

# New Rules Get Small Commercial Loans Back on Track

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Large loans are easier to get than small ones. That's because it takes just as much effort for bankers to originate and close small loans as it does for large ones. And the fees charged may not cover the cost of putting very small on the books — especially for large banks with substantial overhead costs.

SBA\_LogoThat is why the U.S. Small Business Administration created its Community Express Loan Program. It featured streamlined processing and approval for very small loans. The typical Community Express loan ranged from \$5,000 to \$50,000 and could be approved within one week from the time of application.

But SBA ended the pilot program on April 30, 2011. The agency's officials blamed it on the high default rate.

Hundreds of thousands of small-business owners mourned the program's demise. Some of them were entrepreneurs who received small loans to launch their companies. Others expanded, purchased equipment or borrowed working capital to survive the recession.

"SBA continually re-engineers these programs, and the Community Express program seemed to have bogged down a couple of years ago with higher default rates," says Charles Green, a former community bank president, consultant, and author of *The SBA*

*Loan Book and Get Financing Now.*

When SBA ended Community Express, it tried to appease small-business owners by creating the Small Loan Advantage Program as an alternative. But with the SLA program, Green says that the agency excluded the most prolific Community Express lenders.

"The original restrictions on who could and couldn't make an SLA loan seemed to have purposely omitted some of the largest providers of the smaller Community Express loans," Green says. As a result SLA floundered.

"SBA tried to press the 'Preferred Lenders' into service," he said. SBA's "Preferred Lenders" are among the nation's largest banks and have a tough time making very small business loans profitably. They "weren't going to make smaller loans when they were structured to go after a much larger volume of loans," Green says.

SBA lobbied hard to get Preferred lenders to make SLA loans with little results. So reluctantly, SBA modified its rules to allow all SBA lenders to participate in SLA, effective June 1. Additionally, the maximum loan amount was increased to \$350,000 from \$250,000.

That opens up an opportunity for BoeFly's lenders. The online matchmaking web site has over 2,200

lenders looking for qualified loan applicants. In turn, applicants get multiple offers for commercial loans of all sizes. Furthermore, the origination and processing cost is substantially reduced by BoeFly's cutting-edge technology making small loans more economically feasible.

Meanwhile, I checked with Superior Financial Group and Borrego Express Capital Lending to find out if they are willing to finance small businesses using the SLA program. Both were prolific Community Express lenders until the program was shut down.

"I am on board for now," says Tim Jochner, SFG's chief executive. He notes, however, that it is an "uphill battle" because some of SBA's officials are still focused on Community Express' high default rate. Although Community Express "had a higher default rate," he says, "it only cost the taxpayers 1/10 of 1 percent of all SBA losses."

SFG's loans range from \$5,000 to \$25,000 without collateral. Credit scoring is its primary underwriting tool so loans can be approved within a few days after making application. Jochner says that the new folks at SBA understand the importance of small business loans.

Borrego is also on board. "I am really excited about the opportunities

available through Small Loan Advantage," says Terry Crispin, Borrego's senior vice president. "We have already submitted loans and have received SBA approvals under this program."

Borrego "will offer loans under this program from \$20,000 to \$50,000," Crispin says. Over \$25,000, he adds that the loans will be secured by a lien "on the business assets," in accordance with SBA's requirements.

In addition to SLA financing, BoeFly's lenders make SBA-guaranteed 7(a) loans up to \$5 million and SBA 504 loans for real estate and fixed assets exceeding \$15 million in cost. There is no size limit for conventional loans.

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