

VIEWPOINT



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Stimulus beefs up small-biz lending

The so-called American Recovery and Reinvestment Act of 2009 has had a profound impact on the Small Business Administration. The president's massive economic stimulus package (HR 1, which was made retroactive to Feb. 17, 2009) includes enhancements to the SBA's Government Guaranteed Loan Program. As evidenced by a record number of questions directed to SBA lenders over the past few weeks, even many of the small-business people who know of these enhancements are unfamiliar with just how the changes may serve them.

The Stimulus Package increased the government's guarantee from 75 percent to 90 percent on most SBA 7(a) program loans and waived the majority of the fees on both 7(a) and 504 loans for the remainder of 2009 (or until the appropriation money runs out). Because these are two of the most basic and most-used SBA loan types, the SBA-Stimulus Package changes will likely positively impact many small businesses.

Already, these positive changes in the SBA program have inspired business

owners to consider government guaranteed financing. Likewise, lenders have been motivated to step up SBA loan production.

It's important to think of the SBA loan program as a partnership between you, your lender and the government. SBA mitigates a portion of the risk to the lender so they'll be motivated to loan you money.

If you succeed, everyone wins. The lender gets paid back, SBA's guarantee money is preserved, you have no doubt contributed to the U.S. economy by providing jobs and tax dollars, and you have an investment that will hopefully give you financial peace, not to mention the sheer joy of owning your own business.

In comparison to conventional financing, the SBA typically allows borrowers to come in with a smaller down payment when financing business assets. Most conventional lenders are going to ask for 20 percent to 25 percent down on most fixed-asset purchases, whereas SBA allows borrowers to come in with as little as 10 percent down in some cases.

This allows longer repayment terms; conventional lenders may offer a 20- or 25-year amortization, but most will call or "balloon" the note in three, five or seven years. SBA loans provide a fully amortizing term, and the underwriting is somewhat less stringent than conventional. Too, many conventional lenders are reluctant to loan to startup or relatively new businesses, but roughly one-third of SBA loans are made to new or startup businesses.

SBA loans are indeed installment loans; even with stimulus modifications, they are not grants or give-away programs.



Stimulus enhancements to SBA loans simply make these small-business-favorable loans a bit more accessible for qualifying borrowers. The government is not playing the part of an investor or venture capitalist.

Similarly, SBA funds are not meant to be used as "equity" for your business — equity being the cash or tangible investment the small-business owner contributes. SBA likes to see, on average, 15 percent owner equity in a project.

Another SBA-stimulus misconception has been that these are loans to inexperienced borrowers and undercapitalized businesses. On the contrary, SBA lenders look for experienced business owners, sufficient cash flow to service debt, adequate collateral to help protect the loan, and enough liquidity or "cushion" to provide staying power during uncertain times.

Nor are stimulus-enhanced SBA loans a bailout program. If your business is in peril, SBA is not the solution. This program is for for-profit, credit-worthy businesses that need a little added strength to help

convince lenders they're a good risk. If company financial statements reflect a history of negative trends (diminishing sales, evaporating margins, increasing losses), it's too late to ask for help from the government in the guise of SBA lending.

SBA loans also are not intended for real estate investors. SBA commercial real estate loans are for the end user of property being financed (owner-occupied situations). However, SBA will allow a borrower to lease out up to 49 percent of an existing building being purchased (40 percent if new construction), with the idea that the business will grow into the extra space in a few years.

Loans are not for properties that depend on lease income, such as apartment complexes and mini-warehouses. Hotels and extended-stay facilities are eligible, as long as the leases do not exceed a one-month term.

The U.S. Small Business Administration's Government Guaranteed Loan Program already presented phenomenal opportunities for small- to medium-sized businesses. In the wake of Stimulus Package enhancements, the opportunities are even greater.

To find out if your business is a fit for this program, talk to your banker, or visit the SBA's Web site: www.sba.gov.

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