

tate 7(a) loans, an inferior loan program for financing commercial real estate by the SBA director's own admission. Commercial real estate, by its very nature, usually costs more than many of the possible proceeds for 7(a) loans often by a significant multiple. With better education on alternative SBA loan programs like the 504 loan program exclusively for commercial real estate and equipment, borrowers would be better served as would U.S. taxpayers. There were 6,863 SBA 504 loans done in fiscal year 2003 for \$3.1 billion (only 450, or 7 percent of that total, were made in Florida) compared to 67,306 7(a) loans for \$10.3 billion.

Interestingly, the figure for 504 loans is about \$2 billion less than their actual allotment, whereas the 7(a) program frequently outstrips its budget through misutilization.

These 504 loans trump 7(a) loans in financing commercial real estate because among other things, 40 percent of the total project amount is fixed for 20 years at below-market interest rates with 90 percent of the total project cost being financed.

This compares to 7(a) loans where the interest rate pricing is frequently floating. With 504 loans, small business owners get more financing at better interest rates that are fixed, while the SBA guarantees only 40 percent versus 75 percent for 7(a) loans — a true win-win for both parties.

The last reason we are in the current predicament relates to greed, plain and simply. The dirty little secret of 7(a) lending is that lenders make more money selling these loans on the secondary market, so these become the only SBA loans that many lenders promote. In this case, what is good for the lenders is not necessarily good for the borrowers.

If lenders used the better-suited 504 loan program for commercial real estate transactions, they fundamentally would be making smaller first mortgage amounts because the SBA-guaranteed second mortgages are usually 44 percent of the overall loan. That leaves only 56 percent of the loan amount to be financed by the lender. This compares to the norm of 80 percent financing by a lender for conventional financing, or 90 percent for a typical 7(a) commercial real estate loan.

Non-7(a) loans with smaller loan amounts for lenders equal less compensation for lenders, which equals silence about other, better-suited loan programs.

What the Bush administration, with the SBA's help, is really trying to accomplish is the reform of SBA loan programs, specifically mandating that commercial real estate, for instance, be done with 504 loans, while the other loan programs tackle other eligible uses.

With the administration's "redistribution" of SBA loan funds into what I would call the "correct buckets," much more money would be available for our nation's entrepreneurs.

But please understand: More money being available is not necessarily the solution. Providing more options and education to borrowers is.

The Bush administration and the SBA should be commended for playing political hardball to force the reforms needed.

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Lenders and loans

To the editor:

RE: Editorials

Your recent editorials "Small Change" on Jan. 2 and "No Cash, No Clue" on Jan. 9 accurately criticize politicians who claim to support small businesses while having actions that suggest otherwise. However, I believe it is far too simple to just lay blame on the politicians.

Ostensibly the 7(a) loan program was halted because of demand, but there is more to this predicament than was just pointed out. Many lenders share an inordinate amount of the culpability. The SBA and the Bush administration are attempting to put all SBA loan programs permanently on the right track.

There are at least two reasons we are in this current situation and one primary behind-the-scenes reason for the SBA and the administration's courageous actions.

The first reason is that many lenders frequently tie up far too much of the budgeted 7(a) dollars with commercial real es-