THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release May 1, 2009

PRESS BRIEFING ON SMALL BUSINESS ASSOCIATION EXPANSION OF ELIGIBILITY FOR LOANS FOR SMALL BUSINESSES BY ERIC ZARNIKOW, ASSOCIATE ADMINISTRATOR FOR CAPITAL ACCESS, SBA AND BRIAN DEESE, ECONOMIC ADVISOR TO THE PRESIDENT

Via Conference Call

11:36 A.M. EDT

MS. BEDINGFIELD: Hi, everyone. Thanks for joining us today, we appreciate your time.

Today we have with us Eric Zarnikow, who is Associate Administrator for Capital Access at the Small Business Administration, and Brian Deese, Economic Advisor to President Obama. And today they will be discussing the SBA's expansion of the eligibility for loans for small businesses.

So with nothing further, I will turn it over to Eric Zarnikow.

MR. ZARNIKOW: Great, good morning. Thanks for being on the call.

Today the SBA made an announcement that it's taking additional action to expand access to capital of America's small businesses. We will be putting in place a change in our -- or providing alternate size standard for our 7(a) loan program that will go in effect next week and will last through September 30th of 2010. And through this temporary change it will allow access to SBA programs to approximately additional 70,000 small businesses, including auto dealers, RV dealerships, auto industry suppliers and others. This is part of our process or part of our steps to expand access to capital to small businesses during this difficult economic time.

The change in the alternate size standard will allow our 7(a) program to have a parallel standard to our 504 certified development program and will allow a small business to either meet the normal size standard that's typically based on sales or number of employees, or an alternate size standard that will allow a small business that has up to $8.5 million of net worth and an average of $3 million of net income over the last two years qualify for SBA loans.

Look, the SBA has taken this type of step in the past during difficult economic times, including back in 1993 and then also related to the Gulf Coast hurricanes in 2005. This change really means that we're providing additional access to capital to small businesses. It does match -- dovetail nicely with the other changes that we've made as part of the implementation of the Recovery Act provisions, including the change in the guarantee percentage and our 7(a) program of up to 90 percent, as well as the reduction or elimination of fees to borrowers in both our 7(a) and 504 programs.

With that I'll turn it over to Brian.

MR. DEESE: Thank you, and thank you, all, for getting on the call today. The steps that the SBA, the Small Business Administration, is announcing today are an exciting addition to the administration's broader efforts to help support the American auto industry and help unlock financing for both consumers who want to buy cars and for the dealers who provide them.

Just to provide some context, that broader goal is something that the administration has been focused on since January 20th and we've taken several steps to help further that goal. The TALF program is already up and running and we're starting to see some impact in the financing market for retail consumers, and we continue to focus on making that program work better for auto consumers and for dealers as well.

Likewise, as part of the restructuring announcement that the President made yesterday about Chrysler and its new partnership with Fiat, we were excited to announce as well that GMAC has now agreed to take on originating new Chrysler retail and floor plan loans. Those efforts we believe will make a meaningful impact in helping unlock what has been a frozen market, and help address the $1.5 million to $2.5 million reduction in car sales, I think, can be attributed to the lack of financing.

But we need to do more. And that's why the SBA program today is such an important step. Based on some preliminary analysis, this step taken today could more than double the number of dealers, auto dealers, eligible for the SBA 7(a) loan program, which is a really important expansion at a time when dealers in the industry overall is going through a very difficult restructuring process.

So again, we're excited that the SBA, and particularly Administrator Mills, has moved so quickly and constructively on this program. And with that, I'm happy to turn it over and I think probably take questions.

Q Thank you for taking my call. And I'm sorry I don't understand the SBA loan program, but could you explain to me what is different for the RV and car dealers? Were they -- as a class were they not eligible before? Or does this only apply to the size of the business and therefore, if they're a smaller business, they become eligible. I'm just not quite sure what the difference is for them.

MR. ZARNIKOW: Let me jump in and I'll try and answer that question. At SBA we provide a partial government guarantee of a loan that's made by a lending partner -- a bank, a credit union or a small business lending corporation. As part of the Small Business Administration we obviously -- our mission is to help small businesses, and part of that mission is defining what is a small business. And we have a process that we go through by industry to define what is a small business by industry. And it does vary by industry because it depends upon, you know, the economic characteristics of the industry, competition, the average firm size, barriers to entry, and kind of a distribution of firms by size.

So only businesses that are small based upon their industry category are eligible to participate in the SBA's loan programs. So there are size standards for auto industry, RV industry, other industries -- you have to be within the size standard in order to be eligible for an SBA loan.

Typically the size standard is based upon revenues, although in some cases it can be based upon the number of employees. So the auto industry, RV industry and other industries are already eligible for SBA loans. But the larger businesses within those industries may not be eligible because they exceed our size standard.

So by applying the alternate size standard it gives additional flexibility that allows additional businesses within those industries that are still small businesses to qualify for SBA loans. So it's really expanding access to capital to those industries.

Q Good morning. Could you talk about when you said the number of dealers will more than double in eligibility -- do you know from about what number to what number? And also I'm wondering if someone could talk about the size of the overall pool that's available, the amount of -- the dollar value, I guess, to the pool of loan credit that's available.

MR. DEESE: Well, on that first question, my understanding is that under the new program over 50 percent of dealers will now be eligible. And so the doubling is up to that number. And I'd leave the second one to Eric.

MR. ZARNIKOW: Sure. Within the SBA programs we have a program limitation of up to $17.5 billion of SBA guarantees in the 7(a) program, and up to $7.5 billion in the 504 program, or a total of $25 billion. At our current -- the current volume that we're seeing in the 2009 fiscal year, you know, we're not in danger of exceeding those program limitations. So we expect that we would be able to help or provide a partial government guarantee to any businesses that would qualify and are interested in getting an SBA loan through one of our lending partners.

Q I'm really at sea here. What all are you changing? What was the guidance, what is the guidance? Does it apply to all 504 loans? Do you have this posted somewhere? I don't see it on your web site. And separately, what if anything have you done on the question of goodwill loan limits. People in our area, the loan brokers and some of the bankers, say that you've really cut back access to SBA loans by greatly reducing the amount of goodwill you take in certain -- you're willing to support in certain cases.

MR. ZARNIKOW: Sure, let me jump in and take that question. Once again, our -- to define what a small business is and to qualify for an SBA loan program, there are limitations or size determinations that are done by industry. And for our 7(a) loan program, there's a set of size standards that a business must meet or not exceed in order to qualify for an SBA loan. What we're doing as part of this change is allowing the 504 program, which has an alternate size standard that is based upon the net worth of the business as well as their net income average over the prior two years, we're allowing that alternate size standard to be utilized in the 7(a) program as well.

So what it's doing is providing additional access to borrowers who might want to get a 7(a) loan that would -- that their revenues or number of employees would exceed the normal size standards to potentially meet an additional size standard. Our estimate is that this expands access to SBA programs to about additional 70,000 small businesses. So it is providing additional access to SBA programs.

As far as the question of goodwill, SBA is still doing -- will still finance businesses as part of an acquisition or sale of a business, whether it's goodwill, although we've required -- or the change that we've made is that those loans over a certain dollar amount come to SBA for review and are not done through delegated authority by our lending partners. So we are still open for business and are still doing those loans.

Q Yes, hi, good morning. So a quick question. I mean, you seem to be targeting the auto-related firms, dealers and suppliers. Are there any other categories that this also applies to, or is it sort of an across-the-board; every category gets more access?

MR. ZARNIKOW: Let me jump in and answer that, and then Brian can add on if he has additional perspectives on it. The alternate size standard, or this change that we're making, has actually been underway for a while at the SBA.

As we've been looking at what's been going on in the lending markets, there's a number of themes that we've been hearing consistently from our lending partners. One is that demand for loans has been down as small businesses have been concerned about the economy and concerned about taking on additional debt to expand. In addition, because of the more difficult economic environment, some borrowers are not as credit worthy as they might have been a year ago.

And clearly we've also seen the lenders have tightened their credit standards that they apply for borrowers, and we see that evidenced in -- you know, the Federal Reserve does a Senior Loan Officer Opinion Survey that indicates the lenders have been tightening credit standards, really, for the past year.

So at the SBA we've been looking at ways on how do we help provide access to capital for small businesses. And with the change in the alternate size standard, we were hearing more and more that businesses that were slightly larger than our standards were having trouble getting access to conventional capital. And this was a way for us to expand access to capital to help small businesses meet their capital and financing needs to be able to continue to retain or create jobs and to grow their businesses. So this was a change that was underway for a while at the SBA.

I mentioned earlier that it does expand access to about an additional 70,000 businesses, and a lot of those businesses would be in construction, retail trade, services, other categories of industries, in addition to the auto dealers, RV dealers, model suppliers that it helps, as well.

So it's really part of a broader initiative at the SBA to provide expanded access to capital to

America's small businesses. It happened that it also is something that is -- think will be very helpful to the auto dealers and the auto industry, as well as the RV industry.

Brian, I don't know if you had anything you wanted to add.

MR. DEESE: I would just reinforce the point that obviously the changes to the overall program, and that's really important and part of the, as Eric explained, part of the broader policy mission of the SBA. But I think in particular the fact that the SBA was able to move quickly to put this into place is going to be of particular help to the auto and RV dealers who are facing particular challenges in the current environment. And certainly one of the things that the auto dealers really are facing is the inability to access working capital, as Eric explained.

And so this move today is important for the nation's small businesses overall, but will be particularly helpful for America's auto dealers as well.

Q Thank you. Brian, this is --

MR. DEESE: Hello? Gordon, I think we may have lost you.

OPERATOR: I'm sorry, he dropped out of queue.

Q Okay. So, Eric, you talked about the economic turmoil and how some of these businesses were slightly larger than SBA standards. But I'm sure that it's no surprise to you guys, considering that the crisis has been going on for some time and the fact that you guys have relaxed standards in the past. So why now? Why not two, three months ago? I mean, so many dealerships and suppliers have already gone out of business or they're severely financially strained at this point. I mean, I get being better late than never, but why now? Why not two or three months ago?

MR. ZARNIKOW: You know, this is something that we've been working on as an agency and there's a process obviously you have to go through to make these type of changes. In addition, the Recovery Act was something that was passed in February of this year and we really were looking at how does this provision tie into the overall provisions of the Recovery Act. This was something that we could do through a regulatory change rather than through legislation and we felt that it was something that would complement or provide additional access to capital, in conjunction with the provisions of the Recovery Act that the SBA has been or is in the process of implementing.

So we really felt that this was something that complemented the overall SBA lending programs as well as the changes that are coming about as part of the Recovery Act.

MR. DEESE: Let me just reinforce a point. I mean, I think I would just say that this Small Business Administration has moved with really impressive speed to address the challenges facing the small business community. I think you saw in the Recovery Act and following on from that the SBA take a set of steps to make the 7(a) program more effective where, you know, for several months the 7(a) program had not been being accessed all that much. And as a result of steps that this Small Business Administration took we've see loan volumes increase more than 25 percent, we've seen lots of new movement. And I think that it's a credit to the speed with which they're moving.

So we can always do more and we can always do better, but I would say that the steps that they have taken to date, the announcements that they're making today are all part of a really aggressive and proactive approach to trying to increase credit for America's small businesses.

Q Hi, good morning, and thank you. Brian, you had mentioned that GMAC will take on originating Chrysler retail and floor plan loans. And there's a bit of a disconnect there for me. Many franchise dealers are floor planned with a captive finance source such as GMAC. And a cursory search this morning showed that none of those entities are approved SBA lenders, meaning that they can't extend 7(a) loans. And my understanding is that most dealerships use the captive finance source for all their financing activities. But how many banks on the actual approved list are actually willing to work with dealerships? If the trend moved from traditional banks to captive finance sources I'm wondering which traditional banks are left out there that will be willing to work with the dealerships in need, or will the SBA encourage the automotive finance entities, such as GMAC, to become approved SBA lenders?

MR. DEESE: Let me just make a bit of a clarification. I mean, first, GMAC is not a captive finance source. GMAC is a independent bank-holding company and has been for some time.

Second, I think you're -- I think there's just sort of confusion between two separate issues. The issue of how dealers get floor plan financing is one issue. That was what my reference to was with respect to GMAC, where to date a significant portion, though certainly not all, of Chrysler dealers relied on Chrysler Financial to provide their floor plan financing.

And let me just reinforce, Chrysler Financial provided the floor plan financing to a majority of Chrysler dealers, but there are several -- there's a meaningful share of Chrysler dealers who have been financing their floor plans from a number of different types of financial institutions -- regional banks, credit unions, et cetera.

What the change that was -- the President talked about yesterday was that going forward GMAC will provide floor plan financing for those dealings. What the Small Business Administration is talking about today is not directly related to floor plan lending, which I think just that's sort of the second clarification to your question. They're talking about a provision of working capital that dealers and other small businesses could access to help support their business.

Q If I could get a couple clarifications here. Eric, if you could talk a little bit more about the floor planning -- this does not directly relate to floor plan financing? And the second question would be, giving them access is one thing; a lot of RV dealers are saying it's the tightening credit. Does this expansion of the loan program address the problem of the credit standards?

MR. ZARNIKOW: Let me answer -- take both those questions. The SBA currently in our 7(a) program does not do floor plan financing. But as you know, a number of dealers have other financing needs, whether it's related to their facility or other working capital type needs that SBA does, and we do a fair amount of financing for the auto and other industries, but we currently don't do floor plan financing through SBA loans.

And tell me -- say your second question again.

Q You talk about this expansion provides access, give access to about 70,000 small businesses. Does it do anything to address the tightening credit standards? Giving access is one thing, but they may not qualify under those tightening standards.

MR. ZARNIKOW: Right. Where it does expand access to capital is because we're providing a partial government guarantee and that can now be up to 90 percent. What we find is that our lending partners are willing to take more risk. They're still lending obviously to credit-worthy small businesses, but they're willing to take more risk than they would without the partial government guarantee.

As part of the Recovery Act, the amount that we're able to guarantee on a loan was increased from either 75 percent to 90 percent, or from 85 percent to 90 percent. And we think that additional government guarantee will allow lenders to take additional risk and will help offset the impact of tightening credit standards.

MS. BEDINGFIELD: Great. Well, thank you, everyone, for joining us today. We appreciate your time.

END
12:01 P.M. EDT