

Small business lending begins to rebound

By Catherine Clifford, staff reporter

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NEW YORK (CNMoney.com) -- Small businesses are still struggling to find financing, but for those seeking government-backed loans, the worst may be over. The Small Business Administration's flagship lending program backed 37% more loans in its latest quarter than it did a year ago, at the height of the financial crisis.

In the three months ended Dec. 31, the SBA's 7(a) lending program processed 12,393 loans totaling \$3.8 billion, according to preliminary data released Monday by the agency. That's a sharp increase from the 9,070 loans, totaling \$1.9 billion, processed in the year-earlier quarter.

The SBA credits the improvement to a slew of stimulus measures.

"The big takeaway that we have when we look at this is that we were successful in turning around the SBA lending," SBA spokesman Jonathan Swain said.

Still, lending remains far behind pre-recession benchmarks. Two years ago, in the last calendar quarter of 2007, the SBA backed more than 20,000 small business loans.

"While there are some indicators that the

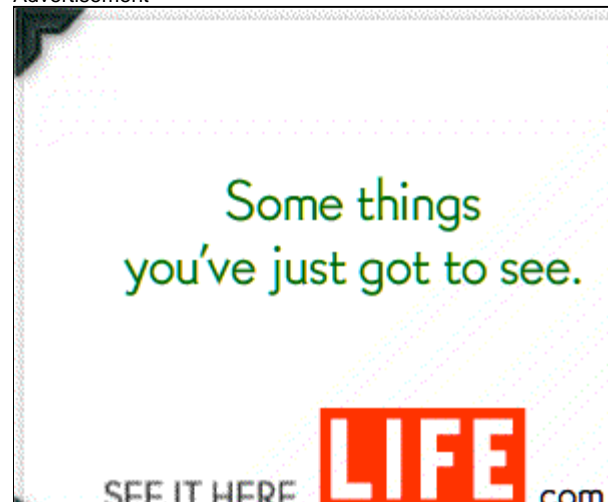
economy is moving in the right direction, no one would say we are out of the woods yet," Swain said.

A lagged recovery: SBA loans represent a tiny portion of the overall small business lending landscape, but they're an important barometer of banks' willingness to extend credit to startups and growing companies. The SBA program guarantees a portion of the money banks lend to qualifying businesses. If the borrower defaults, the government pays the bank back.

Credit conditions for large businesses have largely returned to normal after the dire credit crunch that followed Lehman Brothers' collapse in late 2008. But small businesses have not enjoyed the same recovery. Sales are down at most companies, and the value of assets typically used as collateral -- like real estate and goods in inventory -- has fallen. That leaves many banks **reluctant to lend** to borrowers they view as risky bets.

From April to October, the nation's largest banks shrunk their collective small business

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lending balance by 4.3%, [cutting \\$11 billion](#) in credit, according to the most recent Treasury Department data.

Stimulus help: In response to last year's credit crisis, the government lined up a slew of stimulus measures aimed at increasing lending through the SBA's programs.

February's Recovery Act set aside a \$375 million funding pool to temporarily eliminate fees for SBA loans and increase the portion of each loan that the government guarantees, up to 90%.

That move proved so popular that the money allocated for it [ran out](#) just before Thanksgiving. Banks and small businesses still clamoring for the stimulus incentives got in line in a Recovery Act Queue.

The queue had more than 1,000 loans pending approval when Congress appropriated another \$125 million for the program just before Christmas. The SBA started approving loans off the queue late last month, and currently, the queue is wiped clean.

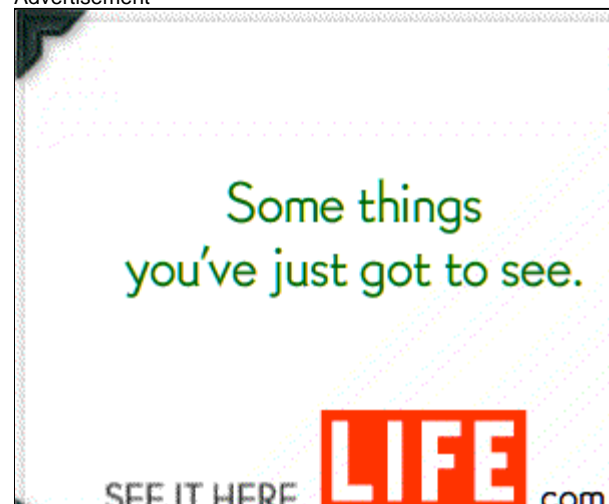
Another stimulus loan program, [America's Recovery Capital](#), is still inching along, despite [lender and borrower complaints](#) that a burdensome application renders the program nearly useless. Last quarter, the SBA backed 2,206 ARC loans totaling \$70.9 million.

The SBA plans to push for more funding to continue the stimulus measures. The House of Representatives passed a jobs bill late last year that includes another \$354 million to fund an extension of waived fees and increased guarantees. The Senate will take

up the bill when it returns from its winter recess.



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