

SBA loans regain favor

By David Yawn

After the events of Sept. 11, 2001, which so dramatically threw the economy into a state of flux, many small businesses were left in relative limbo. Unsure of what to do and where to go, loans provided to these businesses through banks and organizations such as the Small Business Administration were requested less and less frequently.

However, now that the economy is becoming more stable, it appears that there is more activity for small business lending, says Philip D. Mahoney, SBA Tennessee district director.

"When we look at the 2003 numbers, we are ahead of where we were last year, so we're having an even better year this year, so far," Mahoney says. "Small businesses lead the economy, so I am optimistic. I think the economy is going to become stronger and stronger."

Due to the current period of slowness, the SBA guarantee is much more appreciable in the eyes of small business owners than when the economy is white-hot.

"The first two quarters of 2002 were quite slow for us, likely as a result of 9/11, but we noticed an increase in the second two quarters that kind of made up for that lull, so we had a record year," Mahoney says.

"It looked to me like the small businesses, and particularly the lenders, were taking good advantage of the guarantee."

Mahoney's offices have seen a real increase in the category of emerging markets, which include veteran, minority and women-owned businesses, as well as rural establishments.

This increase is partly a result of marketing.

Historically, the average SBA loan size has been set at \$250,000. In fact, the Memphis Metropolitan Statistical Area represents as much as a third of Tennessee's overall volume in terms of SBA loans.

Also, a new express loan program has proven popular.

"It allows our preferred lenders to do all the paperwork using their own agreement forms, so they don't have to use SBA forms," Mahoney says.

This significantly reduces the time it takes to put money in the hands of small businesses.

Elizabeth Barden, SBA loan assistant of InSouth Bank, says there has been a lot more activity than usual lately. She says that, of the factors involving an increase in the amount of loans requested, the SBA guarantee is a primary one.

The term for repayment is much "longer term than conventional commercial loans," though the interest rate remains the same across the board.

She also says that anyone is eligible for an SBA loan, except businesses not included in SBA qualifying requirements, such as nonprofit, investment and lending organizations.

Barden's colleague, Edward C. Bell, vice president of InSouth Bank and portfolio manager, says that they've always had a pretty good pipeline in terms of the number of loans.

If loans are increasing, the reasoning behind it is more than likely because people feel like the economy's going to be improving, Bell says.

The only restriction on the amount of loans that small businesses may request is the cap on loans available, which decreased from \$1 million to \$500,000 in the latter part of 2002.

However, this cap is back to \$1 million as of this spring, and if some fees have changed, those changes are so subtle that many of the borrowers are probably not aware of them, Bell says.

Though AmSouth Bank does not perform Small Business Administration loans per se, it does take on small business loans.

Rob Kowkabany, the Business Banking sales manager for West Tennessee and senior vice president at AmSouth Bank, says the loan increases seen by the SBA also reflect small-business loan volume up ticks experienced at AmSouth.

The bank's outstanding loans portfolio showed a significant increase between the fourth quarter of 2002 and the first quarter of this year, Kowkabany says.

Refinancing requests and the acquisition of owner-occupied property account for a significant volume of the increase.

2001 was not a good year, and it was difficult for some customers to rebound in 2002 after Sept. 11, 2001. Though the first half of 2002 was fairly flat, Kowkabany says, there were definitely more loans, beginning around mid-year.

Other similarities can be seen between the SBA and other small business loans, proving that increases in small business loans are not limited to one organization.

AmSouth, too, shows a slight change in the rules concerning dollar caps on some small business loans. However, Kowkabany says, AmSouth's underwriting criteria has not changed dramatically.

The interest rate is definitely a factor, since lately, "money is so cheap," Kowkabany says.

At AmSouth, the rate for small business loans is about five to 15 years, which, as can be seen in the SBA program, encourages customers not to sit on the fence when considering capital investment.

As economic instability has lingered, some customers are likely questioning if recent signs of stability will give way to another economic slump.

But small business owners are more likely to take advantage of low interest rates while they can -- loan numbers are definitely improving, and it's easier to obtain credit now than in the past.

Note: From the Memphis Business Journal, May 15, 2003.