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# SBA: Small business lending slowly rises

Premium content from Denver Business Journal - by Heather Draper

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**Tyler Weston** felt like he was “robbing Peter to pay Paul” each month to keep his Englewood-based landscaping business, Weston Landscape & Design, afloat.

He is only 26, which limited his ability to get credit, so he had taken out several small, variable-rate loans to buy equipment and finance other major expenses. The interest payments alone were taking a toll on the business, which employs 130 to 150 people, depending on the season.

After Weston worked with [JPMorgan Chase](#) to get a [Small Business Administration](#)-backed loan late last year, he was able to consolidate all of his debt into one fixed-rate monthly payment.

“My monthly payments have gone down by thousands each month,” Weston said. “This has real-ly been key to the success of the business.”

Lending to small businesses, or a lack thereof, remains a top concern among economists and others trying to predict where the U.S. economy is headed.

National data from June 2008 to June 2010 have shown sharp declines in small-business loans (loans under \$1 million), fueling concern that the credit market has dried up for small businesses since the Great Recession began in 2008.

But Colorado SBA numbers and anecdotal evidence since June 2010 suggest that small-business loan volume is slowly beginning to rise from the ashes, in part because of an increase in SBA-backed loans.

## Need is particularly great in Colorado

Local economist **Patty Silverstein**, president of Development Research Partners in Littleton, said it's critical that banks start lending to small business owners again.

“Here in Colorado, we have nearly 800,000 sole proprietors. They rely on financing to grow

and expand," she said. "If they are to move from big idea to commercializing that big idea and growing the business and adding employees, financing plays a huge role in that."

A Feb. 10 report compiled by the SBA's Office of Advocacy showed that lending to small businesses nationwide fell 6.2 percent last year to \$652 billion. The report used financial data from U.S. banks, thrifts and credit unions to compare the amount of small-business loans held as of June 2010 with the amount held in June 2009.

The SBA data showed the story was essentially the same in Colorado, with the number of loans and the amount of the loans both dropping in June 2010 compared with June 2009.

The number of small-business loans held by the 10 largest lenders based in Colorado (based on a ratio of total assets to loans) dropped to 3,286 in June 2010, compared with 4,542 in June 2009, according to SBA data. The amount lent declined to \$451.3 million in June 2010 from \$491.8 million in June 2009.

"Right now it's still a pretty soft market," said **Larry Martin**, CEO of Bank Strategies LLC, a Denver-based bank consulting firm. "But there is SBA activity out there. Banks are focusing efforts there because of the government guarantees that go with SBA-backed loans."

Under the 7(a) guarantee loan program — the most popular SBA lending program — the SBA typically guarantees from 50 to 85 percent of an eligible bank loan, up to a maximum guarantee of \$1.5 million. The Small Business Jobs Act of 2010 increased loan limits for SBA 7(a) and 504 loans to \$5 million from \$2 million.

The 7(a) program is meant to help entrepreneurs expand their businesses with bank loans backed by a guarantee, while 504 loans are administered through nonprofit Certified Development Companies and are designed to provide funding for fixed assets, such as real estate, buildings and machinery.

"The main advantage to banks is that the guaranteed portion of the loan allows them to basically make two loans for the leverage capital of one," Martin said. "They can lend more without hurting their Tier 1 capital." Tier 1 capital, a bank's core capital comprised primarily of common stock and reserves, is a key measure of a bank's financial strength.

The Colorado district office of the SBA reported a 28 percent increase in the number of loans approved in fiscal year 2010, which ended Sept. 30, compared with FY 2009. The office approved 1,403 SBA loans worth \$447 million in FY 2010, compared with 1,094 loans valued at \$337 million in FY 2009.

### **Wells Fargo: No. 1 SBA lender in state**

[Wells Fargo Bank](#) was the top SBA lender in Colorado in FY 2010 with 203 7(a) loans — valued at \$50.5 million — for 2010. [U.S. Bank](#) was next with 138 loans valued at \$14.9 million, followed by JPMorgan Chase with 125 loans valued at \$15.3 million.

"We have a larger focus on using SBA enhancement, because it's more palatable for the

bank," said **Cashin White**, vice president of JPMorgan Chase Business Banking at the bank's Denver office. "It allowed us to extend debt we normally don't. And last year at JPMorgan Chase, we blew our loan goals out of the water."

White said using SBA-backed loans allows JPMorgan Chase to provide financing to customers who may not have the necessary collateral or cash flow, especially after the recession, to obtain a conventional loan.

"We all know what happened in '08 and '09. It was a train wreck," White said. "SBA-backed loans allow us to throw '08 and '09 out the window. And if a business person has survived this recession and came out thriving in 2010, it tells you a lot about this person and their business."

Like many businesses, banks generally are in a better financial position than they were two years ago. Good banks have charged off their bad loans and built up their capital reserves.

"We hear there's all sorts of money sitting on the sidelines," economist Silverstein said. "Somehow we have to get that money back out and working for us."

Bank executives say they're ready to lend to creditworthy customers, but businesses are waiting on the sidelines.

"We are ready, willing and able to be there to support small businesses," said **Mariner Kemper**, [UMB Financial Corp.](#) chairman and CEO. UMB Bank Colorado recently hired three new small business development officers to increase its small business loans in the state, he said.

"We take real pride in being excellent underwriters and risk managers," Kemper said.

Now bankers say they just need to convince creditworthy entrepreneurs and business owners to borrow again.

"We were at such a low level economically, that nobody wanted to start a new business or take on new debt," said **Jim Huntzinger**, executive vice president and chief investment officer at [BOK Financial](#), parent company of [Colorado State Bank and Trust](#). "They were more interested in paying down debt."

But with lower interest rates and growing confidence in the economy, Huntzinger said small-business lending is up slightly for BOK Financial's banks since hitting a low point in early 2010.

"We haven't recovered to the point where we were [before 2008], but things are better," he said.