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Small Business Administration Pilots New Markets Tax Credit Lending Initiative

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The Small Business Administration (SBA) announced on October 4 the creation of the New Markets Tax Credit (NMTC) Pilot Loan Program to provide more financing opportunities to certain small business owners and entrepreneurs. The program, which became effective November 3, allows community development entities (CDEs) with NMTC allocations to purchase interest in as much as 90 percent of certain SBA-guaranteed loans as an element of their NMTC program investment.

Under the NMTC program, CDEs compete for a share of tax credits made available by the U.S. Treasury's Community Development Financial Institutions (CDFI) Fund. Once an allocation is awarded, the CDE projects raise qualified equity investments (QEIs) that will be substantially invested in low-income areas within the CDE's service territory. Qualified investors can be corporations, partnerships or individuals. The CDEs credit totals 39 percent of the total QEI, and the investor may claim the credit against taxable income over a seven-year period.

SBA Section 7(a) Loans

Section 7(a) of the Small Business Act empowers the SBA to make business loans to small businesses. There are two types of Section 7(a) loans: SBA Express and SBA Community Express loans. Banks, as well as some non-bank lenders, provide Section 7(a) loans to small businesses on a guaranty-basis. SBA lenders are often referred to as participants because they frequently provide training and educational services to their clients. During fiscal year (FY) 2006, the SBA approved 66,294 SBA Express loans totaling \$3.33 billion and 6,337 Community Express loans equal to \$189 million.

Lenders in both Section 7(a) programs provide financing using their own procedures to small businesses.

Under the SBA Express loan program, the participant may provide as much as \$350,000 in financing with a 50 percent SBA-guaranty. Under the SBA Community Express loan program, the participant may provide as much as \$250,000 in financing with a SBA-guaranty of as much as 85 percent on loans of \$150,000 or less. However SBA Express or SBA Community Express loans made in excess of \$150,000 are ineligible for the NMTC pilot program.

How the NMTC Pilot Loan Program Works

James Hammersley, director of the loans program at the SBA, explained that an NMTC program participant approached the SBA with the idea just a few months ago. The SBA then reviewed the notion and decided to develop a pilot that would incorporate both programs.

The NMTC Pilot Loan Program allows CDEs to purchase interest in SBA Express and SBA Community Express loans while encouraging lenders to increase their support of these loans to small businesses located in economically distressed rural and urban areas that are qualified low-income communities as defined in Internal Revenue Code (IRC) Section § 45D(e) by waiving 13 CFR 120.432(a). This regulation limits an SBA lender's ability to syndicate SBA-guaranteed loans to anyone other than another SBA lender. This waiver permits CDEs with NMTC allocations to purchase as much as 90 percent of Section 7(a) loans up to \$150,000 made to qualified active low-income community businesses (QALICBs). The waiver is available only to Section 7(a) lenders making new loans through advance-purchase commitments.

The waiver of 13 CFR 120.432(a) for the purposes of the pilot program is based on an obligation that the SBA Express and Community Express loans may also qualify as qualified active low-income community invest-

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ments (QLICs) under the IRC and regulations directing the NMTC program. Under this obligation, the initial lender must meet certain criteria in order to qualify for the Section 7(a) loan. CDEs assume the liability for the NMTC loan. The CDFI Fund has not made any special provisions for the SBA program and all NMTC investments must still comply with the program regulations.

"We believe that some of our participants are familiar with the NMTC program and hope that announcing our pilot will encourage others to investigate the NMTC program," Hammersley said. "Our hope is that this will encourage more SBA lending in underserved areas," said Hammersley. "We will review the pilot program after a while to determine if it encouraged lending to these areas."

The pilot program expires September 30, 2011.

The October 4 *Federal Register* notice outlining the program noted that SBA hopes CDEs will also provide a package of services to borrowers, including mentoring, coaching and counseling to these businesses. "We at the SBA are committed to helping American small businesses in economically distressed areas. We believe that this initiative can encourage jobs creation and growth in low-income areas, an essential part of the President's economic agenda," SBA administrator Steven C. Preston said on October 13. ❖

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