

## **President Calls for Passage of Small Business Jobs Package, Including Two New Lending Initiatives**

The Administration continues to work to pass a comprehensive small business jobs package, including new lending initiatives to help creditworthy firms access capital, tax cuts to support investment and expansion, and enhancements to successful Small Business Administration programs. These efforts follow up on actions already taken, including Recovery Act enhancements to SBA programs, a \$40 billion Small Business Health Care Tax Credit, and the new hiring tax credit passed through the HIRE Act.

### **I. New Administration Lending Initiatives to Provide Credit to Small Businesses**

- A New \$30 Billion Small Business Lending Fund to Support Community and Smaller Banks That Lend to Small Businesses in Their Communities
- A State Small Business Credit Initiative to Strengthen Innovative State Lending Programs—At a Time When Many are Struggle to Meet Increased Demand in the Face of State Budget Shortfalls

### **II. Tax Incentives for Small Businesses to Invest and Grow**

- Zero Capital Gains Taxes on Small Business Investments
- Extending A Provision that Expands Small Businesses' Ability to Immediately Expense New Equipment Investments
- "Bonus Depreciation" to Provide Incentives for Businesses to Invest in Plant and Equipment

### **III. Enhancement of SBA Programs**

- Permanently Increasing Maximum Loan Sizes for SBA Loan Programs
- Expanding Access to Commercial Real Estate Refinancing Under the 504 Program
- Supporting Smaller Loans and Early Stage Companies

### **I. The Administration's New Lending Initiatives To Help Small Businesses Access Credit and Create New**

**Jobs**: The President has put forward two new lending initiatives—passed out of the House Financial Services Committee last week—that are designed to spur private-sector lending to small businesses so that they can expand and create new jobs:

- **A \$30 Billion Small Business Lending Fund (SBLF) to Provide Capital to Community and Smaller Banks**: The \$30 billion in capital provided under the SBLF—a new proposed initiative completely separate from TARP—could potentially produce multiples of that amount in new lending, with little to no expected long-term cost to the taxpayer.
  - **Program Limited to Smaller Banks**, the overwhelming majority being community banks with less than \$1 billion in assets. These are the banks that do the large share of their commercial lending in small loans to small businesses, and even small farms. These are the banks that focus on relationship lending to the small businesses in their communities and that significantly outperformed larger banks in maintaining lending during the financial crisis.
  - **Participants Would Have Incentives to Increase Small Business Lending**: The dividend rate that banks pay on SBLF capital would decrease as they increase lending relative to a 2009 baseline level—falling to as low as 1 percent if they increase their lending more than 10 percent. On the other hand, the dividend rate would increase to 7 percent for banks that show no increase in small business lending in the first two years after receiving capital.
- **New State Small Business Credit Initiative**: In consultation with several Governors and Members of the House and Senate, the President has proposed a State Small Business Credit Initiative that aims to strengthen state programs that support lending to small businesses and small manufacturers.
  - **Supports Innovative Small Business Lending Initiatives That Have Been Threatened By State Budget Shortfalls**

- ***Encourages \$20 Billion in Additional Private Lending through Innovative State Initiatives:*** States would be required to use federal funds for programs that leverage private lenders to extend greater credit to small businesses and manufacturers who are creditworthy, but may not be getting the credit they need to create and expand jobs. States would be required to demonstrate a minimum “bang for the buck” – targeting at least \$10 in new lending for every \$1 in Federal funding.
- ***Enables Expansion of Successful State Models:*** The program will allow states to build upon successful models for state small business programs, including Capital Access Programs (CAPs), collateral support programs, and loan guarantee programs, including those targeted at rural and agricultural small businesses.

**II. New Tax Incentives to Support Small Businesses Seeking to Expand and Grow:** The Administration is working with Congress to put in place new tax incentives for small businesses to invest and grow:

- **Zero Taxes on Capital Gains on Small Business Investments:** The Recovery Act excluded 75 percent of capital gains on certain small business investments from taxes. The President has called for going one step further: eliminating all capital gains taxes on these small business investments.
- **Extending Small Businesses’ Ability to Immediately Expense Capital Investments:** The Administration proposes to support small business investments by further extending provisions that allow small businesses to immediately write off qualified investments—providing an immediate tax incentive to expand and create new jobs.
- **Extending “Bonus Depreciation” To Support Businesses Investing in New Plants and Equipment:** The President has proposed extending a Recovery Act tax cut that encourages businesses to invest in plants and equipment by accelerating the rate at which they can deduct the cost of capital expenditures. The Recovery Act provision is projected to reduce business taxes by about \$38 billion in 2009 and 2010; the Administration proposes extending this provision through tax year 2010.

**III. Enhancements of SBA Programs to Help More Small Businesses Access Capital:** The Administration also seeks action to enhance SBA financing programs, including:

- **Increasing Maximum Loan Sizes for SBA’s 7(a), 504, and Microloan Programs:** In line with proposals from the Senate Small Business Committee, the Administration has proposed raising the maximum size for 7(a) loans from \$2 million to \$5 million; the maximum 504 loan size for typical borrowers would rise from \$2 million to \$5 million, and up to \$5.5 million for manufacturers; and the maximum loan size under the SBA Microloan program would rise from \$35,000 to \$50,000. The Administration has also proposed temporarily increasing maximum SBA Express working capital loan sizes from \$350,000 to \$1 million through FY 2011.
- **Temporarily Allowing for Owner Occupied Commercial Real Estate Refinancing Under the 504 Program:** The Administration has introduced a proposal – which would have no additional cost to the taxpayer – that would help small firms refinance mortgages on properties they use to run their businesses that might otherwise face foreclosure or liquidation. The proposal would allow for refinancing through FY 2011 with an option to extend through FY 2012.
- **Administration Is Working With the House Small Business Committee On Additional Measures:** The Administration is also working with the House Small Business Committee to develop additional SBA programs that can support small business financing, including programs to get borrowers off the sidelines, to address the unmet need for small loans, and support investment in businesses in their earliest stages of growth.

## **Examples of State Programs That Could Receive Support Under the State Small Business Credit Initiative**

**Collateral Support Programs for Small Manufacturers:** Collateral support programs help viable businesses that are struggling to get credit because the value of the collateral they hold has fallen, possibly due to the decline in commercial real estate values. These programs – which set aside funds to augment collateral the borrower already holds – provide banks greater confidence in extending credit to these borrowers, particularly in some of the communities hardest hit by the economic downturn.

***Example: Michigan Collateral Support Program (MCSP):*** Governor Granholm and the Michigan Congressional delegation have highlighted the MCSP in pushing for the State Small Business Credit Initiative. The MCSP is designed to encourage financing for creditworthy borrowers that might otherwise be rejected due to a drop in value of a firm's property, plant and equipment. The program, which is the central component of the state's Michigan Supplier Diversification Fund, works with private lenders to offset such collateral shortfalls. Under the MCSP, the state steps in to pledges cash to collateral accounts supporting specific loans, helping creditworthy borrowers access credit and avoid situations where their inability to replace an existing loan could result in layoffs or even a full shutdown. The Michigan Economic Development Corporation estimates it has about a pipeline of \$120 million in loans for companies looking for assistance through its Supplier Diversification Fund.

**Capital Access Programs (CAPs):** CAPs, which are already up and running in over 20 states, are loan portfolio insurance programs, where states provide a matching contribution to bank loan loss reserves when lenders extend credit to qualified small businesses. These reserve enhancements allow lenders to take slightly more risk in expanding credit to new borrowers at a time when many of these lenders might otherwise pull back.

***Example: The Virginia Capital Access Program (VCAP):*** As Senator Mark Warner has argued in pushing for an expansion of CAP programs, the Virginia Capital Access Program provides a form of "insurance" on a portfolio of loans. The program establishes a loan loss reserve at participating banks, and matches small premium payments (equal to between 3 percent and 7 percent of total loan value) made by the lender or borrower to enhance the banks' overall reserves. This support provides a greater incentive to make additional loans to small businesses that might otherwise just miss the mark to access credit. Loans made under the program are available for working capital, expansion, equipment and most other business needs.

**Loan Guarantee Programs:** The State Small Business Credit Initiative would support state loan guarantee programs, in keeping with proposals put forward from governors across the country – including a letter signed by 28 governors earlier this year. Under these programs states provide partial guarantees on certain small business loans to provide lenders with greater confidence to extend credit.

***Example: Maryland Industrial Development Financing Authority:*** The Maryland Industrial Development Financing Authority (MIDFA) provides partial guarantees (up to 50 percent) on loans and bonds to small businesses. The program – which has been in existence for 45 years – has helped stimulate over \$2 billion in loans and bonds. As Governor O'Malley has stressed, during the current crisis, MIDFA has also put in place a streamlined process that approves guarantee applications in less than 48 hours for certain loan guarantees. MIDFA estimates it has approximately \$150 million in loans currently in its pipeline.

## **Background on Previous Administration Actions on Small Business**

### ***Efforts to Increase Access to Credit for Small Businesses***

- **Recovery Act Raised Loan Guarantees and Reduced Fees for SBA Programs**: As part of the Recovery Act, the Administration and Congress increased the maximum guarantee on 7(a) loans to 90 percent and temporarily eliminated borrower fees for the 7(a) program and both borrower and lender fees for 504 loans. Through the Recovery Act and subsequent extensions of these provisions, SBA has supported over \$27.5 billion in lending to small businesses since February 2009. The Administration has called for temporarily extending these successful provisions which helped boost SBA weekly loan volume by more than 90 percent compared to the weeks before the Recovery Act passed.
- **Actions to Unlock SBA Secondary Markets**: In early 2009, Treasury and SBA announced a new initiative to make direct purchases of securities backed by 7(a) loans on the secondary market. Compared to January/February 2009, average monthly volume has increased three-fold, returning to near pre-crisis levels. Market participants have credited the announcement of the secondary market purchase program with helping to unfreeze these markets which support SBA lending.

### ***Targeted Tax Relief for Small Businesses***

- **New Tax Cut to Provide an Incentive to Hire Unemployed Workers**: Under the HIRE Act, signed into law earlier this year, businesses will receive a tax cut that covers the employer share of payroll taxes for newly hired employees that were previously unemployed, as well as an additional tax cut if they retain these workers for a year. This tax cut will be particularly helpful to small business owners who are currently struggling with the decision of whether or not to bring on an additional employee.
- **Enhanced Small Business Expensing**: The Recovery Act allowed small businesses to immediately write off up to \$250,000 of qualified investment for 2009, providing an immediate tax incentive to invest and create jobs. Under the HIRE Act, this provision was extended through 2010.
- **75 Percent Exclusion of Small Business Capital Gains**: The Recovery Act provided an incentive for supporting growing small businesses, by excluding 75 percent of capital gains on certain small business investments held for more than five years from taxation.
- **Five-Year Carryback of Net Operating Losses**: The Recovery Act allowed small businesses to carry back 2008 net operating losses (NOLs) for up to five years, as opposed to two years under prior law. This longer carry back period gave small businesses that experienced losses in 2008 the ability to get immediate refunds of income taxes they paid in earlier years and is estimated to give back \$4.7 billion to small businesses in 2009. A bill signed by the President last November extended this measure by a year as part of a broader expansion of the provision to more businesses.

### ***Reform Will Make Healthcare More Affordable for Small Businesses***

- **\$40 billion Small Business Health Care Tax Credit**: The Affordable Care Act included a Small Business Health Care Tax Credit – effective immediately – that will help small businesses and non-profits afford the cost of covering their workers. The Congressional Budget Office estimates the tax credit will save small businesses \$40 billion by 2019.
- **Health Care Exchanges to Lower Premiums and Reduce Administrative Burden**: By 2014, firms with 100 or fewer workers will be able to pool their buying power and reduce administrative costs by purchasing insurance through an exchange. According to CBO, coverage that small businesses purchased through an exchange “would have lower administrative costs, on average, than the policies those firms would buy under current law, particularly for very small firms.”
- **End to Price Discrimination**: Starting in 2014, “community rating” rules will prohibit insurers from charging more to cover small businesses with sicker workers or raising rates when someone gets sick.

- **Slower Growth In Health Care Costs**: Taken together, measures enacted through healthcare reform will significantly reduce premiums for small businesses. According to CBO, health reform will reduce the cost of a given plan in the small group market by 1 percent to 4 percent by 2016.

#### ***Supporting for Small Businesses in the Hardest-Hit Communities***

- **Bolstering Community Development Financial Institutions through the Community Development Capital Initiative (CDCI)**: Treasury has established the CDCI under TARP, providing banks, thrifts and credit unions certified as CDFIs—institutions that target more than 60 percent of their operations in underserved areas—with low-cost capital to leverage into more lending to small businesses in the hardest-hit communities.
- **Proposing \$250 Million in Funding for the CDFI Fund**: The Administration has proposed \$250 million for the CDFI Fund in its FY2011 Budget, supporting the institutions that help make capital more available to small businesses in the areas hardest hit by the financial crisis.
- **Expanding and Improving the New Markets Tax Credit**: The President's Budget calls for providing \$5 billion in New Markets Tax Credit authority in 2010 and 2011 and expands the market for the credit by allowing it to be used as an offset against the Alternative Minimum Tax. In addition, the Administration is revising the rules governing the credit to make it easier to use to support small businesses.

#### ***Promoting Small Business Contracting to Grow Businesses and Create Jobs***

- **Over 30 Percent of Recovery Act Contracting Dollars Have Gone to Small Businesses**: That figure accounts for more than \$8 billion in contracts to date in the hands of small businesses that are using it to grow their business and create jobs. Government procurement officers have also participated in 300 matchmaking events with small businesses across the country to help connect them with Recovery Act contracting opportunities.
- **New Executive Order on Small Business Procurement**: This April, the President established an Interagency task force led by SBA, the Department of Commerce and the Office of Management and Budget to make recommendations to increase federal contracting opportunities for small businesses.
- **New Women's Contracting Rule Proposed By SBA**: A new women's contracting rule, proposed by the SBA, will provide more opportunities for women-owned small businesses to compete for and win federal contracts in certain industries where SBA has determined they are underrepresented.