

Featured Section

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PROPERTY FINANCE

SBA lender: Initiatives may boost CRE lending

By Robert Pitts

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Several recent initiatives announced by the U.S. Small Business Administration have the potential to impact commercial real estate lending guaranteed by the agency, but the federal government would be doing a lot more to incentivize economic activity in the small business sector, said the chief executive of a leading SBA program lender.

Chris Hurn, president, CEO and co-founder of Mercantile Commercial Capital in Altamonte Springs, said the SBA administration's announcement at the Treasury Department would amount up to \$15 billion to purchase high business loan securities - in an

effort to unlock frozen credit markets - could be one of the most effective measures yet announced.

Hurn said securities based on small business loans are a solid investment compared to the toxic bank assets the government will be forced to buy as the national recovery plan moves forward.



Chris Hurn

"It will increase liquidity for lenders and present a better value for taxpayers," he said, adding it should first-time bank capital for more SBA 504

program lending, which can be used for commercial real estate purchases.

Other measures, announced as part of the most recent federal economic stimulus package, will likely have mixed results for 504 lending, Hurn said.

"In the stimulus bill, one of the big things they touted is eliminating lender fees and borrower fees. I think that's okay, but I don't think it's going to have quite the stimulative effect they're expecting. It's never been about the cost of capital. Most of those fees are financed in, so I doubt it will get anyone off the sidelines," he said. However, a decision to set aside money to guarantee pools of 504 first-time loans could have a profound

impact, Hurn said. The guarantees are designed to make the first-lien loans more attractive to secondary market investors.

In 504 program lending, a first-lien, conventional loan for 50% of a project's value is held by a private lender or securitized and sold into the secondary market - which has been virtually frozen since the subprime mortgage crisis began. Until now, these loans have not been guaranteed.

A second mortgage for up to 40% of the project's value is fully guaranteed by the SBA and becomes a bond that is generally purchased by institutional investors.

"This has brought 504s on par with 7(a)'s in terms of their guarantees.

That's profound," he said.

Other noteworthy measures, Hurn said, include changes allowing 504 funds to be used for refinancing loans on fixed assets and a measure that allows owners of small businesses to exclude 75% of profits from capital gains taxes if they've owned the company for at least five years.

More to do

The above is a good start toward economic recovery, Hurn said, but the feds can take more meaningful action on many fronts.

"All they've done up to this point is tweak existing government programs.

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That's good. But we're living in unprecedented times. We have to understand the last two bubbles we've had," he said.

That is, the government needs to target and support the next growth industries: small business and energy independence, he said.

Hurn added that President Obama and his administration need to focus on the psychological aspects of the downturn as well.

"The only way you engender confidence is to convey stability and strength. Until recently, Obama hasn't been very optimistic. He needs to be a rock out there," he said, adding that he president needs to signal to the market such things as a tax freeze and new tax incentives for hiring and consumption.

"The political class doesn't understand that the productive class - when they get the reward of their hard work -

is going to spend it or invest it. They're going to invest it to maximize their gains again. When they use this 'soak the rich' rhetoric, they're shooting themselves in the foot," he said.

Hurn added that the "rich" are on the sidelines because they're afraid to take risks in a volatile economic and political environment.

"Investors are much more likely to invest in smaller companies, but they need an incentive to do that," he said.