

## MYTHBUSTERS

- 1. ARC Loans can only be made to small businesses that have been in existence for at least 2 years.**

Applications from small businesses that have been in business less than 2 years may be submitted and processed through SBA's processing centers in Citrus Heights, California or Hazard, Kentucky. This treatment applies to all the credit criteria.

- 2. ARC Loans can only be used to pay same institution debt.**

ARC Loans may be used to pay any qualifying small business loan including loans with other lenders.

- 3. SBA established requirements limiting the use of ARC Loan proceeds to make payments of principal and interest.**

The provisions of America's Recovery and Reinvestment Act (ARRA) are very specific as to what the proceeds of ARC Loans may be used for. The statute states the ARC Loans are for the purpose of making periodic payments of principal and interest on qualifying small business debt. SBA had no discretion to use the ARC Loan as a line of credit or to pay accounts payable, rent, payroll and other operating expenses of the small business.

- 4. If a small business has an SBA loan made before February 17, 2009, the small business is not eligible for an ARC Loan.**

Having an SBA loan made before February 17, 2009 does not disqualify a small business from receiving an ARC Loan but the proceeds of the ARC Loan may not be used to pay the pre-February 17 SBA loan.

- 5. In addition to providing quarterly cash flow projections, SBA requires quarterly reports of actual cash projections after the ARC Loan is made.**

Quarterly cash flow projections are required to ascertain whether there is a reasonable expectation of repayment. However, there is no SBA requirement for the small business to provide actual quarterly cash flow statements once the loan is closed and disbursed.

- 6. Annual financial statements or tax returns must be obtained from small businesses during the life of the loan.**

There is no SBA requirement that the small business must provide annual financial statements or tax returns during the life of the loan. However, lenders

are expected to monitor the small business borrower as part of the overall borrower relationship, particularly if same institution debt is being paid with ARC Loan proceeds, as part of the overall borrower relationship.

**7. Financial statements are required on all the affiliates of the small business borrower.**

There is no requirement that financial statements for affiliates obtained. SBA does need the size information for affiliates such as sales and number of employees for the past 3 years to ensure the small business meets the size standards to be eligible for an ARC Loan.

**8. The requirements for establishing financial hardship are ambiguous.**

SBA provided specific requirements, both in terms of type and magnitude, for lenders to apply in determining financial hardship. For example, a 20% loss of revenues or working capital lines would be considered a financial hardship. SBA also provided lenders with the flexibility to identify other types of financial hardship.

**9. There are guaranty fees associated with ARC Loans.**

There are no borrower or lender guaranty fees or any other fees associated with ARC Loans (other than the direct costs of securing and liquidating collateral).

**10. There is a 30 page application for ARC Loans.**

The small business's part of the application is 3 pages of "yes and no" type questions plus some supporting documentation requirements. The lender's portion is the completion of two pages of data elements such a borrower's name and address and use of proceeds as well as a short eligibility checklist.

**11. SBA will second guess lending decisions on defaulted ARC Loans.**

While SBA must exercise its fiduciary responsibility in purchasing ARC Loans, the Regulations and Procedural Guide provide specific guidance that should eliminate concerns about second guessing credit decisions. If a lender has any concerns, they may submit the loan to SBA's Processing Centers in Citrus Heights, California or Hazard, Kentucky for approval by SBA.

**12. Completing an SBA loan is as much work for the lender as completing a \$2 million loan.**

Over 500 lenders are currently making ARC Loans and more lenders are participating in the program every week. ARC Loans are largely being used by lenders to assist their existing borrowers providing an opportunity to maintain

existing borrowing relationships. That requires assessing a borrower's overall debt situation. The ARC Loans are more than \$35,000 loans -- they are \$35,000 loans being used to pay on a much larger debt structure requiring an assessment of the overall debt burden of a small business borrower. Further, the application process utilizes a streamlined application and eligibility checklist and various requirements have been eliminated for ARC Loans.

**13. ARC loans are not profitable for lenders, as they are too complex and do not pay enough interest.**

As noted above, over 500 lenders are currently making ARC Loans and more lenders participate in the program every week. Lenders receive a 100% government guarantee of both principal and interest. Further, lenders are, for the most part, paying on their own debt – in some cases lenders are limiting all ARC Loan disbursements to their own debt – providing an additional benefit to the lender by allowing it to avoid credit losses. Those provisions, combined with a variable rate of interest that is tied to Prime, make the ARC Loan a reasonable program to assist their small business customers that are experiencing some financial hardship.