

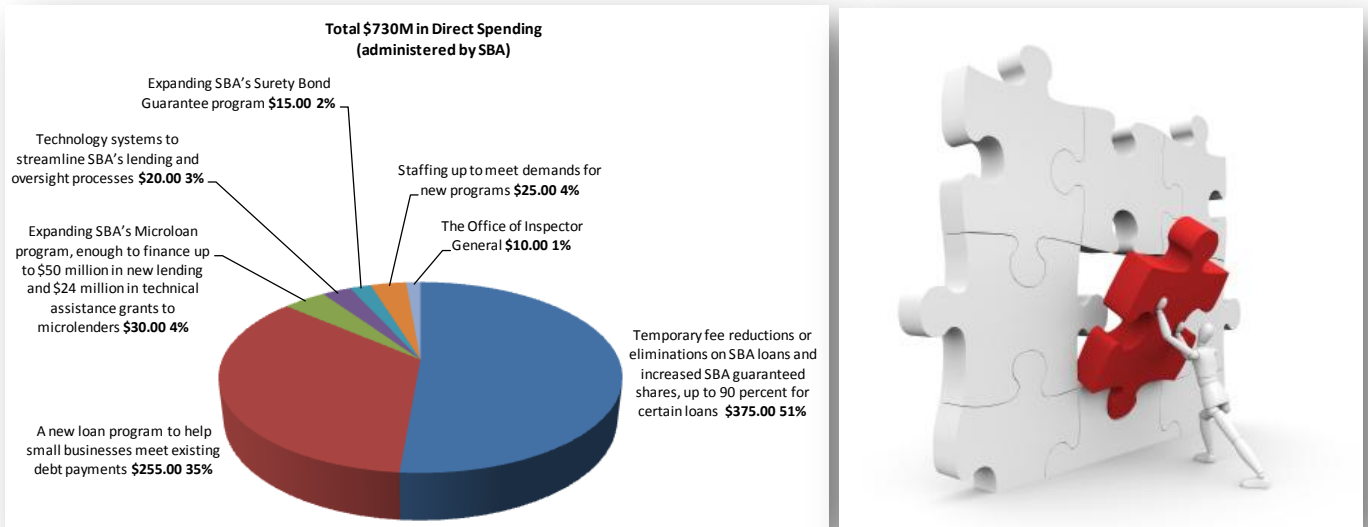


SMALL BUSINESS STIMULUS – WILL IT WORK?

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ANNOUNCEMENT

On March 16th US President Barack Obama unveiled measures to revitalize the small business economy in the US. The package includes several measures that look like are the right steps to boost small businesses. The package lays out approximately \$730 million in spending towards small business.



The spending largely tackles costs associated with lending with over half of the money going towards fee reductions and increased SBA guarantees for loans.

Nearly 20 million small businesses have received direct or indirect help from one or another of those SBA programs since 1953, as the agency has become the government's most cost-effective instrument for economic development.

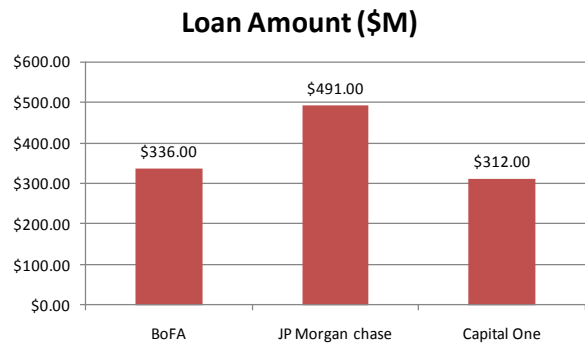
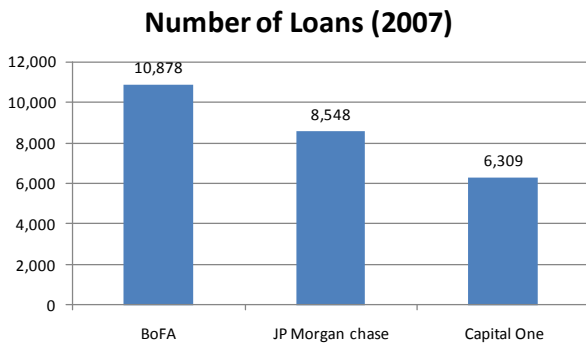
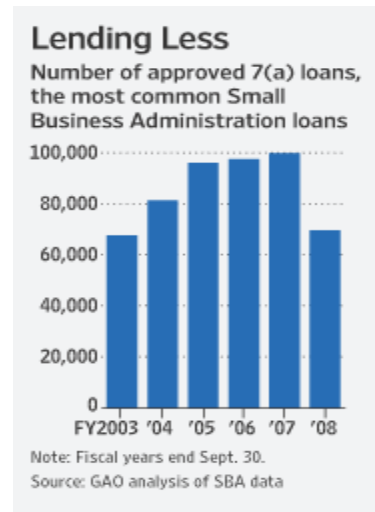
In fact, SBA's current business loan portfolio of roughly 219,000 loans worth more than \$45 billion makes it the largest single financial backer of U.S. businesses in the nation.

SMALL BUSINESS LOAN HISTORY

Over the past 10 years, (FY 1991-2000), the SBA has helped almost 435,000 small businesses get more than \$94.6 billion in loans, more than in the entire history of the agency before 1991. No other lender in this country – perhaps no other lender in the world – has been responsible for as much small business financing as the SBA has during that time. Last year alone, the SBA backed more than \$12.3 billion in loans to small businesses. More than \$1 billion was made available for disaster loans and more than \$40 billion in federal contracts were secured by small businesses with SBA's help.

So channeling the funds through the SBA makes complete sense. Overall, about 65% of the \$730M is going towards offsetting the costs of the program and only 35% is going towards a new loan program to alleviate SB debt. At first glance it does not look like much but to be fair other components of the larger recovery package will have direct and indirect impact on the small business market.

Secondary market key to recovery: The administration is also allocating \$15 billion to help unfreeze the secondary credit markets. Often primary bank lenders will seek to sell the SBA loans in the secondary market, allowing them to use the proceeds of the sale to make new loans to other small business owners. Over the last 14 months, it is this area of lending that has frozen leading to a decline in the number of loans made to small businesses (see chart right). The SBA has guaranteed approximately \$20 billion in loans annually, but new lending this year is on track to fall below \$10 billion. A 50% drop off in loan guarantees will clearly have a significant impact on the Small Business economy. Note that the drop off does not largely affect new business creation. That is because most loans go towards existing businesses with somewhat of a track record to show to lenders. In this environment lenders will be even stricter in their evaluations of loan applicants so it is likely that the Small Businesses in most dire need of a loan may not receive funds. The program is likely to benefit large and small banks. The three banks shown below were the top three Small Business lenders in 2007.



IMPACT



past five years in the current tax year;

Tax Incentives: The package doubles the amount small businesses can write off their taxes for new investments made in 2008, from \$125,000 to \$250,000. It also lifts the cap on businesses eligible for the deduction, expanding it to businesses making up to \$800,000 (up from the current \$500,000 limit). This is really good since it is likely to have an immediate impact. Additionally, Small Businesses earning up to \$15 million will be allowed to claim losses for the

- Can reduce estimated tax payments to 90 percent of the previous year's filing.
- Are allowed to take larger depreciation deductions within the first year of property purchases.
- And will see 75 percent of capital gains excluded for those who invest in small businesses.



Government Grants: Another long ignored aspect that will clearly have a significant impact on small businesses is to stop the abuse of and clearly enforce current regulation that sets aside 23% of all federal contracts to be given to small businesses. Under the Bush administration rampant violations of this law took money away from Small Businesses. Enforcement will have an immediate and positive effect.



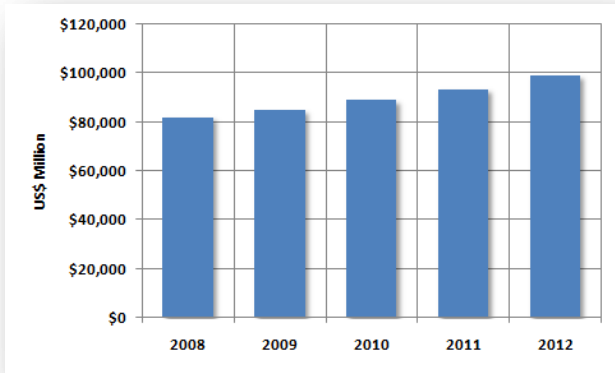
Small Business Healthcare: For many years, the cost and availability of health insurance has been a top small business concern. Aspects of insurance that drive small business concerns are premium increases and administrative costs. Advocacy research shows that:

- Insurers of small health plans have higher administrative expenses than those that insure larger group plans
- Employees at small firms are less likely to have coverage than the employees of larger entities.

These results are confirmed by the Kaiser Family Foundation, which also finds that firm size is an important indicator of whether a firm offers health insurance. This survey shows that about half of businesses with fewer than 10 workers offer health benefits to their employees. The ratio grows to about three-fourths for firms with 10–24 employees, to almost 90 percent for firms with 25–49 employees, and to 98 percent for firms with 200 employees or more. Two-thirds of workers in firms of all sizes take health insurance coverage if offered. So in terms of granting cost relief, healthcare costs need to be addressed. While this is not part of the program, one hopes that the overall healthcare strategy and policies will help Small Businesses in the long run.

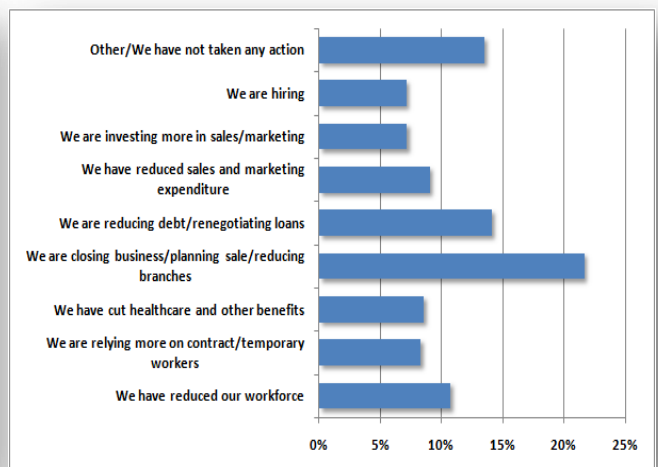
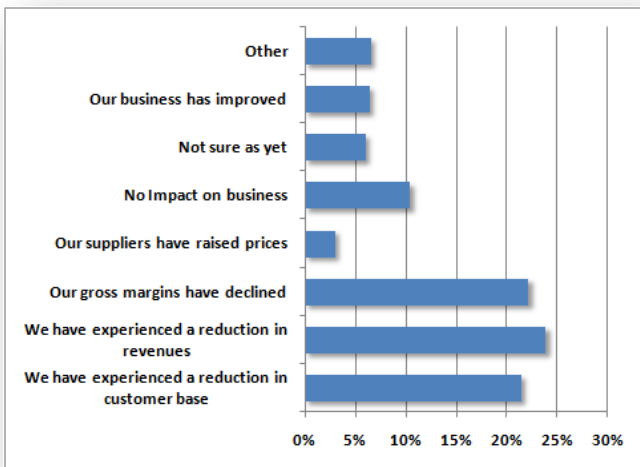
Impact of the broader recovery program: It is difficult to assess the precise impact of the broader program given all its complexities (see chart) but there is no doubt that the broad investment being made in infrastructure and other areas will benefit Small Businesses.

IT SPENDING



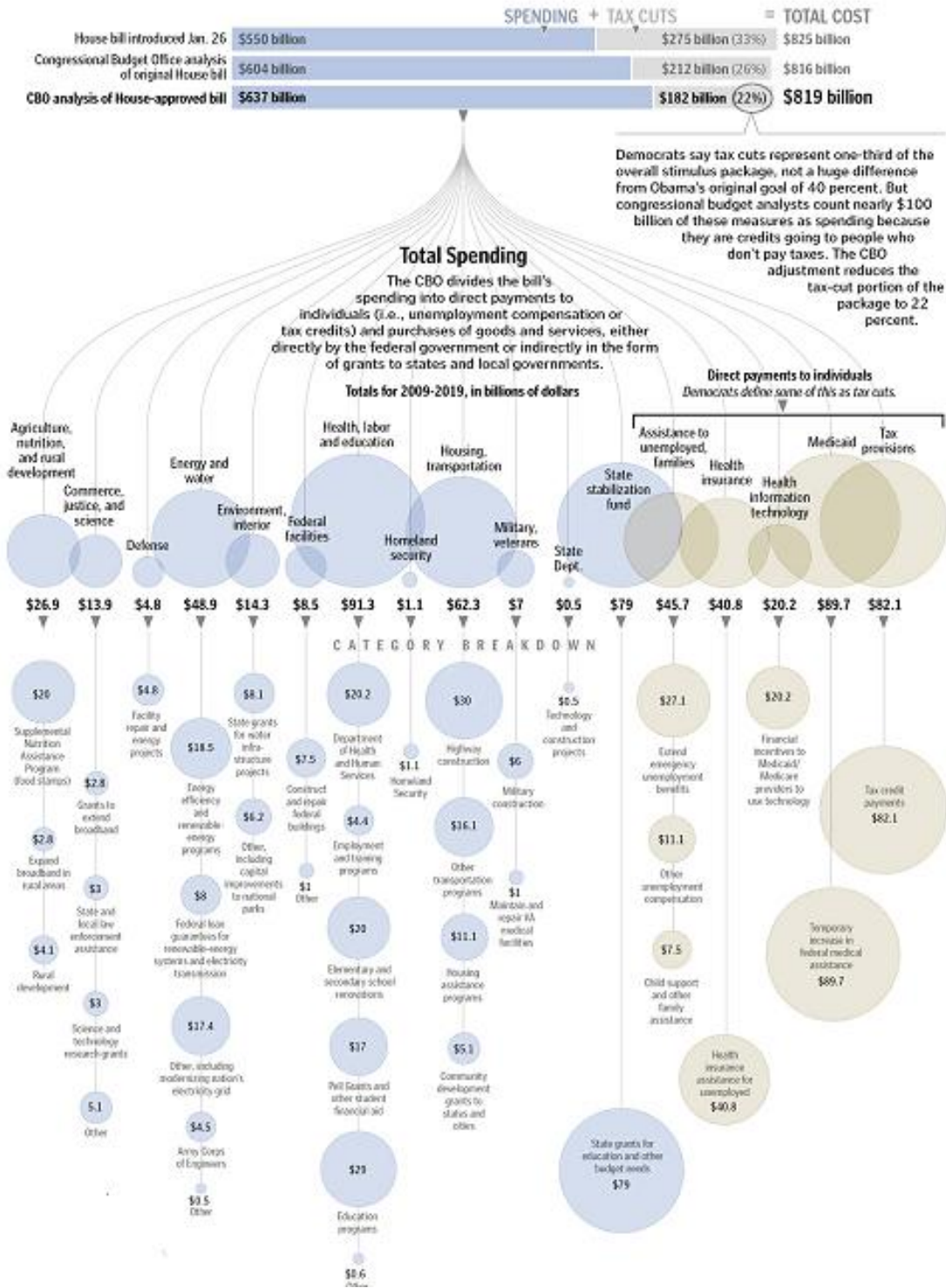
When the economy recovers, small businesses are the first to bounce back. Based on Techaisle’s recently completed surveys of small businesses it is expected that within the US market, the small business spending will grow by 3.4% in 2009 over 2008 which is two full percentage points higher than the expected growth rate by enterprises.

When asked, “Which ONE of the following statements BEST describes the impact the current economic downturn has had on your business's performance? “, about 60% of small businesses mentioned that they have had some impact on their business.



These small businesses also mentioned that once the economy improved and they had capital to purchase either through vendor financing of better cash flow including business improvement they would invest in servers, notebooks, business productivity software and upgrading their networks.

US STIMULUS PLAN CHART - SOURCE: FLOWDATA



Democrats say tax cuts represent one-third of the overall stimulus package, not a huge difference from Obama's original goal of 40 percent. But congressional budget analysts count nearly \$100 billion of these measures as spending because they are credits going to people who don't pay taxes. The CBO adjustment reduces the tax-cut portion of the package to 22 percent.