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Rhode Island
Economic Development Corporation

Building the 21st Century Innovation Economy

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SBA Administrator Mills, Governor Chafee Highlight Assistance for Small Businesses, Job Creation

Proposed changes to Rhode Island's Job Creation Guaranty Program would place additional guarantee on SBA-backed loans

March 30, 2011 (Providence, R.I.) - Karen G. Mills, Administrator of the U.S. Small Business Administration (SBA) and Governor Lincoln D. Chafee joined other government and business leaders today to highlight assistance for small businesses in Rhode Island that is already creating jobs and announce a proposed change to the state's Job Creation Guaranty Program that would provide greater access to capital and credit for small businesses.

The proposal aims to place additional loan guarantees of 90 percent on SBA 7(a) loans by setting aside 10 percent - up to \$5 million - of the Job Creation Guaranty Program. The goal is to make small business financing more attractive to private financial institutions at a time when capital markets have moved too slowly after the recession, particularly for small businesses in underserved communities and economically disadvantaged areas.

Providing greater access to operating and growth capital for small businesses is a top economic development priority for the SBA and Rhode Island. Governor Chafee and SBA Administrator Mills see an opportunity to utilize the Job Creation Guaranty Program - already in place and authorized to guarantee private lender loans - to build on the success of the SBA 7(a) loan program and increase financing assistance to small businesses in the state.

"In this difficult economic climate, easier access to credit and capital is vitally important to Rhode Island's small businesses as they work to grow and succeed," Governor Chafee said. "I am pleased to announce this initiative today and look forward to seeing it benefit small businesses across the state."

Under the direction of Governor Chafee, the proposed changes to the Job Creation Guaranty Program would add a 15 percent guarantee to the regular SBA 7(a) guarantee of 75 percent. This additional guarantee would provide further incentive to private lenders to make small business loans backed by SBA and Job Creation Guaranty Program guarantees of 90 percent. By offering a combined guarantee of 90 percent, the Job Creation Guaranty Program would

help bolster SBA lending initiatives geared toward businesses in underserved communities, one of Governor Chafee's top economic development focus areas.

"The small business community has made it clear that difficulty in obtaining loans to help companies maintain or expand operations continues to be a significant obstacle to their success. By modifying the Job Creation Guaranty Program to enhance SBA loan guarantees, we can strengthen its effectiveness and make it possible for private lenders to provide greater access to capital for Rhode Island businesses," said Keith Stokes, executive director of the Rhode Island Economic Development Corporation.

The RIEDC, which administers the Job Creation Guaranty Program, and the 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.

The Job Creation Guaranty Program, passed into law in 2010, authorizes the RIEDC to use its loan guarantee authority to support critical economic development projects by helping small businesses gain access to private lending. 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.

The SBA 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 percent, depending on the size and type of loan.

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 percent. 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 percent guarantee expired, however, at the end of 2010.

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