

CLEVELAND DISTRICT OFFICE NEWS
 INFORMATION FOR THE SMALL BUSINESS COMMUNITY

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Loan Report as of February 28, 2009

7(a) and 504 Loans Combined

Bank	Number Approvals	Dollars (In Thousands)
Huntington National Bank	72	\$10,361
US Bank	32	\$5,247
National City Bank	31	\$4,318
Charter One Bank/RBS Citizens	25	\$2,065
KeyBank	20	\$4,748

504 Loans

Bank	Number 504 Approvals
National City Bank	5
Huntington National Bank	3
Charter One Bank/RBS Citizens	2
First Federal Bank	2

CDC	Number 504 Approvals	Dollars (In Thousands)
Cascade Capital Corp.	9	\$3,599
Lake County SBAC	8	\$2,404
Growth Capital Corp.	6	\$2,102
Northwest Ohio Dev. Ass't.	2	\$1,577
West Central Partnership	2	\$2,038
Horizon Certified Dev. Co.	1	\$1,172
SEM Resource, Inc.	1	\$1,732
Stark Development Board	1	\$1,315

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- Introducing the Unilateral Action Servicing Matrix
- SOP 50 10 5(A) Policy Regarding the Financing of Goodwill



Recovery Act Gives SBA Tools to Boost Small Businesses: Accessing Capital in a Recessionary Climate

By Gil Goldberg, District Director
SBA Cleveland District Office

For small business owners across the country and right here in Northern Ohio, the current recession creates more than headlines; it creates daily headaches. Decreasing consumer spending and increasing energy costs have impacted small businesses since the end of 2007, and economists predict this recession could last throughout this year. The financial crisis has created a variety of conditions that impact small businesses, including a lack of liquidity in the banking system, a reluctance of many lenders to extend new loans, tightened credit standards, weaker finances at small businesses, and uncertainty about taking on new debt on the part of many entrepreneurs.

Together, these conditions have led to a drop in small business lending here and across the country. However, a renewed emphasis on prudent lending practices does not mean that financing for small businesses is unavailable locally.

The U.S. Small Business Administration plays a vital role in helping small businesses obtain the financing they need to start, grow and succeed. Even in good times, lenders turn to SBA to help finance startups and to grow businesses. In spite of the credit crunch, SBA backed over 78,000 small business loans nationwide worth almost \$18 billion last year. In 2008, our office worked with 91 different banks and credit unions representing practically every lender in the District. In Northern Ohio, 1,316 small businesses received SBA loans totaling \$226 million in FY2008.

Given the fact that the vast majority of all businesses in Northern Ohio are small, it stands to reason that small businesses will lead the way out of the current recession.

So what can SBA do to improve small businesses ability to access credit in this recessionary climate? President Obama signed the American Recovery and Reinvestment Act on February 17. The bill gave SBA new tools and enhanced programs for financial assistance for small business owners. It provides \$730 million to SBA and makes changes to our lending and investment programs so we can reach more small businesses that need help.

One of the new SBA loan programs created by the Recovery Act will place 100 percent SBA guarantees on loans of up to \$35,000 to viable small businesses that need help making payments on an existing, qualifying small business loan. Repayment is deferred until 12 months after the loan is fully disbursed, allowing small businesses time to refocus their business plans in order to succeed in the long run.

The Recovery Act provides \$375 million for temporary fee reductions or eliminations on SBA loans and increased SBA guarantees, up to 90 percent for certain loans. Currently, SBA can guarantee up to 75 or 85 percent depending on the size of the loan. Increasing the SBA guarantee percentage will encourage lenders to extend more capital to startup and existing small businesses by increasing the share covered by an SBA guarantee.

The bill expands SBA's Microloan program, which provides small loans up to \$35,000 paired with technical assistance to start-up, newly established or growing small businesses. It is an immediate option for small businesses, since the Microloan program is already in place with non-profit, community-based lenders across the country.

With these and other elements of the American Recovery and Reinvestment Act, SBA programs will make it easier and less expensive for small businesses to get loans, give risk-weary lenders new incentives to make more loans unlock credit markets and begin economic recovery for the small business sector. SBA remains dedicated to supporting the backbone of the nation's economy, our small business community. For more information, please feel free to visit our website at www.sba.gov or contact us directly at 216-522-4180. ♦

News For Our Lending Partners

Issuance of SOP 50 10 5(A) - Lender and Development Company Loan Programs

The purpose of this notice is to announce the publication of the first update to SOP 50 10 5(A). The first update to the SOP will be known as SOP 50 10 5(A) and will be effective March 1, 2009. In summary, here is a list of the more important changes made:

- All policy and procedural notices between January 1, 2008 and December 31, 2008 were added to the SOP;
- Small/Rural Lender Advantage was added (language was incorporated directly from Notices 5000-1045 and 5000-1056);
- Community Express was added (language was incorporated directly from Notice 5000-1068);
- Added LIBOR plus 300 basis points as a base rate and modified the guidance on selecting the initial note rate (language was incorporated directly from Notices 5000-1081 and 5000-1082)
- Added specific guidance on the financing of good will;
- Modified guidance on debt refinancing;
- Clarified guidance on working capital documentation;
- Modified guidance on environmental provisions and appendices;
- Modified guidance on post-construction certification requirement;
- Modified guidance on business valuations;
- Clarified that CDCs must issue a finding of no adverse change no earlier than 7 days prior to the submission of the closing package to the SBA field office; and
- Updated regulation references to incorporate the Lender Oversight Program Interim Final Rule that became effective 1-12-09.

Introducing the Unilateral Action Servicing Matrix

SBA's Commercial Loan Service Centers in Fresno and Little Rock have jointly developed a very useful quick-reference guide for lenders that can serve as a valuable tool when servicing their SBA loan portfolio — [the Unilateral Action Matrix](#). Lenders may act unilaterally when taking many loan servicing actions, and this matrix helps clarify when a lender can use its unilateral action. When taking action that falls within your unilateral authority, you are encouraged to notate your file with a statement such as "This action was taken pursuant to lender's Unilateral Authority." Then, attach this matrix to the statement and include it within your file, along with any other supporting information.

As outlined on the matrix, Lenders must document the justifications for their decisions and retain these and supporting documents in their file for future SBA review to determine if the actions taken by the Lender were prudent, commercially reasonable, and complied with all Loan Program Requirements.

The Unilateral Action Matrix is available for download at http://www.sba.gov/idc/groups/public/documents/sba_program_office/unilateral_action_matrix.pdf or by contacting your District Lender Relations Specialist at

(216) 522-4180.

SOP 50 10 5(A) Policy Regarding the Financing of Goodwill

As part of the update to SOP 50 10 5(A), the section on the financing of business acquisitions was modified. Among the changes was new guidance on the amount of goodwill that may be financed with the proceeds of a 7(a) loan. Previously, SOP 50 10(5) stated the following regarding the financing of goodwill:

The lender should explore seller-financing with a subordinate lien to the SBA-guaranteed loan on the business assets. The amount of seller-financing that should be considered is the amount being borrowed by the buyer to finance the acquisition of intangible assets such as goodwill.

As the number of 7(a) loans being used for business acquisition has increased, SBA determined that more specific guidance on the financing of goodwill was appropriate and added the following to SOP 50 10 5(A): Goodwill:

- (1) If the purchase price of the business includes goodwill (or "blue sky"), the lender should explore seller-financing with a subordinate lien to the SBA-guaranteed loan.
- (2) The lender may finance a limited amount of goodwill. In no event may the amount of goodwill financed by an SBA guaranteed loan exceed 50% of the loan amount up to a maximum of \$250,000.
- (3) If any of the loan proceeds will be used to finance goodwill, the amount must be specifically identified in the Use of Proceeds section of the Authorization.

News for Our Lending Partners (from Page 3)

(Goodwill, continued:)

The Agency has received comments on this issue from lenders and business brokers. Business brokers have commented that this will have a significant negative impact on their business. They are concerned that many sellers do not want to finance a portion of the sale to the new owner as was recommended in the previous versions of SOP 50 10. The comments from lenders are on both sides of the issue. Several lenders stated that they do not finance goodwill on a conventional basis. These lenders believe that goodwill is the riskiest asset on a small business borrower's books and do not believe that an SBA guaranteed loan should be used to finance goodwill. Other lenders stated that SBA financing of goodwill is the only financing available in the present credit market and that limiting the amount of goodwill that can be financed using a 7(a) loan to \$250,000 will effectively stop business acquisitions. Some lenders suggested that many newly unemployed individuals are considering the purchase of a business and that it is appropriate for SBA, in its role of financing those businesses that cannot access conventional loans, to provide guarantees on loans to these individuals when seller financing is not available.

SBA began collecting data on business acquisitions approximately 4 years ago. But, as SBA did not expressly address the financing of goodwill in the SOP, the data does not include how much of the business acquisition was goodwill or whether the goodwill portion was financed by the seller or by the buyer with non-SBA guaranteed funds. Thus, the initial performance data of these loans is inadequate to draw conclusions on the overall performance of loans with a substantial amount of goodwill.

Because SBA does not have data specifically identifying goodwill in business acquisitions and because the Agency has been told there are limited options for those borrowers wishing to finance a business acquisition involving a substantial amount of goodwill, SBA has decided that it will review loan applications that do not meet the guidance in the SOP.

Option for SBA Review

For loan applications where the request for 7(a) financing of goodwill exceeds the limits set in SOP 50 10 5(A) because the buyer and/or the seller are unable to finance the amount of goodwill that exceeds the SOP limit, the lender may submit the application to the [Standard 7a Loan Guaranty Processing Center \(LGPC\)](#) for SBA's consideration.

The submission must include:

1. A completed Form 4;
2. A completed Form 4-I including the lender's internal credit memo;
3. A completed Form 159(7a) where required;
4. A detailed explanation as to the circumstances that prevent the seller and/or buyer from meeting the SOP requirements for the financing of the balance of the goodwill;
5. A business valuation as required in SOP 50 10 5(A), Subpart B, Chapter 4, Paragraph II.C. to include the name and address of the individual performing the business valuation;
6. Any appraisals used to establish the value of real estate and/or equipment;
7. The name and address of any broker involved in the transaction and the fee charged for their services; and
8. Any other information that the LGPC needs to finish processing a specific application.

This process will be in place through August 31st, 2009. At that time, SBA will provide further guidance on this issue. During this six month period, SBA will collect information from the applications submitted to the LGPC and analyze the types of businesses and transaction structures submitted.

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

SBA Warns of Fraudulent Attempts to Obtain Bank Account Information from Small Businesses

The U.S. Small Business Administration issued a scam alert to small businesses, warning them not to respond to letters falsely claiming to have been sent by the SBA asking for bank account information in order to qualify them for federal tax rebates. The fraudulent letters were sent out with what appears to be an SBA letterhead to small businesses across the country, advising recipients that they may be eligible for a tax rebate under the Economic Stimulus Act, and that SBA is assessing their eligibility for such a rebate. The letter asks the small business to provide the name of its bank and account number. These letters have not been sent by or authorized by the SBA, and all small businesses are strongly advised not to respond to them. The scheme is similar in many ways to e-mail scams often referred to as "phishing" that seek personal data and financial account information that enables another party to access an individual's bank accounts or to engage in identity theft. The SBA is working with the SBA Office of Inspector General to investigate this matter. The Office of Inspector General asks that anyone who receives such a letter report it to the OIG Fraud Line at 1 (800) 767-0385, or e-mail at OIGHotline@sba.gov.

SBA's Patriot Express Loans Top \$250 Million to Vets and Military Community Entrepreneurs

In just 20 months, the U.S. Small Business Administration's Patriot Express Pilot Loan Initiative has approved more than \$250 million in loan guarantees to nearly 2,900 veterans and their spouses who are using the SBA-guaranteed funds to establish and expand their small businesses.

More than 20 percent of the loans have come in the first four months of fiscal year 2009, and overall loan amounts have averaged around \$88,000 per loan. Some 15 percent of the loans have gone to military spouses. Patriot Express, launched June 28, 2007, builds on the more than \$1 billion in loans SBA guarantees annually for veteran-owned businesses, and the counseling assistance and procurement support it provides each year to more than 100,000 veterans, service-disabled veterans and Reserve members. More than 14 percent of businesses in America are owned by veterans.

"Despite the difficulties presented by today's economy, SBA is committed to helping America's service men and women who are fighting the War on Terror, and all vets and military spouses," SBA Acting Administrator Darryl Hairston said. "We believe that Patriot Express, supported by SBA's other services, goes directly to the needs of these American patriots who wish to start businesses, and in the process encourages job creation and growth, an essential part of the President's economic agenda."

Patriot Express is a streamlined loan product based on the agency's highly successful SBA Express Program, but with enhanced guaranty and interest rate characteristics. The Patriot Express loan is offered by SBA's network of participating lenders nationwide and features SBA's fastest turnaround time for loan approvals. Loans are available up to \$500,000 and qualify for SBA's maximum guaranty of up to 85 percent for loans of \$150,000 or less and up to 75 percent for loans over \$150,000 up to \$500,000. For loans above \$350,000, lenders are required to take all available collateral.

The Patriot Express loan can be used for most business purposes, including start-up, expansion, equipment purchases, working capital, inventory or business-occupied real-estate purchases. Patriot Express loans feature SBA's lowest interest rates for business loans, generally 2.25 percent to 4.75 percent over prime depending upon the size and maturity of the loan. Local SBA district offices will have a listing of Patriot Express lenders in their areas. Details on the initiative can be found at www.sba.gov/patriotexpress.

Patriot Express is available to military community members including veterans, service-disabled veterans, active-duty service members participating in the military's Transition Assistance Program, Reservists and National Guard members, current spouses of any of the above, and the widowed spouse of a service member or veteran who died during service, or of a service-connected disability. Patriot Express loans have been approved in all 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and Guam and generally range from \$5,000 to \$375,000 in individual loan amounts. After loan applications are approved by the bank, they are submitted to SBA for approval. Most applications are approved by SBA within 24 hours.

SBA has veterans' business development officers in district offices in every state and territory able to provide military community members full access to the SBA's range of programs and services. There are also five Veterans Business Outreach Centers located in: Albany, N.Y.; Pittsburgh, Pa.; Lynn Haven, Fla.; Edinburg, Texas; and Sacramento, Calif. In addition to district offices, SBA's resource partners SCORE, Counselors to America's Small Business, Small Business Development Centers, and Women's Business Centers provide local and online assistance with: writing a business plan, financing options to start or grow your business, managing the business, expanding the business and selling goods and services to the government.

For those who are already small business owners and who expect call-up, the SBA and its resource partners have expertise to assist with preparing their businesses before deployment, managing their businesses, selling goods and services to the government, obtaining other SBA financing and financial assistance, and obtaining loans for economic injury – Military Reserve Economic Injury Disaster Loans (MREIDL) – loans of up to \$2 million are available for small businesses sustaining economic injury because an owner or essential employee has been called to active duty as a military reservist.

The SBA and its Office of Veterans Business Development (OVBD) provides comprehensive assistance, outreach and support to veterans. Each year the SBA assists more than 100,000 veterans, service-disabled veterans and Reserve Component members. Go to www.sba.gov/vets.

Interest rate maximums for Patriot Express loans are the same as those for regular 7(a) loans: a maximum of Prime + 2.25 percent for maturities under seven years; Prime + 2.75 percent for seven years or more. Interest rates can be higher by two percent for loans of \$25,000 or less; and one percent for loans between \$25,000 and \$50,000. ♦

SBA Upgrades Podcasting for Small Business Owners

The U.S. Small Business Administration has upgraded its podcasts to offer additional resources to the nation's entrepreneurs. Business owners can take advantage of this and other business resources from the SBA to help them more effectively manage their firms, including free online training courses and other business tools and resources.

The SBA podcasts, available online at www.sba.gov/tools/audiovideo/Podcasts/index.html, provide an introduction to a variety of small business topics, and provide useful business information and advice.

The newest podcast topics include *Marketing to the Federal Government*, *Getting Your Small Business Ready for Tax Season* and *Online Reporting of Employee Wages*. Existing podcasts for entrepreneurs are *Is Entrepreneurship for You* and *Checklist for Starting a Business*. New podcasts will be added regularly to provide insight and tips on such topics as downshifting in a slowing economy, going green and business plan development, along with programs for veterans and information to help entrepreneurs start, grow and succeed.

Each podcast delivers a broadcast quality recording that can now be downloaded through RSS feeds, in addition to portable media players and personal computers. RSS is a format for delivering regularly changing Web content, such as podcasts, that provides an easy way to keep up with news and information, and avoids searching for information on Web sites. It benefits readers who want to subscribe to timely updates that can be directly delivered. The content, known as a feed, can be read using a readily available RSS reader.

The podcasts are less than 10 minutes in length and feature expert interviews from government, industry and business professionals. SBA podcasts and other resources can be accessed online at

www.sba.gov/tools/index.html. ♦

President's Budget Overview Backs \$28 Billion in Small Business Credit for FY 2010

President Barack Obama's FY 2010 Budget Overview offers full support for the U.S. Small Business Administration's credit programs, authorizing SBA to support loan guarantees of \$28 billion to small businesses. The FY 2010 Budget Overview provides a broad outline of the President's budget priorities, including an appropriation for SBA of approximately \$700 million. The full budget proposal with account level appropriation details is scheduled for release in April.

The spending cited in the broad proposal would be in addition to the \$730 million funding provided for SBA credit programs in the recently enacted Recovery Act. That Act – for which most spending is targeted for use in 2009 and 2010 – authorizes SBA to raise guarantee percentages on some SBA loans to 90 percent, temporarily reduce fees on SBA-backed loans, expand funding for Microloans, and raise the maximum size of SBA-guaranteed surety bonds.

The bill outlines maximum authorization levels for SBA credit programs well above current demand for those programs. It sets a maximum of \$17.5 billion for SBA's 7(a) General Business Loan Guarantee program, \$7.5 billion for the 504 Certified Development Company Loan program, \$3 billion for the Small Business Investment Company debenture program and \$25 million for the Microloan program. The bill also provides for \$1.1 billion in direct disaster loans and provides for the launch of a pilot program to test the use of SBA-guaranteed loans as part of the agency's response to disaster declarations.

Aside from those credit provisions, the proposal:

- sustains funding for the agency's technical assistance and training programs
 - improves federal contracting data and continues reviews of small business size standards to help improve targeting of federal contracting opportunities for small businesses
- modernizes core agency information systems, streamlines loan processes and enhances human capital resources

The Budget Overview also includes the Obama Administration's Small Business and Community Bank Lending Initiative to expand small business credit availability and affordability by unfreezing secondary markets for small business loans as part of the larger plan to revive the flow of credit in the economy. ♦

National Small Business Week 2009: *Save the Date -- May 17-19, 2009*

The nation's top entrepreneurs will be hailed at the U.S. Small Business Administration's National Small Business Week events May 17-19, in Washington, D.C., marking the 56th anniversary of the agency, and the 46th annual proclamation of National Small Business Week. The highlight of events will be the announcement of the National Small Business Person of the Year. Men and women also will be recognized their involvement in disaster recovery, government contracting, and their support for small businesses. Awards also will be presented to SBA partners in financial and entrepreneurial development, including SCORE Chapter, Small Business Development Center and Women's Business Center of the year. Small Business Week award winners will meet with top agency officials, congressional representatives and national business leaders. The State Small Business Award Winners and recipients of the Champion and other Entrepreneurial awards are nominated by local trade associations, chambers of commerce and business organizations and government agencies. Additional information on the Small Business Week 2008 events is available at www.sba.gov/sbw. ♦

Know the SCORE: Small Business Basics for Entrepreneurs

Aspiring small business owners and entrepreneurs often wonder where they can turn for help with their small business idea. What are the first steps to take, how should a product be sold, and what is the best way to grow a business. If you're not afraid to ask for advice, the SBA can help you navigate through the seemingly uncharted waters of business start-up. SCORE "Counselors to America's Small Business" is the best source of free and confidential small business advice to help you build your business – from idea to start-up to success.

The SCORE Association, headquartered in Washington, D.C., is a resource partner of the U.S. Small Business Administration. It is a nonprofit association dedicated to entrepreneurial education and the formation, growth and success of small businesses nationwide. SCORE's extensive, national network of 10,500 retired and working volunteers are experienced entrepreneurs and corporate managers/executives. These volunteers provide free business counseling and advice as a public service to all types of businesses, in all stages of development. SCORE matches volunteer business management counselors with clients in need of expert advice.

The key qualification SCORE counselors bring to clients is real-world experience. SCORE business counselors have general management and specific industry experience that can benefit your business. SCORE business counselors may be working or retired business owners, business executives or operations managers. All SCORE counselors receive specialized training in counseling and mentoring. SCORE volunteers can help prospective and established small business owners and managers identify problems, determine the causes and find solutions. They are well-versed in developing effective business plans and creating strategies for business growth.

In addition to one-on-one counseling, SCORE also offers low-cost workshops and seminars at the local chapter level. Topics are planned to help address specific interests in a given community. Workshop topics have included: Developing Your Business Plan; Starting and Operating Your Own Business; Getting Financing For Your Business; Basic Business Accounting; Expanding Your Business; and Marketing – A Do-It-Yourself Approach for Small Business. Any small business can obtain help from SCORE. The approach is confidential and personal. You don't need to be applying for or to have an SBA loan to participate in the program. In fact, an idea is all that is necessary for consultation and counseling.

SCORE offers counseling online with a Web site created and managed by volunteers. Visitors to the site choose from a list of counselors with expertise in the business areas that interest them and write a question to the counselor who is the best match for their business or industry, and get an answer by e-mail. Site users can keep the dialog going as long as they have unanswered questions. SCORE also offers a workbook entitled *How To Really Start your Own Business*, and a variety of other "how to" workbooks and planning guides, including information about how to get financing, how to choose a bank, how to start a home-based business and other topics. To get free and confidential business advice, and to find the nearest SCORE chapter, visit online at www.score.org, or call SCORE toll free at 1-800-634-0245. SCORE's online e-mail counseling gives entrepreneurs the opportunity to send their small business question by e-mail to a SCORE counselor anywhere in the country. ♦

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