

Small-Business Credit Sees Thaw

Lenders Ease Purse Strings as More Loans Sell on Secondary Market

By RAYMUND FLANDEZ

Many small-business lenders are seeing signs of a thaw in the secondary market for loans backed by the Small Business Administration.

That is spurring more lenders to originate new loans -- and more small companies to apply for them.

In February, the latest month for which figures are available, 35% of newly approved 7(a) loans, the most popular SBA loan program, sold on the secondary market, according to the Government Accounting Office. That was up from 24% in January. From September 2007 to September 2008, before the credit crunch, 45% of approved 7(a) loans sold on the secondary market.

Getting With the Program

Volume of SBA-backed 7(a) loans in the fiscal half ended March 31 at selected lenders

Lender	Number of loans	Total amount of loans, in millions
Wells Fargo Bank	1,029	\$397.7
Huntington National Bank	576	86.2
Compass Bank	301	72.3
Live Oak Bank	60	64.1
MainStreet Lender	30	27.8
Celtic Bank	51	27.0
Sterling Savings Bank	30	19.1
New York Business Development	45	18.2

Source: Coleman Report

Movement was noticeable at GovGex.com, a secondary-market exchange where bundled SBA-backed loans are bought and sold. The number of bids per loan for sale at GovGex.com has more than doubled to about 6.7 since mid-March, after President Barack Obama gave a speech about using \$15 billion of federal funds to unfreeze the secondary market.

The amount of total loans for sale on the exchange has surged since mid-March to about \$67.5 million from \$7.8 million.

Meanwhile, the volume of new SBA-backed loans has risen more than 20% since mid-March, with more than \$1.3 billion in new loans approved, according to Karen Gordon Mills, the new SBA administrator.

Specifically, the weekly average number of 7(a) loans approved has risen 28% to 796, or \$145.8 million in loans, from a weekly average of 622 loans, or \$117.9 million, from January to mid-March. In the 504 loan program, which lends money for the purchase of real estate and equipment, the average weekly number of loans has increased by a third.

The increase is mainly the result of two rule changes in March that temporarily cut fees for small-business borrowers and increased the maximum guarantee put up by the federal government on some small-business loans to 90% from 85%.

"We're looking at that as certainly not conclusive that everything is fixed, but we may be turning a corner," says Mike Stamler, an SBA spokesman.

Among the lenders issuing more SBA-backed loans are CDC Small Business Finance, a San Diego, Calif., lender of 504 loans. It approved \$20.3 million in loans in April, up from \$11.6 million in March. "It's a bit of progress," says Kurt Chilcott, CDC's president. "Is it going to be sustainable? I don't know. The key is whether or not you can convince small businesses that now is the time to invest given the historic low interest rates and fee reductions available through SBA financing."

Excel National Bank of Beverly Hills, Calif., resumed taking loan applications in late February -- it has approved 28 loans so far, valued at \$32.7 million -- after halting lending in December. It had made \$35 million of SBA-backed loans in September, before the credit markets froze.

"We're back to lending full-speed again," says Brian Carlson, Excel's president and chief executive.

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At Small Business Loan Exchange, an online marketplace where small businesses can find lenders, loan applications have more than tripled to 41 since mid-March, from the month before Mr. Obama's speech, according to Edgeware Analytics Inc., the San Diego company that runs the site.

The increased activity comes despite the fact that the SBA has been slow to implement some measures aimed at stimulating lending and loan sales on the secondary market. The agency missed a March 4 deadline to create a secondary market specifically for 504 loans, capped at \$3 billion. The government hopes this will facilitate the buying of bundled 504 loans.

Also, regulations on lending to broker-dealers in the secondary market for SBA-backed loans haven't materialized, despite a March 19 due date. The goal is to help dealers get old packaged loans off their books and purchase new ones from lenders.

The SBA had said it plans to finalize the regulations by June, but an announcement may come this month. The agency says the delay is the result of sophisticated financial modeling and complicated legal-documentation changes that need to be made in order for these new programs to work.

Tim Jochner, co-founder of Superior Financial Group, a Walnut Creek, Calif., lender that offers SBA-backed loans, says, "Everybody's encouraged about the proposed programs. ...But if [the government doesn't] come out with those programs in a timely fashion, the secondary market will freeze up again and will potentially be worse than it was before."

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