

Georgia banks shifting focus to SBA loans

By Andy Peters
STAFF WRITER

In the absence of a viable market for real estate loans, many Georgia banks are shifting resources to make more government-backed loans to small businesses.

But some bankers and attorneys caution that small-business loans probably can't form the foundation of a bank's lending portfolio.

Figures from a national industry association highlight how deeply Georgia banks are involved in loans guaranteed by the **U.S. Small Business Administration**.

Of the 30 U.S. banks that issued the largest amount of SBA loans, measured by total dollars, five are Georgia-headquartered banks, according to fourth-quarter 2010 figures from the **National Association of Government Guaranteed Lenders**.

Leading the list was **FCB Financial Corp.** of Savannah, the holding company for **First Chatham Bank**, which made \$73.3 million in SBA-approved loans. FCB was followed by **Cornerstone Bank**, **SunTrust Banks Inc.**, **Metro City Bank** and **Fidelity Southern Corp.'s Fidelity Bank**.

The SBA program is considered a critical part of Cornerstone Bank's growth strategy, said CEO Chris Burnett. Cornerstone Bank made 68 SBA loans in the fourth quarter, totaling \$71 million.

"The SBA program has a reputation as a government giveaway program, but it's not," Burnett said. "It has an excellent history. Its default rate is comparable to standard loans. SBA loans have had a positive impact on our business."

Other Georgia banks that didn't rank near the top of the NAGGL list for the fourth quarter, such as **Private Bank**

of **Buckhead**, nevertheless see SBA loans as a critical segment in the next year.

"We've added additional resources to this business line," said Private Bank of Buckhead CEO Charlie Crawford.

With the collapse of the real estate market in Georgia, banks are "looking for anything that's going to replace the revenue from real estate lending," said Jim Wheeler, a banking attorney with **Morris, Manning & Martin LLP**. But SBA loans won't be able to generate enough volume to replace real estate.

"It's an important piece of an overall lending strategy, but it's unlikely to be a standalone business model," Wheeler said. "You need to supplement it with other types of financing."

Businesses who take out SBA loans come from all industries, said Charles Yorke, president of Cornerstone Bank, from manufacturers and distributors to franchised companies like hotels and restaurants. The loans are typically used for expansion — hiring new employees, purchasing new machines or upgrading technology. They can also be used for limited real estate deals, such as a business acquiring its building.

Fidelity Bank made \$58.3 million in SBA loans in the fourth quarter, but the bank isn't expecting the SBA program to be a savior for the banking industry, said Fidelity CEO James Miller.

"Real estate is gone for good. It's going to be extraordinarily difficult for banks to lend to make up for that lost business," Miller



Crawford
Private Bank
of Buckhead

said. Fidelity Bank is involved in SBA lending, but it's no more important to the bank than "automobile lending, mortgage lending and just regular business lending," he said.

Burnett and others acknowledge that a reason for the high number of SBA loans issued in the fourth quarter was a series of federal incentives offered as part of the overall stimulus program — an increase in the amount of the government guarantee from 75 percent to 90 percent, and a waiver of associated fees. Those incentives ended on Dec. 31.

Burnett and other bankers have asked members of Georgia's congressional delegation to seek an extension of those stimulus programs. But Hayley Meadvin, an SBA spokeswoman, said the incentives package was "a temporary program." Small businesses still need access to capital, she said, but "they're moving into recovery."

Further, U.S. Rep. Sam Graves, R-Mo., the congressman with oversight of the SBA, in a statement described the SBA incentives as "ill-conceived" and said "more must be done to streamline SBA programs and funding."



Nager
SunTrust Banks Inc.

Even without the federal incentive program, SBA loans have been, and will continue to be, a key part of SunTrust's lending, said Jeff Nager, SBA division executive for SunTrust.

"Borrowers are starting to come out of some difficult times," Nager said. "They're feeling more comfortable buying that piece of equipment."

Another program could fill the void if SBA incentives aren't extended, the Small Business Lending Fund, a \$30 billion fund administered by the **U.S. Treasury Department**. Part of the Small Business Jobs Act of last year, banks with less than \$10 billion in assets have until the end of March to apply to the Treasury Department for money from the \$30 billion fund. The rate banks pay for distributions from the Small Business Lending Fund will be no higher than 5 percent, and could fall to as low as 1 percent. The rate drops as a bank's lending to small businesses increases.

SBA lending by Georgia-based banks

Fourth-quarter 2010

First Chatham Bank - \$73.3 million

Cornerstone Bank - \$71 million

SunTrust Bank - \$63.5 million

Metro City Bank - \$61 million

Fidelity Bank - \$58.3 million

Source: National Association of Government Guaranteed Lenders

Banks with out-of-state headquarters, but with a large presence in metro Atlanta, also were heavily involved in SBA loans at the end of 2010. **Wells Fargo & Co.** topped the NAGGL list with \$484.8 million in SBA loans made nationwide in the fourth quarter. Of that amount, about \$8.6 million were loans made in Georgia.

JPMorgan Chase & Co. placed third on the NAGGL list.

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