Makeover Magic

The SBA may give its underused 504 loan program a face lift. How will that help you?

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Considering how tough it is for entrepreneurs to find inexpensive financing, you would think the purses of government-subsidized programs would be routinely raided. Yet the SBA's 504 Certified Development Company Program--which awards below-market, fixed-rate loans to small businesses for real estate and heavy equipment purchases--has been underutilized every year since 1996. In fiscal 2002, for example, Congress authorized $5.4 billion for the 504 program, but less than half, $2.5 billion, was actually used for approved loans.

That has the SBA scratching its head. "This is a once-in-a-generation opportunity to lock in rates on a 20-year 504 loan at somewhere around 6 [percent]," says Jim Hammersley, director of loan programs for the SBA. "With rates as low as they are, more people should be taking advantage of that."

This year, at least, a few more are. By the end of March 2003, the number of 504 loans had increased 12.9 percent, and the loan value 19.1 percent, compared with the same period last year. At that rate, the program should come closer to the $4.5 billion authorized for 2003. Still, some say that improvement is at least partly due to the countercyclical nature of the beast: Banks use 504 to minimize risk during a recession, but when the economy is healthy, they have less need for subsidized lending.

Given that fact, and the sluggish numbers from prior years, in January the SBA began soliciting comments from the public on the 504 program to find out what changes might make it more effective. Hammersley says the agency should be ready to propose changes this summer. "We want to make sure [the program] is still relevant in the financial services market," he says.

Some critics say the program's heavy bureaucracy and localized processing, which can drag out the approval process for weeks or months, is to blame for turning entrepreneurs and banks off. The SBA acknowledges processing times are too varied and is now conducting a pilot program to see whether centralized loan processing-which it's had for years in the Preferred Lender and SBA Express programs-will improve service.

While each state currently has its own loan processing site, the pilot will direct all 504 loans from Arizona; North Carolina; Sacramento, California; and South Florida to the processing center in Sacramento. "If it's successful, we plan on expanding a few district offices at a time," says Hammersley.

The impact of centralizing processing will be huge, and as it begins to add more districts, the SBA "is going to see a surge in volume," says Todd Kocourec, president, CEO and general counsel for Florida First Capital Finance Corp., a CDC based in Tallahassee, Florida. CDCs-nonprofit corporations established to contribute to a community's economic development-work with the SBA and private-sector lenders to provide financing to small businesses.

Still, others say the fault lies not with the program's structure but with poor education: Not enough lenders and borrowers understand the benefits. Banks, for their part, sometimes see the 504 as eating into their share of the loan and view the SBA as the "lender of last resort," says Hilary Burkinshaw, director of Centerpoint 504, a CDC serving several counties in Illinois.

In addition, entrepreneurs need to be educated about the 504, she adds, because many tend to dismiss the SBA's loan programs as strictly for independent businesses. "They may not even consider themselves to be small businesses," Burkinshaw says.

To get the word out, Growth Capital Corp. of Cleveland recently launched a campaign with seven other CDCs, including Cascade Capital Corp. in Akron, Ohio, to raise awareness about the program and boost usage in northern Ohio. Their goal is to do a hundred 504 loans by the end of the fiscal year in September. Says Cascade Capital's executive director Bob Filipiak, "We felt we should combine our forces and try to really promote the program this year."

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