SMALL PARENT INVESTMENT

THE WALL S

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

See a sample reprint in PDF format. Order a reprint of this article now

THE WALL STREET JOURNAL.
WSJ.com

FINANCING | AUGUST 5, 2010

SBA Program Proves a Hit, but Now It Is in Limbo

By RUTH SIMON

Pinnacle Bank made just two loans through the Small Business Administration in 2007 and 2008. So far this year, the Orange City, Fla., bank's total is nine, to borrowers from an auto dealer to a computer-equipment wholesaler to a bakery.

"The SBA program is the only way we can continue to lend right now," says David Bridgeman, president of Pinnacle, which has two branches and assets of $213 million, including about 600 loans. For many of the $3.4 million in loans Pinnacle made through the SBA in 2010, the bank has to set aside capital against only the 10% slice that isn't guaranteed by the U.S. government.

EXPERIENCE WSJ PROFESSIONAL

Editors' Deep Dive: Getting Small Business Lending Going

DOW JONES NEWS SERVICE
Bank of America Offers Small Biz Grants

THE NEW YORK TIMES
Microlending Blossoms

THE NEW YORK TIMES
The Downturn in S.B.A. Loans

Access thousands of business sources not available on the free web. Learn More

Across the nation, many banks have turned to the SBA's so-called 7(a) program to help unfreeze credit. Nearly 3,000 lenders have made 7(a) loans in the current fiscal year, up 21% from 2008.

The 7(a) program, the SBA's largest loan program, is hardly a cure for the credit shortage affecting many borrowers. The agency is involved in less than 10% of all small-business loans, and some banks won't participate because of red tape. Lenders must follow the SBA's rules when making 7(a) loans, which can be used for working capital, fixed assets and other business expenses. The term of the loan can be as long as 25 years.

Last year, Congress temporarily sweetened the 7(a) program by increasing the SBA guarantee to 90% of any given loan from as little as 75% previously. Lawmakers waived fees costing borrowers as much as 3.5% of the loan amount, as well as costs charged in a separate SBA program providing structured financing for fixed assets.

But the sweetened program is now in limbo, drawing complaints from borrowers and lenders, as lawmakers haggle over broader small-business legislation.

Since the SBA program was sweetened, more than 1,300 lenders that hadn't made an SBA loan since at least 2007 have barreled in, while existing participants like Pinnacle have been pushing more borrowers through the agency's pipeline to take advantage of better terms.

About $16.2 billion in 7(a) loans have been made under the more-attractive terms. By May, the program's loan volume had returned to before-the-credit-crunch levels.

"The extra 15% of guarantee helped us stretch a little more," says Vito Pantilione, president of Parke Bank, a unit of Parke Bancorp Inc. The five-branch Sewell, N.J., bank recently used the program to make loans to two printing companies looking to adapt to electronic publishing.

Since hiring a local banker with expertise in SBA loans in August 2009, Bank of Holland, a Holland, Mich., unit of Lake Michigan Financial Corp., has made more than two dozen loans through the federal agency.

"We do not have capital issues, but it's very difficult to find businesses that ... have not lost money and suffered some weakening of their balance sheet," says Garth Deur, Bank of Holland's president.

Sweetened government backing makes it easier for banks to stomach the risks of lending to local businesses that hit bumps when the economy slowed or to finance entrepreneurs with a solid business plan but little track record, Mr. Deur says.

The SBA has repurchased 0.2% of the loans made with the higher guarantees. That rate, which reflects defaults, is in line with the program's historical levels.

Congress extended the higher guarantees three times, but the latest round of funding was exhausted in May, causing a decline in SBA loan volume. A provision included in the small-business job-creation bill now before the Senate would resuscitate the 90% guarantee through Dec. 31 and allow the SBA to increase the maximum loan amount to $5 million from $2 million. The bill already has passed the House, but the Senate is bogged down by disputes over the broader bill.

"On the financing side we're stuck" until Congress acts, says Mark DeHaan, who is hoping to get a 7(a) loan for $1.6 million from the Bank of Holland to pay construction and start-up costs for an educational child-care center in Grand Rapids, Mich.

Pinnacle largely avoided the worst sins committed by banks throughout in Florida, such as lending on raw land being purchased for housing developments. Still, Pinnacle had a net loss of $1.8 million in 2009 as falling real-estate values and rising unemployment forced the bank to boost loan-loss reserves. Pinnacle has shed about a third of its troubled loans but is looking for additional capital.

Mr. Bridgeman, who started his banking career 28 years ago as a teller in Kentucky and took over as Pinnacle's president in 2003, says the bank decided to rev up its SBA lending after a tough regulatory exam forced it to halt most traditional lending in order to conserve capital.

Pinnacle made 11 SBA loans for $3 million in 2009. The bank has generated fee income by selling some of its SBA loans on the secondary market.

Car dealer J. Brendan Hurley was rejected by four other banks before Pinnacle won approval in March for a $560,000 loan through the SBA to help him add Dodge cars to his Chrysler franchise

in DeLand, Fla. Since getting the loan, Mr. Hurley has hired six new employees, and service volume has doubled, he says.

"The fact that I had a commitment from Pinnacle sealed the deal to get the Dodge franchise," he adds. Mr. Hurley is seeking a second SBA loan from Pinnacle that would allow him to build a new facility designed to meet Chrysler Group LLC's requirements.

Write to Ruth Simon at ruth.simon@wsj.com

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved
This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit
www.djreprints.com