

President Obama Urges Congress to Act to Support Small Businesses Seeking to Invest, Grow and Hire

Today, the President called for the Senate to pass the Small Business Jobs Act to strengthen the capacity of small businesses to create jobs and lead an economic recovery. The legislation includes several key Administration initiatives – including the Small Business Lending Fund (SBLF), the State Small Business Credit Initiative (SSBCI), extension and expansion of key SBA loan programs, and small business tax cuts including zero capital gains for key small business investments. The House of Representatives passed similar small business legislation on June 17, 2010.

Administration proposals in this package have received broad support from organizations representing small businesses and community banks. The Independent Community Bankers of America and 29 state banking associations have urged “prompt enactment of the Small Business Jobs Act with the SBLF,” calling the SBLF “a bold, fresh proposal.” The National Small Business Association has argued that “The *Small Business Jobs Act*, if passed in its entirety, would provide much-needed access to capital for small businesses.” In supporting the Small Business Jobs Act, the National Federation of Independent Business specifically praised the SBLF: “[T]he lending fund has the potential to help credit-worthy small businesses that have had difficulties obtaining credit.”

I. 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 Spur \$20 Billion of Private Sector Lending Through Innovative Partnerships at a Time When Many Programs Struggle to Meet Increased Demand in the Face of State Budget Shortfalls
- Enhancements of SBA Programs to Help More Small Businesses Get the Credit They Need to Grow and Hire
 - Continuing the Success of SBA Recovery Act Provisions to Eliminate Fees and Increase Loan Guarantees
 - Permanently Increasing Maximum Loan Sizes for Key SBA Loan Programs
 - Expanding Access to Commercial Real Estate Refinancing Under the 504 Program
 - Clarification of Contracting Law to Ensure Parity Between SBA Programs

II. Tax Incentives for Small Businesses to Invest and Grow

- Zero Capital Gains Taxes on Certain 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 Plants and Equipment

I. Administration Lending Initiatives to Provide Credit to Small Businesses

1. **A New Small Business Lending Fund Providing Small Banks With Incentives to Lend to Small Businesses:** By providing \$30 billion in capital to small banks with incentives to increase small business lending, the SBLF— which would be established, through new legislation, as completely separately from TARP – could support several multiples of that amount in new lending.
 - **Program Limited to Smaller Banks – The Banks on Main Street Focused On Small Business Lending**
 - ***Only the Smallest Lenders Are Eligible for the SBLF:*** Over 90% of eligible banks will have less than \$1 billion of assets. Only lenders with less than \$10 billion in assets will be eligible for the SBLF.
 - ***The Small Banks Eligible for The Program Are the Lenders That Focus Their Lending on Small Businesses:*** For example, at the average bank under \$1 billion in assets, about 80 percent of commercial and industrial (C&I) lending is in loans under \$1 million.
 - **Program is Performance-Based – With Capital Structured to Include Incentives to Increase Lending**
 - ***Banks Rewarded for Increasing Responsible Lending:*** The rate banks pay on SBLF capital would decrease to as low as 1 percent if they increase lending more than 10 percent compared to the previous year. The rate would increase to 7 percent for banks that do not increase small business lending after two years. The program is structured to encourage lenders to pass on the program’s benefits through lower interest rates for creditworthy borrowers.
 - ***CBO Estimates Program Would Provide Over \$1 Billion in Savings to the Taxpayers***

2. **A New State Small Business Credit Initiative to Support \$10 in Lending for Every \$1 in Federal Funding:** In consultation with several Governors and Members of the House and Senate, the President proposed a State Small Business Credit Initiative (SSBCI) to strengthen state programs that support lending to small businesses and small manufacturers. The program allows states to build upon successful models, including collateral support programs, Capital Access Programs (CAPs), and loan guarantee programs.
 - **Bolsters Innovative State Programs, Supporting Over \$20 Billion in Lending As Designed by Administration:** The SSBCI – as designed – will provide up to \$2 billion in grants to innovative small business programs, many of which face cutbacks due to state budget shortfalls. States would be required to demonstrate at least \$10 in new lending for every \$1 in Federal funding and use federal funds for programs that leverage private lenders to extend greater credit to small businesses and manufacturers who are creditworthy, but are not getting the loans they need to create jobs – resulting in over \$20 billion in lending at the Administration’s proposed \$2 billion funding level.
3. **Enhancements to Strengthen Key Small Business Administration Lending Programs**
 - **Extension of Critical SBA Recovery Act Provisions for Higher Loan Guarantees and Temporary Fee Eliminations:** The Administration has called for – and the Senate bill includes – extensions of Recovery Act provisions increasing the maximum guarantee on 7(a) loans to 90 percent and temporarily eliminating certain fees for the 7(a) and 504 programs. These provisions helped increase SBA weekly loan volume by more than 90 percent compared to the weeks before the Recovery Act passed.
 - **Permanent Increase in Maximum Loan Sizes for SBA’s 7(a), 504, and Microloan Programs:** In line with the President’s proposal — announced last October — to increase the maximum SBA loan sizes, the Senate bill permanently raises the maximums for 7(a) loans from \$2 million to \$5 million; for 504 loans for typical borrowers from \$2 million to \$5 million; and for SBA microloans from \$35,000 to \$50,000.
 - **Temporary Increase in Maximum Loan Sizes under SBA Express:** The bill also includes the President’s proposal — announced in February — to raise the limits on loans made under the SBA Express program from \$300,000 to \$1 million. Under the Senate bill, this enhancement would last for one year.
 - **Temporary Allowance for Owner Occupied Commercial Real Estate Refinancing Under the 504 Program:** As the President proposed in February, the Senate bill temporarily allows small firms to use the 504 program to refinance mortgages on certain properties which might otherwise face foreclosure or liquidation.
 - **Clarification of Contracting Law to Ensure Parity Between SBA Programs:** The Senate bill includes a critical clarification to small business contracting law, which the Administration has strongly supported, to ensure parity between SBA contracting programs by reiterating Congress’s original intent not to prioritize one small business development program over another.

II. New Tax Incentives to Support Small Businesses Seeking to Expand and Grow

1. **Zero Taxes on Capital Gains from Small Business Investments:** The President has called for – and the Senate bill includes – elimination of capital gains taxes on certain small business investments. Under the Recovery Act the President signed last year, 75 percent of these capital gains would be excluded from taxes – this provision goes one step further and fully excludes these capital gains from taxes.
2. **Extension of Bonus Depreciation:** The bill extends – as the President proposed in his budget – a Recovery Act “bonus depreciation” provision that encourages businesses to invest in plants and equipment by accelerating the rate at which they can deduct capital expenditures. The Recovery Act provision is projected to reduce business taxes by about \$38 billion in 2009 and 2010.
3. **Extension and Expansion of Small Businesses’ Ability to Immediately Expense Capital Investments:** The Administration has supported small businesses by further extending provisions in the Recovery Act and HIRE Act that increase the amount of investments these firms can immediately write off—providing a tax incentive to expand and create new jobs. The Senate legislation includes an increase in the amount small businesses can write off and the level at which this write-off phases out for both 2010 and 2011.

Statements of Support for Small Business Jobs Initiatives

The Administration's small business jobs initiatives currently under consideration by the Senate have received broad support from organizations, including:

- **Conference of State Bank Supervisors:** *"The proposals—the Small Business Lending Fund and the State Small Business Credit Initiative—will provide much-needed access to capital to support small business lending, the lifeblood of our national economy.... We encourage Congress to coordinate with the Department of the Treasury to rapidly implement these much needed initiatives to assist community banks as they continue to support small businesses around the country."*
- **Independent Community Bankers of America and 29 State Banking Associations:** *"The Independent Community Bankers of America (ICBA) and 29 of its affiliated state community banking associations sent a letter to Senate Majority Leader Harry Reid (D-Nev.) and Senate Minority Leader Mitch McConnell (R-Ky.) today urging prompt passage of the proposed Small Business Jobs Act (H.R. 5297)...The nation's nearly 8,000 community banks are prolific small business lenders with the community contacts and underwriting expertise to get credit flowing quickly to the small business sector. The SBLF is a bold, fresh proposal that would provide another capital option for interested community banks to leverage and expand small business credit."*
- **Motor & Equipment Manufacturers Association (MEMA):** *"The Motor & Equipment Manufacturers Association (MEMA) praised today's House passage of H.R. 5297, the Small Business Lending Fund Act.'These provisions are absolutely necessary to increase credit availability down through the smallest manufacturer, especially parts suppliers,' says Bob McKenna, MEMA's president and chief executive officer.... 'We believe that they will help generate the private financing necessary for small businesses to innovate and create new jobs, a critical step in our national economic recovery. We hope that the Senate will quickly take up this legislation so it can be signed by the President and enacted as soon as possible.'"*
- **National Association for the Self-Employed:** *"The National Association for the Self-Employed strongly supports efforts by President Obama and Congress to create a Small Business Lending Fund ... The NASE applauds efforts by the Obama Administration and congressional leaders to spur small business lending and ensure that businesses of all sizes can access the credit and funding they need to continue to lead our nation's economic recovery."*
- **National Bankers Association:** *"The Obama Administration - continuing its efforts to lift the country out of a two-year recession - has hit a home run with its proposed \$30 billion Small Business Lending Fund. I believe the dividend to U.S. taxpayers will be compounded over and over during the course of the next five years. And the net effect of this capital investment, which will generate billions from business and personal tax revenues, can only have a reversing effect on the budget deficit."*
- **National Federation of Independent Business:** *"NFIB commends the U.S. Senate for focusing on small businesses, our nation's job creators. The Small Business Jobs Act will help some small businesses during these difficult economic times. The tax provisions will make it easier for entrepreneurs to start a new business and invest in their business property ... Additionally, the lending fund has the potential to help credit-worthy small businesses that have had difficulties obtaining credit, which is a good thing."*
- **National Small Business Association:** *"Unlike last year's TARP program, the SBLF would only advantage banks actually making small business loans ... Generally supportive of the proposal, NSBA looks forward to working with Congress and the administration as its details are hammered out. NSBA has advocated for the creation of such a fund to improve small-business owners' access to capital since early 2009. NSBA also continues to urge quick action on the proposal, as America's small-business owners can afford further delay."*
- **U.S. Hispanic Chamber of Commerce:** *"The passage of [HR 5297] is critical for our small businesses that have the expertise and the will to grow, but lack the necessary capital to move forward. We believe that the passage of the Small Business Lending Fund Act is a necessary step for opening the channels to lending to Hispanic small businesses in our communities. By providing up to \$30 billion in capital to small banks, this funding will go directly to the community banks that service our businesses. Further, these financial institutions, having survived the financial crisis outperforming larger banks in the process, have illustrated a strong commitment to fiscal responsibility and have demonstrated their ability to service their communities under the most difficult of situations – these are exactly the institutions that should serve as vehicles for capital for our small businesses."*