

U.S. Small Business Administration

100 North Sixth Street, Suite 210-C
Minneapolis, MN 55403
612-370-2324
www.sba.gov/mn

ARC Loan Program Details

On Monday, June 8, SBA released the guidance to lenders on a new and temporary program called America's Recovery Capital loans - ARC loans - which will begin on June 15.

This is a **different** kind of program to meet a **different** kind of need at a unique economic time.

- The traditional SBA lending programs are targeted directly at long-term small business growth. But the Congressional intent behind ARC loans is different.
- ARC loans are a **bridge** to help viable small businesses that just need a little extra help to **address** immediate financial hardship, **to save jobs**, and to make it through some tough times.

ARC Loan

Frequently Asked Questions

For Borrowers and Lenders

FOR BORROWERS:

How do I obtain an ARC loan?

- **A small business should talk first to their current lender about obtaining an ARC loan.**
- **ARC loans are made by commercial lenders (ARC loans are not made by the SBA itself).**
- **Non-SBA lenders can become SBA lenders in order to make ARC loans.**
- **SBA district offices can assist lenders in becoming approved SBA lenders.**

What is an ARC Loan?

- **The America's Recovery Capital, or ARC, loan program is designed to give viable small businesses suffering immediate financial hardship some temporary financial relief so they can keep their doors open and get their cash flow back on track.**
- **The ARC loan program is a new, temporary program authorized by the Recovery Act.**
- **An ARC loan is a deferred-payment loan of up to \$35,000, to be used for principal and interest payments on existing, qualifying debt/loans.**
- **ARC loans are 100% guaranteed by SBA and have no SBA or lender fees associated with them (unless the lender must secure collateral as part of the loan).**
- **There are no interest charges to the borrower. The SBA will pay the monthly interest at the rate of Prime plus 2% to the lender on behalf of the borrower. (The current rate is published in the Federal Register.)**
- **There is a disbursement period of up to six months is followed by 12 months with no repayment of the ARC loan principal. After the 12-month deferral period, the borrower pays back only the ARC loan principal over a period of five years.**

How is "viable" defined and who defines it? What constitutes "immediate financial hardship"?

- **Viable means the business is an established, for-profit business with evidence of profitability or positive cash flow in at least one of the past two years. An analysis of financial statements going back three years is also used. Future**

cash flow projections based on reasonable growth going out two years should show that the business will be able to meet current and future debt obligations, including future repayment of the ARC loan. Also, the borrower must certify that they are currently no more than 60 days past due on any loan being paid with an ARC loan and they must have an acceptable business credit score as determined by SBA.

- **Immediate financial hardship means that there must be evidence to show a change in the financial condition such as declining sales, frozen credit lines, difficulty meeting payroll, paying rent, difficulty making loan payments or perhaps something else. Your lender must analyze and confirm that a hardship exists. The SBA has several categories for determining hardship status, such as loss or reduction of revenue in preceding year, increase in business costs in the preceding year, changes in operating ratios, loss of working capital or short-term credit lines, and/or inability to restructure debt due to recent credit restrictions.**
- **There are additional eligibility requirements. Please contact your SBA lender for details.**

What loans/debts are "qualifying" and eligible to benefit from ARC? Can the proceeds be used to make payments on another SBA-guaranteed loan?

- **The only eligible purpose for use of ARC loan proceeds is to make periodic payments of principal and interest on qualifying small business loans.**
- **Small business loans/debts qualifying and eligible for assistance with ARC loans include:**
 - **Secured & unsecured conventional loans (mortgages, term and revolving lines of credit)**
 - **Capital leases**
 - **Notes payable to vendors/suppliers/utilities**
 - **Development Company Loan Program (504) first mortgage loans**
 - **Credit card obligations for business purposes**
- **ARC loans can not be used to make payments on another SBA-guaranteed loan, with the exceptions of loans made with an SBA guaranty after Feb. 17, 2009**

Can ARC loans be used to pay a home equity line of credit and credit card debt?

- **ARC loans can be used to pay home equity lines of credit and credit card obligations if the debt is for business purposes that meets 7(a) standards. Documentation requirements for assistance with home equity and credit card debt are stringent. (Contact your SBA lender for details).**

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- Non-SBA lenders can become SBA lenders in order to make ARC loans.
- SBA district offices can assist lenders in becoming approved SBA lenders.

Where can I get more information or speak with someone at SBA about ARC loans?

- For more about ARC loans go to www.sba.gov

Is my business right for an ARC loan?

- The ARC loan program is intended to give existing, viable small businesses that are suffering immediate financial hardship some temporary financial relief so they can keep their doors open and get their cash flow back on track, retain existing jobs, and ultimately grow in the future.
- Examples of financial hardships include declining sales or revenues or difficulties in paying the operating expenses of the business.
- ARC loans are not designed for new small businesses.

**I've been making my business loan payments on time. Am I still eligible for an ARC loan?
Can I use an ARC loan to establish a line of credit?**

- Subject to eligibility and your lender's credit criteria, you may be eligible for an ARC loan to pay principal and interest on your existing small business loan(s), freeing up your income to pay other operating expenses. For more information, please speak with your SBA lender.
- ARC loans are for making principal and interest payments on qualifying small business loans and are not a general line of credit for a business.

When will ARC loans be available?

- ARC loans will be available beginning June 15.

How long do I have to obtain an ARC loan?

- ARC loans are available through SBA-approved lenders as long as funding is available or through Sept. 30, 2010, whichever comes first. For more information on the ARC loans program and eligibility requirements go to www.sba.gov

FOR LENDERS:

When will I receive additional guidance and details regarding how to administer ARC loans? How will I know if my borrower is eligible? How do I know whether a business is "viable"? How do I know what constitutes "immediate financial hardship"?

- A detailed Procedural Guide is available: [ARC Loan Procedural Guidance](#)

Will lenders be paid interest on ARC loans?

- The lender will bill the SBA, and the SBA will pay Prime plus 2% to the lender on behalf of the borrower. SBA will publish the current interest rate in the Federal Register.

When will the ARC loans be available? When will the SBA begin accepting loans?

- ARC loans will be available and the SBA will begin accepting applications for ARC loans on June 15.

I have heard that ARC loans are relatively risky. Will ARC loan defaults impact my risk rating?

- The SBA understands that ARC loans will carry greater risk than most SBA loans, and we expect a higher default rate than 7(a) loans. The SBA will be closely monitoring the ARC Loan portfolio. Performance of a Lender's ARC loan will be taken into account as part of a Lender's contribution to SBA's mission in determining the satisfactory performance of a lender..

Where are the forms I will need for administering the ARC loans?

- Forms are available at SBA's [Financial Assistance Forms](#)

When can I get trained on providing ARC loans? Where should I go for questions?

- SBA district offices are training lenders and answering questions. If you are not already an SBA lender, please contact the Minnesota district office.

Will the SBA's electronic submission method for delegated lenders be available for the ARC program?

- Yes, delegated SBA lenders should use the electronic submission system, eTran. Non-delegated SBA lenders will submit applications to the SBA's existing 7(a) Loan Guaranty Processing Center in Citrus Heights, California.

Complete information on all Recovery Act Programs: [Recovery Act](#)