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BRIEFINGS
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Stimulating Small Business Growth through SBA Lender Training

By Dr. Linda Eagle

There's no question that the business world has been hit hard by the effects of the recent economic recession. Whether it's big-box stores, chains or small businesses, many are filing for bankruptcy or shutting their doors forever. And, while large companies may have the resources to weather the economic storm, the Small Business Community, which comprises most business owners in the U.S., may not. Small businesses need to understand that there are many resources available to them through various state and federal agencies, but particularly through the Small Business Administration (SBA).

The relationship between banks and small business is an incredibly important one. Banks need to continually monitor their small business customers and the banking relationships they maintain in order to ensure that they are maximizing their clients' funds, and that the bank offers them the best deposit and loan products available to help them thrive.

However, due to the effects of the recession, banks are continuing to restrict lending activity for all types of customers, including small businesses. To help banks overcome their limitations and resume financing more new loans for small businesses, the U.S. government has granted $730 million in funding to the SBA so that it can reach more businesses in need of financial assistance.

Unfortunately, most small to mid-size banks in the U.S. do not have the expertise to utilize the assistance of the SBA because of poor training, inadequate staffing, or simply because they have limited knowledge of SBA programs.

Recovery Act Funding

Recognizing the important role that small businesses play in the recovery of the economy, the U.S. Government issued the American Recovery and Reinvestment Act of 2009 on February 17. The funding includes:

- $375 million for temporarily eliminating fees on SBA-backed loans and raising SBA's guarantee percentage on some loans to 90 percent. The elimination of fees is retroactive to the day the Recovery Act was signed into law.
- $255 million for a new loan program to help small businesses meet existing debt payments.
- $30 million for expanding SBA's Microloan program, enough to finance up to $50 million in new lending, and $24 million in technical assistance grants to microlenders.
- $20 million for technology systems to streamline SBA's lending and oversight processes.

- $25 million for staffing up to meet demands for new programs.
- $15 million for expanding SBA's Surety Bond Guarantee program.[1]

Among these benefits, the stimulus authorizes the SBA to temporarily eliminate or reduce fees for participation in its flagship loan-guarantee programs, which protect banks against default payments from small business clients. The Law also increases the amount of the loans that the SBA can guarantee, which is 90% of the percentage of qualifying loans, further minimizing risk to the bank.[2]

SBA Lending Recovery

Established in 1953, the SBA is an agency independent of the U.S. federal government that works with banks and lenders to help small business owners secure the financing they need to construct and cultivate their businesses. However, in recent years, the SBA has struggled to help small businesses secure loans as economic strain has weakened many banks across the U.S.

Historically, SBA-backed loans have been regarded as a mutually beneficial arrangement for banks and small businesses alike. To support SBA lending, banks initially began purchasing government bonds, which helped to lower interest rates, and ultimately allowed lenders to borrow at a lower cost. In turn, banks made a profit on the SBA loans they bought with the borrowed government bonds. Thus, SBA loans became especially desirable because the government guaranteed 90 percent of any losses.[3] The reason that banks have been granting fewer loans to small businesses lately is blamed on banks being too bogged-down by old loans to fund new loans.

There are many reasons that small businesses fail, including poor choices of location, mismanaged business plans and ineffective accounts receivable. However, small businesses should not fold because banks will not lend them starting capital or funds necessary for expansion, equipment and building leases. Compared to last year's figures, the SBA's lending volume has still not recovered. For the quarter ending June 30, the SBA backed 30% fewer loans than it did a year ago, and 55% fewer loans than it did in 2007, before the recession set in.[4]

Training

In order to revive SBA lending and stimulate small business growth, the SBA must spend a portion of the $730 million appropriated to it as part of the economic stimulus bill on training. Training banks about the myriad of SBA programs, how to become a certified or preferred lender, how to use them to secure better loans for their small business customers and how to maintain and service these loans will allow the appropriated funds to be used in the most useful and productive method. This will help the 20,000 plus banks in the U.S. to help small business stay in business, grow and stimulate the economy – the purpose of this Bill. The SBA should work with banks and lenders to create training programs to assist lending professionals in helping small businesses make the best decisions.

SBA lending is a complex process. Many banks are not adequately trained in SBA loan procedures. Also, there are different SBA loans available for initial startup, purchasing real estate and expanding an

[1] *The United States Small Business Administration (SBA), [http://www.sba.gov/recovery/REC_LEARN_PROGRAMS.html], 2009.*
[2] *Stacy Cowley, "Stimulus: What's in it for small biz?" CNNMoney.com [http://money.cnn.com/2009/02/16/smallbusiness/smallbiz_stimulus.smb/index.htm?postversion=2009022616], Feb. 26, 2009.*
[3] *David Cho, "Breaking SBA Lending Logjam," The Washington Post, [http://www.washingtonpost.com/wp-dyn/content/article/2009/07/21/AR2009072103304.html?wprss=rss_business], July 7, 2009.*
[4] *Emily Maltby, "Small Business Administration Chief: 'We're the popular kid,'" [http://money.cnn.com/2009/08/04/smallbusiness/small_business_karen_mills_interview.smb/index.htm] Aug. 5, 2000.*

existing business and business acquisition, all of which bank staff must be familiar with in order best meet the needs of their small business clients.

Borrowers can use the SBA for their following small business needs:

- Purchasing inventory.
- Borrowing working capital.
- Accounts payable and receivable financing.
- Purchase of furniture, fixtures, machinery or equipment.
- Leasehold improvements.
- Business real estate acquisition, construction, renovation and modernization.
- Acquisition financing of an existing business.
- Business expansion financing.
- Debt consolidation and refinance in those cases where there is a demonstrable reason.

Final Word

Small businesses play an integral part in the recovery of the economy. It is critical for the SBA to not only invest the $730 million granted to the organization by the Recovery Act in hiring additional staff, easing repayment terms and creating more attractive interest rates, but to invest in the banks it does business with as well. Investing in SBA-specific training will not only restore small business' faith in banks; it will also prepare banks to better serve their small business clients. If banks don't lend the funds, the SBA will cease to exist. By understanding the policies and procedures of the SBA, banks will become more confident in utilizing the programs that the SBA has to offer and will be better able to assist their small business clients in doing their part to restore the strength of the economy.

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