small Business Jobs Act of 2010 has instituted a number of changes to loan programs sponsored by the Small Business Administration (SBA). These changes encourage banks to increase the number and dollar amount of loans to small businesses and are hoped to subsequently speed economic and job growth. Before making any borrowing decisions and applying for SBA-backed loans, every business should first understand these important changes.

Making It Easier for Lenders to Lend

SBA loans have always been a good option for small businesses that have trouble qualifying for loans through more traditional means, such as collateral-based loans, because they are often easier to obtain. This is largely due to the government guarantee of repayment of the loan, up to 85 percent of it. This helps protect lenders in the event that the borrower does not pay. The Small Business Jobs Act has increased the repayment guarantee to 90 percent for some SBA loans, providing even more reassurance to lenders and thus making loans easier to obtain.

The government has also boosted the number of small businesses that qualify for SBA loans by increasing the alternate size standard to include those with less than \$15 million in net worth and \$5 million in average net income.

From March 2011 to September 2012, the initiative will also allow some small businesses to refinance their owner-occupied commercial real estate mortgages into the 504 loan program, which is designed to provide long-term financing for fixed asset projects (property improvements, equipment, land, etc.) on the local level. It also increases the maximum 504 amount to \$5 million for most borrowers, with fees waived for lender and borrower alike. For energy and manufacturers, 504 loans have a new limit of \$5.5 million. Because of these changes to the 504 program, some small businesses can now refinance mortgages on more expensive properties that they couldn't have refinanced previously.

The law permanently increased microloan limits from \$35,000 to \$50,000 and 7(a) loans from \$2 million to \$5 million. Until September 2012, SBA Express loan limits have been raised from \$350,000 to \$1 million. Loans through SBA Express are designed to be as accessible as possible. The approval process takes about 36 hours. The quick turnaround combined with the new higher limit make this loan more available and more desirable to a greater number of small businesses.

There are also a number of pilot programs designed to enhance job growth. The new Dealer Floor Plan Pilot Program expands financing options for automotive, RV, and boat dealerships. Meanwhile, the SBA set aside \$20 million per year for the Small Business "Intermediary" Lending Pilot, which helps local nonprofit organizations and other organizations by backing the loans they make to small businesses up to \$200,000. The program is expected to begin mid-2011 and run for three years.

The new law also promotes small business exporting by permanently increasing the maximum size of 7(a) International Trade Loans and Export Working Capital Loans to \$5 million and by making the Export Express pilot loan program into a permanent program, with 90 percent guarantees for loans up to \$350,000 and 75 percent guarantees for loans

between \$350,000 and \$500,000.

In addition, the law allows for several new grants and tax breaks for small businesses and the lenders and organizations that lend to them.

Aside from doing plenty of research on your own, the best way to find good borrowing options for your business is to talk to an experienced banker who is aware of your business's needs and is up-to-date on the recent changes. The size of your business (both financially and in number of employees) and the field it services may affect your qualifications. A good banker knows what questions to ask to set your business up for the most successful borrowing situation.

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