

# Non-profits get SBA nod to offer business loans

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*December 31, 2010*

(Crain's) — In an effort to reach “underserved” startups, the U.S. Small Business Administration soon will allow community groups and other non-profit lenders to make federally guaranteed business loans.

The pilot program, expected to begin by mid-March, could take off fast in Chicago since several non-profit groups already are trying to help small firms get financing.

“It’s potentially huge for Chicago,” says Trinita Logue, president of Illinois Facilities Fund. The Chicago-based lender to other non-profits hopes to start making loans to for-profit city grocery stores in low-income areas, and the guarantees would help, she adds. “This SBA program is incredible; it’s really fabulous.”

Even before the three-year test program was announced in December, the Obama administration had been expanding SBA-backed lending. Nonetheless, SBA Administrator Karen Mills says minority-owned companies in low-income areas still lack sufficient access to capital.

“It’s harder for smaller companies to take advantage” of SBA-backed loans, says Brett Simmons, director of policy and development at Accion Chicago. His non-profit community group—the only Illinois lender funded by the SBA’s microloan program—made 203 non-guaranteed business loans last year averaging about \$7,400 and all under the program’s \$50,000 maximum.

There’s not an abundance of non-profit financing for small business in Chicago,

but what is available will go further because community groups will be able to set aside smaller reserves for loan defaults if those loans carry an SBA guarantee. “This is something we’ve asked for and wanted to get before,” Mr. Simmons adds. “This is a very positive development.”

Under the new Community Advantage program, the SBA will ensure 85% of loans under \$150,000 and 75% of loans between \$150,000 and \$250,000. Currently, only banks can tap SBA’s so-called 7(a) loan guarantees, the agency’s most flexible and widely used loan program.

Details are still scarce, such as the criteria for lenders to qualify for the program, how they will be regulated and whether they can package their 7(a) loans and sell them to investors, as banks do, to make more loans.

So far, the SBA is saying that it wants non-profit lenders to steer at least 60% of their loans to underserved businesses such as companies that are less than two years old; owned by veterans, women or minorities; located in low-to-moderate-income areas; or that have at least 50% of their workforce living in those income areas. Those areas include most of the West and South sides of Chicago, as well as dozens of Downstate counties.

“From what I’ve seen, it does look like it’s a program we’d be a part of,” says Hussain Bhanpuri, loan analyst at Chicago Community Ventures, a non-profit created in 1999 by the SBA, the state of Illinois and the city of Chicago as a “one-stop capital shop” for underserved entrepreneurs.

The SBA also plans to speed up the approval process for loans under \$250,000 to encourage both banks and

non-profits to make smaller loans. Typically, banks say that smaller loans don’t generate enough income to cover the processing costs. For high-volume, “preferred” lenders, the SBA says it will accept two-page applications that will be reviewed in a day and electronic submittals that could be approved within minutes.

“Streamlining the paperwork will increase the profitability of small-dollar loans for banks,” says Marianne O’Brien Markowitz, the SBA’s regional administrator in Chicago. “This new, two-pronged approach will provide great new tools. I would encourage all mission-focused lenders to take notice and apply.”

Certain non-profit financial institutions, called Certified Development Companies, also will be able to start offering 7(a) loan guarantees under the Community Advantage program. CDCs currently make only so-called 504 loans, which are not guaranteed but are 50% funded by the SBA. Those loans are limited to financing fixed assets, such as real estate, unlike 7(a) loans, which can be used for working capital or to buy inventory.

“We want to participate in the program,” says David Frank, executive director of SomerCor 504 Inc., a Chicago-based CDC that extended \$90 million in 504 loans in the year ended Sept. 30 and is on pace to top \$100 million this year.

But after relying on the SBA for the money that goes into 504 loans, SomerCor and other CDCs will have to find their own sources of capital to make 7(a) loans.

“I’m going to start investigating them,” Mr. Frank says. “I’m not going to leave a stone unturned.”