

# The Atlanta Journal-Constitution

Biz Voice

## Loan program gets a raise

**Boost by SBA may entice more banks.**

**Some small businesses may want less than \$5 million available.**

By **Jerry Chautin**  
For the AJC

Five million dollars can go a long way to fund your business start-up, expansion or acquisition.

That is the new maximum loan amount for the U.S. Small Business Administration's basic 7(a) program.

The loan size was increased from \$2 million. The higher loan amounts have the potential to attract conventional business lenders into the small business arena.

Many Atlanta banks are not participating in the agency's guaranteed-lending programs. They say there is too much paperwork and bureaucracy. Some claim they are looking for small-business loans but want to fund them conventionally. Yet, they require several years of brisk



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cash flow or solid collateral.

But in the end, profitability dictates whether or not to make SBA loans.

Big banks prefer large loans with substantial origination fees. That allows them to employ loan officers who specialize in targeted industries. Additionally they hire researchers and skilled underwriters to evaluate the risk.

To cover the origination cost and make a profit, banks' major loan departments may set their minimum loan amount at \$10 million or higher. Then, if they charge a 1 percent origination fee, the \$100,000 makes the large loan business very lucrative.

Originating smaller business loans has the same cost but the fees are lower. And in the case

of SBA loans, the cost is higher since it requires specialized staff who understand the agency's forms and requirements.

Banks also are concerned that SBA may "deny" or "re-pair" its guarantee if the loans do not "materially" comply with its requirements.

That means when a borrower defaults, SBA does not always honor its guarantee. Instead, the agency's Office of Inspector General audits the loan files for omissions or procedural errors to get SBA off the hook.

But higher profit compensates for the risk of guarantee denial.

Accordingly, SBA lenders will be attracted to making \$5 million SBA loans because they can make more money than they do on conventional loans. The reason is investors routinely pay 10 percent premiums to purchase the guaranteed portion.

The new bill temporarily extends SBA's increased guarantee to 90 percent from 75 percent on most loans. Thus when a lender makes a \$5 million loan, the \$4,500,000 guaranteed portion can be sold to investors at a 10 percent premium netting \$450,000. Moreover, the lender continues to

service the entire \$5 million.

"That will allow them to sell off the guaranteed tranche, earn some premium income, and create a fat servicing income stream," said Charles Green, founder of Sunrise Bank of Atlanta.

Selling off the guaranteed portion also replenishes the banks' funds to make more loans.

"Then they will use the same capital to produce another loan; and another," Green said. "The more prolific participating banks will love it."

Green also says SBA has increased its definition of "small" so larger small business concerns can qualify. "Not only can the SBA guarantee larger loans, but they now can serve more than 18,000 new businesses that are now eligible for SBA assistance," he said.

Meanwhile, Jeff Mesquita, a volunteer SCORE business mentor and chairman emeritus of the Atlanta chapter says that his clients are looking for much smaller loans than \$5 million. "Our focus is small business and typically [loans] under \$250,000," he says. "This is where the government needs to put some emphasis."