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It's No Joke: SBA Program Strong At Mercantile

BY BRAD FINKELSTEIN

ALTAMONTE SPRINGS, FL -- This past April Fool's Day, the management at Mercantile commercial Capital Corp. here played a little joke on the industry, claiming it had obtained the naming rights and become the exclusive originator for the Small Business Administration 504 loan program from the Obama administration.

But Behind the joke was an effort to raise the profile of the product in a time when funding for commercial real estate has become scarce.

The SBA 504 loan program offers business owners up to 90% financing to develop, acquire, and remodel commercial facilities.

Overall, The market for small balance commercial has been tough for most lenders, but Mercantile has been doing well.

Christopher Hurn, Chief executive, noted the company finished 2008 closing only four fewer loans than in 2007, which was the company's best year ever. The first two months of this year were slow, "But it has been a rampage ever since," he said, as right around the same time the stimulus bill took off, demand took off, "to the point where we've never seen this much deal flow. There are a lot of factors for it, I think. One, of course, is that there is just not a lot of folks that we compete against out there that are lending money, they are still frozen."

Mercantile has benefited as the borrowers have found it because it has been lending throughout, Mr. Hurn said.

The other thing that stimulated demand is the attitude the small businessperson, he said, declaring that they get tired of hearing doom and gloom all the time. These people tended to go against the grain and advice of

their friends and family in starting their business in the first place. "So they don't exactly follow conventional wisdom. These tend to be a little more independent free thinkers, a little more contrarian," He noted.

From his clients, they are viewing right now as a huge opportunity. Assets have been discounted, commercial property can be acquired at a much better value than it was a

year or two ago. Financing terms from those companies still lending are near historical lows. "So it is a great time if a small business owner has enough

courage to go out and buy their own property and stop leasing. And that's what has been stimulating our growth these last few months," Mr. Hurn said.

Mercantile expects to be breaking per-month closing records this summer. And that success, he continued, is because the company has stuck to what it does best. It only finances commercial properties for business owners and entrepreneurs. It does not want to be the kind of lender that is all things to all people. "We wanted to be the best at our particular niche and we think we are."

Recently it expanded its office space, adding 2100 square feet, bringing it to a total of 7,000 square feet and has hired five people in the last six weeks, with more hiring's likely to come. The hiring's have increased the employee base 25%.

Further helping the company is that the

SBA program in general has been in the spotlight the last few months. This is more attention the program has received than any time he has been in the business, MR. Hurn said.

SBA is being seen in the market as a source of funding and not as a lender of last resort. Mercantile has capital to lend, including large commercial warehouse lines and some of its product is sold in the secondary market "and that hasn't been a problem for us either," he said.

Right now the company is seeing increased demand for doctors and lawyers looking to own the buildings their offices occupy. That represents 30% of the deals closing over the next few months. And Mr. Hurn noted these are the clients that a bank would normally falling all over themselves to lend to, just for the relationships. There's also demand from limited service hotels, freestanding restaurants and day care providers.

At one point, the management of the company was looking to start a commercial bank, in part as a source of funding. It actually had received Office of the Comptroller of the Currency approvals but an apparent moratorium on approvals by the Federal Deposit Insurance Corp. Scrapped those plans.

So mercantile went to Plan B, and it kept doing what it had been doing with no distractions on its focus, which is good right now as demand has never been better for the company.

As for the prank, "we caused quite a ruckus, more so than we expected," he said, adding that most people took it in stride. ■

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