

BANK**THINK**

Redundancy in SBA Programs Stalls the Recovery

Christopher Hurn

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The buzz word "duplicative" has been making the rounds lately, employed by watchdog groups and politicians to describe government programs which overlap and offer redundant services at taxpayer expense.

One situation that hasn't yet been cited involves government small business lending programs.

The U.S. Small Business Administration has two commercial lending programs which both fund commercial real estate loans, but one offers a decidedly better deal for business owners and taxpayers. The SBA 7(a) loan program and the 504 loan program often compete against each other for small business real estate loans. Both programs are zero subsidy to the government and fully supported by user fees, which negate the need for a government appropriation.

This may sound like benign duplication, but the reality is that every 7(a) loan that funds a real estate project is taken from a pool of money that could be used as a working capital loan for start-ups or struggling small businesses. Sadly, this situation helps lenders at the expense of small business borrowers who cite a lack of working capital as a main obstacle toward growth.

Historically the 7(a) program served as a working capital loan source, but during its infancy it was also regularly used for commercial real estate financing. The SBA launched the 504 program more than 30 years ago with a singular focus on real estate and equipment financing. However, the SBA never stripped 7(a) loans of real estate deals.

The main opposition to an intelligent shift in policy comes from 7(a) lenders who have found a profit-making machine that they don't want to give up. The secondary market for these government-guaranteed loans offers significant premiums, which drive the decisions to place real estate loans in the 7(a) program rather than the 504.

Many lenders are, indeed, struggling right now, but the government should not be propping them up at the expense of small business

owners in need of growth capital.

Day after day, we hear politicians proclaim that our economic recovery rests on the shoulders of our small business owners. These entrepreneurs decry that financial institutions are too tight with working capital loans. Meanwhile, our national small business agency is allowing its working capital guarantees to be eaten up by real estate deals. The breakdown is clear.

The 504 program can come to the rescue. It offers 20-year, fixed rate loans for owner-occupied commercial real estate, compared to variable 7(a) rates; and the 504 program has lending capacity which has never been reached. Each year, 504 program funds go untapped despite its superior terms and interest rates for small business borrowers.

Changing 7(a) lending rules to move owner-occupied commercial real estate loans exclusively to the 504 program would immediately free up millions, if not billions, of dollars in potential working capital and start-up loans for small businesses.

Detractors of the 504 program will quickly wield tired arguments to attack this proposal. The main complaint is usually that 504 loans supposedly take longer to close and are more cumbersome for the borrower. This may have been true a few years ago. The SBA has since switched to a centralized processing system that helps loans close in 45-60 days. The application process mirrors that for typical real estate loans, so it is no more cumbersome than any other conventional loan.

The SBA's main commercial loan programs continue to be instrumental in helping small businesses, but with duplication eliminated, more working capital and start-up loans will be available to help feed a faster economic recovery.

Christopher G. Hurn is the co-founder and chief executive of Mercantile Capital Corporation in Orlando, Fla., a provider of small business real estate loans and interim financing.

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