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SBA Loans Slow With Economy, More Cautious Credit Market

FINANCE: Lenders say they're not tightening, just being more selective

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A pullback in Small Business Administration loans by banks and other lenders reflects more selective lending and softer demand amid a sluggish economy, according to the Santa Ana district office of the federal agency.

For the six months through March, the number of loans made by the top 20 SBA lenders in the county was down about 18% from a year earlier to \$126.5 million, according to the SBA.

"We saw a bigger dip in February, but in April we started to see things come back," said J. Adalberto Quijada, who oversees the Santa Ana district of the SBA as a director.

Less demand for government-backed SBA loans is similar to what's going on with lending in general, he said. Lenders are more cautious and borrowers become defensive when the economy doesn't appear to be strong, Quijada said.

The number of loans made was down 10% to 285.

For the same period a year ago, the SBA reported \$155 million of funding made on 318 loans.

Quijada oversees the largest geographic region for the SBA. His region is made up of Orange, San Bernardino and Riverside counties (the list reflects SBA loans in OC only).

Local banks make the loans with the government serving as guarantor. The loans then may be sold as debentures with interest payments going to the buyer.

The number of SBA lenders in the Santa Ana district is down to 121 from 138 a year earlier as smaller operators get out of the business, Quijada said.

In the prior two years, some community banks got into SBA lending, many of them catering to ethnic communities, one of the fastest-growing segments.

SBA loans can range from \$5,000 to \$2 million for equipment, startups or real estate, according to Quijada.

The Santa Ana district saw 256 real estate loans, known as 504 loans, in the past few months. Real estate loans are one of the stronger areas of lending, he said.

OC made up almost half of the Santa Ana division's 504 loans at 119.

Riverside County had 76.

San Bernardino County had 61.

"We've always been the national leader in 504 loans," Quijada said. "But it's surprising to see strength in real estate."

The SBA's real estate loans are typically funded with a bank lending for the first half of the value, a nonprofit certified development company lending for 40% and the borrower putting down 10% of his or her own money.

The government does not guarantee the banks' initial loan for real estate, and these loans are excluded from the Business Journal's list of top local SBA lenders.

The largest nonprofit SBA lender in the county, San Diego-based **CDC Small Business Finance**, issued \$30.6 million in 40 loans for the six months through March.

"We've become more selective in certain industries," said Bob Gonzales, who oversees CDC's Anaheim office.

Mortgage brokers, restaurants and auto repair shops have been areas of weakness in the economy, he said.

Like most lenders, Gonzales said CDC hasn't tightened credit but is taking a closer look at potential borrowers.

Quijada says that SBA lending tends to stay healthy even in sluggish economies.

"In harder times SBA lending is the right kind of lending because the government carries the risk," he said.

Focus for 2008

This year, Quijada said he'll focus on lending to military veterans as part of the SBA's Patriot Express Loan Initiative program that started last year.

Under the program, the government guarantees loans up to \$500,000 with interest rates of 2.25% to 4.75%.

The SBA has been working with military bases to be ready to lend to troops who are anticipated to return home from duty in Iraq and Afghanistan.

Loans to Native Americans also are seen as a growth area for the SBA.

"It's very untapped," Quijada said. "They're growing and very entrepreneurial."

San Francisco-based Wells Fargo & Co., the No. 4 SBA lender, made 56 loans for a total of \$6.6 million for the six months through March, up 25% from a year earlier.

The data includes loans made by Placer Sierra Bancshares, which Wells Fargo bought in September for \$645 million.

Borrowers have become more conservative with the prices of their homes declining, according to Doug Hargraves, a senior vice president with the bank in Irvine.

“People have less equity in their homes,” he said. “Many borrow against their homes, so it’s lessened demand.”

But lower interest rates have made the loans more attractive, he said.

Smaller banks leaving the market have created more business for the remaining ones, according to Rita Mitchell, regional vice president of small business lending for Charlotte, N.C.-based Wachovia Corp.

No. 6 Wachovia made almost \$6 million worth of loans for the six months through March, up 285% from a year earlier.

Its total loans made were seven compared to three a year earlier.

The bank hasn’t tightened credit and holds the same policy for borrowers as it did a year ago, she said.