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SBA's Lending Programs Prove Increasingly Valuable During Economic Recovery

The Washington Post

By J.D. Harrison, reprinted from The Washington Post

The Small Business Administration's lending programs have grown increasingly valuable to local bankers and business owners during the economic recovery, helping the agency maintain a steady flow of loans even as small-business lending as a whole has dipped.

One entrepreneur said his new hotel in Stafford, Va., may never have made it without help from the agency.

"A lot of banks wouldn't even take a look at the loan," Everett Lovell, who opened the extended-stay hotel this year, said in an interview. "Some said they had bad luck with hotels, others said they just weren't interested in small-business loans right now."

Lovell got a different response when he approached John Marshall Bank in Reston. After a look at his plans, the bank's executives decided that Lovell was a good candidate for the SBA's 504 loan program, through which the agency provides partial financing (paired with capital from the bank) for real estate purchases or construction.

Lovell soon secured a \$6.2 million loan through John Marshall, more than \$2 million of which came courtesy of the SBA.

"It's a very valuable program that both the banking community and the small-business economy rely on to help grow the economy," said Bill Ridenour, president of the bank. "We have done a lot of these loans, and I know they are becoming popular with a lot of our competitors, too."

From October 2012 through the end of last month, the SBA signed off on \$29.6 billion in small-business loans, down slightly from \$30.25 billion the year before and an all-time peak of \$30.5 billion in 2011. Still, the total number of loans edged up from 53,848 last year to 54,106 in 2013.

The SBA's 2013 totals include more than 5,000 loans for \$745 million under the agency's relatively new Small Loan Advantage program, which is intended to get more small-dollar loans to firms in underserved communities, and 682 loans for \$500 million under its CAPLines initiative, which helps entrepreneurs access short-term working capital.

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"Under President Obama, SBA lending has reached record levels and we continue to get more capital into the hands of small business owners than ever before," Acting SBA Administrator Jeanne Hulit said in a statement.

The structure of the 504 program is somewhat unique, in that a portion of the loan comes directly from the SBA's network of community-based, nonprofit lending partners, known as Certified Development Companies. Conversely, most SBA loans are made by banks, credit unions and other private lenders with a partial guarantee from the federal government.

The idea is to encourage bankers to take on more small-business loans by allowing the government to shoulder some of the risk of default.

However, the programs, which once paid for themselves, no longer come cheap. Leading up to the recession, every year from 2005 to 2009, the loan fees collected by the agency outpaced the amount the department was forced to pay for oversight and default payments.

In 2010 and 2011, the tides started to turn, and the agency was provided \$80 million each year to cover losses in the lending programs, according to a report compiled by the Congressional Budget Office. In 2012, it ticked up to \$207.1 million, and this year the agency was allotted \$316 million for the loan programs, because about 4.5 percent of SBA loan recipients defaulted.

Still, the agency has maintained a steady flow of loans over the past three years even as private small-business lending has tapered off.

In June 2012, for instance, banks had \$588 billion in outstanding loans to small firms, down 3.1 percent from the end of 2011. Meanwhile, some studies have shown that a lending decline for small companies has been ongoing for more than a decade.



Michael Flynn, chief operating officer for Rockville, Md.-based Eagle Bank, said demand for small-business loans took a steep dive during and immediately following the recession but has started to rebound. However, banks often rely on sales and other financial figures from the past few years to evaluate the health of a company, so for firms seeking loans, those down years can make it difficult for them to win approval.

And that, Flynn said, is why loan guarantees can make a difference.

"If we have a loan application that's on the edge, if you can get the SBA guarantee, then that becomes a transaction we can do," he said in an interview. "Without that guarantee, some of our loans would probably never have been approved, and that's the real advantage of the SBA programs."

Flynn said the programs have grown in popularity during the past two years, because the agency lowered the fees it charges on various types of loans, including its signature 7(a) loan-guarantee program, which provides general-purpose working capital to small businesses.

"Now when you compare the costs of an SBA loan to other sources of financing for a small business, it has become relatively attractive," Flynn said.

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