

## **New SBA Loan Guidelines Power Small Business**

The federal government is finally getting the message: small business drives the economy, so it is throwing its full weight behind entrepreneurs to spark economic activity. Due to new standards issued November 5, 2010, the U.S. Small Business Administration (SBA) now classifies more than 18,000 additional businesses as "small businesses," making them eligible for loans and assistance in applying for federal contracts. The guidelines encompass businesses across 70 industries, including retail, hospitality food, and other industries. Additional recent SBA innovations to fire the engine of small business include: increased loan size caps, a new business credit initiative and new tax deductions. To best access these loans, a custom business plan for the specific business and target market is very important. This article's audience is likely to either have or require a quality green business plan, solar business plan, or restaurant business plan, depending on their specific business and markets.

As the country has continued to struggle through a prolonged economic recession, more people are seeing small business as a catalyst for recovery. According to the National Small Business Association, small businesses created 21.9 million jobs in the last 15 years, compared with just 1.8 million for large businesses. Additionally, small businesses have created 65% of all the new jobs in the past 17 years and employ half of America's private-sector workforce.

Nowhere has small business innovation and growth been stronger than in green and sustainable enterprise, which is sure to be one of the chief beneficiaries of the SBA's program expansion. Clean Edge, a research and publishing firm devoted to the clean-tech sector, reports a 40% increase in annual revenue for solar photovoltaics, wind, biofuels and fuel cells in 2007, reaching \$77.3 billion. In new building construction, the National Association of Home Builders claims that growth in green building is nearing a "tipping point." The green construction industry segment was expected to climb from 2% of all residential starts in 2005 to between 5% and 10% by the end of 2010. Overall, the U.S. market for green and sustainable products and services has reached an estimated \$209 billion.

### **Size standards**

The SBA's business size standards, which have been in place since 1984, vary by industry and typically are set based on the number of employees or average annual receipts. New changes will at least double the cap on average annual receipts, increasing them from a minimum cap of \$7 million to as much as \$35.5 million. The upper limits for selected industries are summarized as follows:

#### Construction

- Receipts for general building and heavy construction contractors: \$33.5 million
- For special trade construction contractors: \$14 million
- Land subdivision: \$7 million
- Dredging: \$20 million

#### Manufacturing

- Maximum employment for about 75% of the manufacturing industries: 500 employees

- For a small number of industries: 1,500 employees
- For the balance: either 750 or 1,000 employees

### Mining

- Employment for all mining industries, except mining services: 500 employees

### Retail Trade

- Receipts for most retail trade industries: \$7 million
- For a few, such as grocery stores, department stores, car dealers and electrical appliance dealers, the amount has been increased. Car dealers will be a major beneficiary.

### Services

- Typically, receipts maxed at \$7 million
- Computer programming, data processing and systems design: \$25 million
- Engineering and architectural services and several related industries: various size limits
- Research & development and environmental remediation services: maximum 500 employees

The SBA has been used in the past for economic revitalization, so it is not surprising that it will be utilized once again. In its history, the SBA has delivered millions of loans, loan guarantees, contracts, counseling sessions and other forms of assistance to small businesses. While the SBA was founded on July 30, 1953, its philosophy and mission were shaped years earlier in a number of predecessor agencies, largely as a response to the pressures of the Great Depression and World War II.

The extent of the federal commitment to small businesses with the current program expansion is significant. Not only has the SBA expanded the pool of eligible companies for its loans, the SBA and federal government has liberalized the loan size limits. The percentage of lending volume for guaranteed loans exceeding \$1.5 million has grown from 13% of total dollars approved in fiscal year 2005 to 21% in fiscal year 2010, with many loans at the \$2 million maximum. In the SBA's 504 Loan Program, loans greater than \$1.5 million have grown from 15% of total dollars approved in fiscal year 2005 to 25% in fiscal year 2010. (Interest rates on 504 loans are pegged to an increment above the current market rate for five- and ten-year U.S. Treasury issues.) These changes were made under the Small Business Jobs Act, effective October 2010. The provisions are considered permanent and apply to SBA's (a) International Trade, Export Working Capital and Export Express loans, (b) 7(a) guaranteed loan program, (c) fixed asset loans through the 504 Certified Development Company program, and (d) Microloans. SBA Express loan limits have been temporarily raised from \$350,000 to \$1 million for one year. These loans offer a streamlined application process with reduced paperwork and approval often in a matter of days.

Additionally, through the American Recovery and Reinvestment Act of 2009, even more federal resources are available to help increase lending to small businesses. One of them is the State Small Business Credit Initiative, recently announced by the Department of Treasury, that will support \$15 billion in lending through local programs and the Small Business Lending Fund. The Fund will provide capital to localized community banks in order to increase their lending to small businesses. Additionally, \$12 billion in tax credits has been targeted to small businesses, including higher deductions for investing in new

machines and equipment, zero capital gains for those who buy and hold small business stocks for five years, and a doubling of the maximum deduction for startups to \$10,000. It also allows self-employed Americans to completely deduct health insurance costs for themselves and their families.

### **A green business plan to help green businesses utilize the SBA 504 Loan Program**

The SBA's 504 Loan Program provides considerable incentives for companies engaged in the supply of green products, services, or projects. It's important that these small businesses have an appropriately green business plan, (such as a solar business plan or biomass business plan) that shows the lenders how their business purpose is well matched to the SBA's intentions with the 504 Loan Program. A 504 Loan is worth the small business' effort. The program typically requires only a 10% down payment, provided a certified development company (CDC) handles up to 40% of the project costs and a lender supplies the final 50%. Normally, a 504 loan caps at \$1.5 million, but since the passage of the 2007 Energy Independence and Security Act by Congress, maximum loan amounts have been liberalized. Specifically:

- For purchasing, constructing, or retrofitting facilities with energy-saving technologies that result in a 10% consumption decrease, new guidelines increase the loan cap to a \$4 million loan. This may entail improved insulation, lighting, HVAC (heating ventilation and air conditioning), and energy efficient windows, among other options.
- Renewable energy-generation projects—particularly those using solar, biomass, hydropower, ocean thermal, geothermal and wind technologies—are covered up to \$4 million.
- For sustainable facility design projects deemed eligible under standards established by Leadership in Energy and Environmental Design (LEED) and the U.S. Green Building Institute, up to \$2 million is available by working with qualified architects and engineers.

Green businesses with a quality “green business plan” can be big winners with the SBA's program improvements. For years, companies specializing in green lifestyle, eco-tourism, energy efficiency, environmental cleanup, green building, organic agriculture, and recycling were considered fringe players in business and industry. Now, these businesses are part of the mainstream effort to revitalize our economy, with new SBA resources available. For more information, ask an experienced business consultant and visit an SBA office.