

CLEVELAND DISTRICT OFFICE NEWS
 INFORMATION FOR THE SMALL BUSINESS COMMUNITY

Inside This Issue:

Loan Report	1
News for Our Lending Partners	2
Karen Mills Nominated as SBA Administrator	4
Lake County Lender Roundtable Held	4

Featured in
 News for Our Lending Partners:

- Initiative to Facilitate the Sale of SBA 7(a) Loans on the Secondary Market
- New Energy Efficiency Public Policy Goals for the 504 Program
- New IRS Tax Verification Alternative



Your Small Business Resource

LOAN REPORT AS OF DECEMBER 31, 2008

7(a) and 504 Loans Combined

Bank	Number Approvals	Dollars (In Thousands)
Huntington National Bank	51	\$9,571
US Bank	23	\$4,352
National City Bank	19	\$1,865
Charter One Bank/RBS Citizens	18	\$1,762
KeyBank	11	\$4,353

504 Loans

Bank	Number 504 Approvals
National City Bank	4
Huntington National Bank	3
Charter One Bank/RBS Citizens	2
CF Bank	1
Dollar Bank	1
Excel National Bank	1
Haven Trust Bank	1
KeyBank	1
Middlefield Bank	1
National Bank, Arizona	1
Ohio Commerce Bank	1
ShoreBank	1
US Bank	1
Zions First National Bank	1

CDC	Number 504 Approvals	Dollars (In Thousands)
Cascade Capital Corp.	8	\$3,489
Lake County SBAC	5	\$1,944
Growth Capital Corp.	4	\$1,560
Horizon Certified Dev. Co., Inc.	1	\$1,172
Northwest Ohio Dev. Ass't.	1	\$369
SEM Resource, Inc.	1	\$1,732

News for Our Lending Partners

Initiative to Facilitate the Sale of SBA 7(a) Loans on the Secondary Market

Introduction

Due to the recent uncertainty and disruption in American and International capital markets, which has substantially affected the secondary market for SBA backed securities, SBA is continuing to coordinate and collaborate with the President's Working Group on Financial Markets to stabilize and restore confidence in those markets. This notice describes SBA policy changes recently implemented by regulation, which are designed to better facilitate the formation and pricing of pools of SBA guaranteed loans for sale on the secondary market. These changes will significantly increase the potential liquidity of SBA lenders and thereby expand their lending to the small business community during this critical time.

Background

The Small Business Secondary Market Improvements Act of 1984 authorized SBA to facilitate the pooling of the guaranteed portion of SBA loans made under Section 7(a) of the Small Business Act in order to foster and enhance their marketability on the Secondary Market. The availability of an active secondary market for SBA loans provides SBA lenders with an efficient process through which to sell their SBA backed loans, which significantly increases their liquidity and enables them to make additional SBA loans. (Additional information on pooling SBA loans may be found in SBA's Secondary Market Program Guide, available at http://www.colsonservices.com/main/f_n_r_main.shtml.)

The interest rate on SBA guaranteed loans is negotiated between the lender and the borrower, so there is wide variability in the interest rates found in SBA backed securities. In addition, the amount of any applicable fee (servicing fee and premium protection fee) that is to be retained by the lender is negotiated between the lender and the first purchaser of the note (usually a broker or securities dealer), which adds additional variability to the pricing of SBA backed securities. This variability greatly complicates the pooling of SBA loans for sale on the secondary market, because loan pools generally have similar interest or coupon rates. It also makes the pooling and sale of SBA loans less attractive, because it contrasts with the consistency found in other types of securities sold on the secondary market. As a result, SBA published changes to its regulations on November 13, 2008, to further facilitate the sale of SBA loans on the secondary market. Effective with this notice, the Agency is initiating the Weighted Average Coupon (WAC) Pool concept by adding the enclosed Chapter 8, Weighted Average Coupon Pools, to the SBA's Secondary Market Program Guide.

The SBA will continue to adjust the maturity ratio (percentage of the shortest term loan in a pool of the longest term loan) to maintain a zero subsidy rate for pools within any given cohort (fiscal) year accounted for under the Federal Credit Reform Act (FCRA). The SBA guaranty for all of its loans programs, including those sold in the secondary market, carry with them the full faith and credit of the United States Government. Programs accounted for under the FCRA are provided permanent indefinite authority for any future re-estimated costs and, should the need arise; also have authority to borrow from the Treasury.

Summary of Weighted Average Coupon Pool Concept

WAC pools will use the same basic structure as standard SBA pools, except for the calculation of the coupon rate on the pool. Instead of a pool interest rate that SBA had formerly required be set at the lowest net coupon rate of any loan in the pool, under WAC Pools the pool interest rate will be set at the weighted average net interest rate of all loans in the pool. However, all loans in a WAC pool must have a note rate that is within a 200 basis point range. In addition, the net coupon rate of the loans in any given pool must have a maximum differential of 75 basis points between the lowest and highest net coupon rate.

Unlike standard SBA pools, WAC pools contain loans that have varying net coupon rates. For example, if a pool contains twenty loans each with a principal balance of \$100,000, and ten of the loans have a net rate to the investor of prime plus 1 percent and ten have a net rate to the investor of Prime plus .5 percent, the pool would have an initial weighted average coupon rate of Prime plus .75 percent, because each loan would have a weighted rate of 5 percent or 1/20 of the pool. (WAC is calculated by multiplying the balance of each loan times the net rate to the investor on each loan, summing up the results, and dividing by the aggregate dollar value of the pool's underlying loan balances.) The WAC on the pool certificate will reset monthly based on the balance on the pool's underlying loans, which will have been affected by principal repayments, prepayments, and/or defaults in the underlying loans in the pool.

While SBA lenders will benefit from the Agency's WAC Pool initiative through increased demand for their SBA 7(a) guaranteed loans, the assembly, sale, etc., of WAC Pools will generally fall under the purview of brokers or pool assemblers. Pool assemblers or brokers or interested SBA lenders will find additional information, including the complete SBA Secondary Market Program Guide, available from SBA's fiscal and transfer agent, Colson Services, at http://www.colsonservices.com/main/f_n_r_main.shtml. Also available will be the revised SBA Form 1454, which is used by brokers and pool assemblers to assemble and transmit SBA loan pools, including the new WAC pools at http://www.sba.gov/idc/groups/public/documents/sba_homepage/tools_sbf_finasst1454.pdf

SBA Announces New Energy Efficiency Public Policy Goals for the 504 Program

On December 19, 2007, the Small Business Investment Act was amended by Public Law 110-140, The Energy Independence and Security Act of 2007. As a result of PL 110-140, the SBA is pleased to announce three new energy efficiency public policy goals for the 504 program:

1. A 504 project resulting in the reduction of an applicant's energy consumption by at least 10 percent;
2. A 504 project involving the increased use of sustainable design, including designs that reduce the use of greenhouse gas emitting fossil fuels, or low-impact design to produce buildings that reduce the use of non-renewable resources and minimize environmental impact, or;

A 504 project involving plant, equipment and process upgrades of renewable energy sources such as the small-scale production of energy for individual buildings or communities' consumption, commonly known as micropower, or renewable fuels producers including biodiesel and ethanol producers.

504 projects meeting any of these public policy goals can boost SBA participation to \$2,000,000 without creating or retaining jobs, as long as the CDC's portfolio average is 1 job for every \$50,000 of debenture proceeds. Certain energy efficiency projects may also qualify for SBA 504 project participation up to \$4,000,000. Please contact the Lender Relations' division if you would like more information.

If you have any questions on this or any SBA loan matter, please contact our Lender Relations division at (216) 522-4180.

New IRS Tax Verification Alternative

The Internal Revenue Service (IRS) has implemented a new expedited service through which the financial community can expeditiously confirm the income of a borrower during the processing of a loan application: Income Verification Express Service (IVES) program. Under IVES, the IRS can electronically provide tax return transcript, W-2 transcript and 1099 transcript information generally **within 2 business days** to a third party with the consent of the taxpayer.

The transcript information is delivered to a secure mailbox based on information received from a Form 4506-T. A \$4.50 fee is imposed on each transcript requested. It is expected that this process will replace the current process, which requires the manual pick-up and delivery of transcripts from the seven IRS Return and Income Verification Services (RAIVS) units located across the country.

Under the new system, transcripts will be delivered electronically using the e-Services platform via a secure mailbox. To participate in the IVES program, lenders will need to register and identify employees to act as agents to receive electronic transcripts on the lender's behalf. To establish access to a secure mailbox, lenders will need to register, which can be done through the following IRS website: <http://www.irs.gov/individuals/article/0,,id=161649,00.html>. Additional information on IVES is also available from this website or contact leonard.fagan@sba.gov. ♦

Baruah Welcomes Nomination of Karen Mills to be SBA Administrator

U.S. Small Business Administration Acting Administrator Sandy K. Baruah issued the following statement on President-Elect Barack Obama's nomination of Karen Mills to be the next SBA Administrator:

"I applaud, and welcome, President-Elect Obama's selection of Karen Gordon Mills to serve as the next Administrator of the SBA.

"Karen Mills has been a friend and professional partner over the years in both my roles as the assistant secretary of Commerce and the head of the SBA. She is ideally suited to lead the agency. Mills' background is a combination of management, venture capital, and public policy, three elements key to leading the agency successfully. In addition, Mills has a record of bipartisanship which is important to SBA and the small business community the agency serves.

"I am proud of the Agency's record of reform, which has opened opportunity to small business owners throughout America, achieved record loan volume to small businesses, and ensured that communities affected by disaster have the resources to rebuild. Mills will head an agency that has vastly improved its delivery of services and has a dedicated team of civil servants to help carry out the agency's mission.

"Along with the entire SBA team, I am committed to ensuring a smooth and collaborative transfer of power to the new Administration. Mills will have my full support in her new role during the transition and beyond." ♦

Lender Roundtable Held in Lake County



On December 19, 2008 in Mentor, Ohio, the SBA Cleveland District Office held a Lenders Roundtable with local bankers and CPA's. The Lake County Small Business Assistance Corporation and the Lake County Port Authority hosted the event. Gil Goldberg, SBA Cleveland District Director, provided an update on SBA programs, goals, and objectives. Mr. Goldberg had an informative dialogue with the commercial lenders and the CPA's. Discussion focused on the economy and the current lending environment in the Lake County and Northeastern Ohio area.

The lenders are hoping the weak lending environment improves soon. Feedback from the lenders to help jumpstart the economy and get financing flowing again included suggestions that the SBA lower borrower and lender fees on SBA loans, increase the maximum SBA loan amounts, and loosen the refinancing rules. John Magill, Chief Strategic Officer, Ohio Department of Development, spoke on Governor Strickland's Strategic Plan for Ohio. Alan Weaver, Program Director of Finance, Lake County Small Business Assistance Corporation (CDC), spoke about the 504 loan program and its plans and achievements. ♦

SBA Cleveland District Director Gil Goldberg with John Moshier of KeyBank

