



RIEDC

Rhode Island
Economic Development Corporation
Building the 21st Century Innovation Economy

HELPING SMALL BUSINESSES THRIVE

A FEDERAL & RHODE ISLAND PARTNERSHIP TO PROVIDE GUARANTEES TO INDUCE PRIVATE LENDING

Q. How will changes to the Job Creation Guaranty Program help small businesses?

A. The amendment will induce private lending to small businesses in Rhode Island through the federal Small Business Administration (SBA) 7(a) program. The Rhode Island Economic Development Corporation (RIEDC), under the direction of Governor Chafee, will set aside a maximum of \$5 million of its Job Creation Guaranty Program to create a state guarantee of 15% to complement the SBA guarantee on its 7(a) loans. RIEDC will provide a 15% loan guarantee in addition to the current SBA 7(a) 75% guarantee ceiling. The total between the SBA and RI would provide a maximum guarantee of 90%, making the program more attractive to private lenders.

Q: Why is this program change necessary?

A: While lending has picked up for some small businesses, that has not been true across the board, and there is still work to be done. Particularly, small businesses in underserved communities and economically disadvantaged areas still face challenges accessing the capital they need. SBA's temporary 90% guarantee offered through the Recovery and Reinvestment Act and the Small Business Jobs Act was effective. Under Governor Chafee's direction, the RIEDC proposed this additional state-level guarantee as a tool that can be made available to build on that success to engage and encourage lenders here in Rhode Island as we continue the road to a full economic recovery.

Q. What is the SBA 7A Program?

A. SBA's 7(a) loan program offers a government guarantee on loans made by commercial lenders to help expand access to capital for small businesses. Under the 7(a) loan program, SBA offers a guarantee of 75%, depending on the size and type of loan. The SBA guarantee provides an incentive to lenders by reducing their risk for loans made to small businesses and entrepreneurs. In turn, these loans help drive local economic growth by providing the capital small business owners and entrepreneurs need to start or grow their business and create jobs.

Under the American Recovery and Reinvestment Act and the Small Business Jobs Act, SBA was able to temporarily increase its guarantee on most 7(a) loans to as much as 90%. This increased guarantee contributed to a rebound of SBA's lending, which had been hit hard as a result of the

recession, and put billions of dollars in capital in the hands of tens of thousands of small businesses across the country. The 90% guarantee expired, however, at the end of 2010.

The proposed amendments to the Job Creation Guaranty Program would build on the success of the SBA's temporary 90% guarantee program by adding a 15% guarantee in addition to the regular SBA 7(a) guarantee of 75%. The resulting 90% guarantee would provide further incentive to lenders to make small business loans backed by SBA and RIEDC. By offering a combined guarantee of 90%, the Job Creation Guaranty Program would help bolster lending initiatives geared toward businesses in underserved communities, one of Governor Chafee's top economic development focus areas.

Q. What is the Job Creation Guaranty Program?

A. The Job Creation Guaranty Program authorizes the RIEDC to support critical economic development projects by helping small businesses gain access to private growth capital and credit by utilizing its loan guarantee authority. This proposal to offer a guarantee on SBA 7(a) loans is one example of how this program can and does help expand access to capital for small businesses. The RIEDC has \$50 million in loan guarantees available through the program. Should the proposed changes be approved by the RIEDC Board, \$45 million in loan guarantees would remain in the Job Creation Guaranty Program to support primarily innovation-driven, knowledge-based companies looking to expand or relocate in Rhode Island.

Q. When was the Job Creation Guaranty Program created?

A. The Job Creation Guaranty Program was passed into law during the 2010 legislative session.

Q. Why amend this program and not create a separate one?

A. The Job Creation Guaranty Program is in place and already provides the RIEDC with statutory authority to guarantee loans from private lenders. By amending the program, we strengthen its purpose to induce private lending and provide greater access to capital for Rhode Island businesses.

Q. What steps have to occur for the additional changes to be implemented?

A. RIEDC and SBA have begun discussions outlining how the proposed guarantee program would work. Once those discussions are complete, a Memorandum of Understanding will be signed by the RIEDC and SBA. The RIEDC Board of Directors must approve the MOU and authorize amendments to the existing Job Creation Guaranty Program rules and regulations to allow for the guarantee enhancement.

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