

BANKING & FINANCE

BY JAMES BAIRD, BAY AREA DEVELOPMENT COMPANY

SBA's major lending programs: 504 and 7a by the numbers

Over the last couple of decades, a lot has been written about the Small Business Administration's major loan programs – 504 and 7a financing. Most of it has been opinionated and judgmental, the writers either love SBA or they hate it. Perhaps a better approach would be to present the actual lending data for both the national and North Bay markets, and let the reader form their own opinion about SBA's loan programs. First, a short description of the programs.

In 7a, SBA provides a guaranty of 50 to 75 percent of a loan made by a bank or other regulated lender. The guaranty enables the lender to make a loan on longer terms and with less down or equity than normally required by conventional financing alone. SBA 7a finances a myriad of uses including working capital, inventory, business acquisition, tenant improvements, equipment and even real estate. SBA 7a loans are fully amortized loans with terms of seven to 25 years and are typically priced at a prime-based variable rate.

SBA 504 finances real estate that will be owner occupied by small or mid-sized companies. In 504, a local bank typically makes a 50 percent first mortgage loan, an SBA-regulated intermediary called a "CDC" makes a 40 percent below market fixed-rate 20-year second-mortgage and the company or its owners put a minimum of 10 percent down.

Both 7a and 504 are structured so that the fees paid by borrowers and lenders pay for 100 percent of the government guaranty so that no or zero federal appropriation is needed to fund these programs.

SBA LOAN DEMAND: THE DATA

The table is a look at both national and North Bay SBA loan usage and trends. The North Bay data includes

**NATIONAL AND NORTH BAY
 SBA LOAN USAGE AND TRENDS** (\$ in Millions)

	Fiscal Year 2001		Fiscal Year 2005		% Change in # of Loans
	# of Loans	\$ of Loans	# of Loans	\$ of Loans	
NATIONAL DATA:					
7a	42,975	\$9,929	95,900	\$15,200	+123%
504	5,195	\$2,271	9,194	\$5,100	+77.0%
Totals	48,170	\$12,200	105,094	\$20,300	+118%
NORTH BAY DATA:					
7a	173	\$ 63.2	333	\$84.2	+108%
504	48	\$ 26.0	85	\$48.8	+77.1%
Totals	221	\$ 89.2	418	\$133.0	+89.1%

Napa, Sonoma, Marin, Mendocino and Solano counties. Data for 2001 and 2005 show program performance over time.

WHAT'S IN THE NUMBERS?

Mark Twain's famous quote about liars and statisticians notwithstanding, what can this data tell us about SBA's two major lending programs? Well first, it is obvious that both programs are experiencing substantial growth, both nationally and in the North Bay. In practical terms SBA is assisting approximately twice as many firms now, both nationally and in the North Bay, as it did in 2001.

SMALLER LOANS AND LARGER LOANS

Another trend is that the average 7a loan is getting smaller and the average 504 loan is getting larger, both nationally and in the North Bay. This is because SBA has developed an Express 7a loan that makes getting smaller loans much easier for the lender and hence the small business.

In Express, lenders use their own forms, get a reduced SBA guaranty – 50 percent instead of 75 percent – and expedited review. The Express loan process is so easy that some North Bay lenders have an average 7a loan size of \$20,000 or less.

Another change is that 504 has become the program of choice for small and mid-sized companies purchasing real estate. SBA 504 loans have gotten larger because the agency has greatly streamlined the 504 process. Congress has increased the maximum 504 loan size and its fixed low rates attract a larger share of companies that are ready to purchase their own real estate.

SMALL BUSINESS: THE OPINION THAT MATTERS THE MOST

Small business is the creator of most of the country's new jobs and is the most dynamic force in the economy. Small business owners understand the issues that they need to address to enable their companies to succeed. In short, they are very well informed consumers of small business lending products. Nationally and in the North Bay the data clearly shows that they have voted with their dollars and with their loan applications on the viability and effectiveness of today's SBA.

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