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Loans for small business growth see increase

By REBECCA GO, The Daily Transcript
Wednesday, August 26, 2009

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If the numbers are any indication, the flow of small business loans designed to fuel economic growth has gone from a standstill to a light trickle in the San Diego region.

Regional volume of 504 loans -- Small Business Administration-backed financing for fixed asset projects such as real estate or equipment -- rose more than 30 percent in July from the month before, according to figures from CDC Small Business Finance, a nonprofit SBA-504 lender serving the Southwest.

"Going into the year, we started out really slow," said Mike Sarthou, senior loan officer with CDC Small Business Finance in San Diego. Now, "there's a lot more of an undercurrent of people talking about and looking at these projects than there was six months ago."

In the 504 loan program, a CDC, or Certified Development Company, provides 40 percent of the funds, which is backed by an SBA guarantee. A private lender provides 50 percent, while the borrower puts up a down payment of 10 percent.

In July, 504 financing totaled \$22.1 million in San Diego and Imperial counties compared to \$16.9 million in June. A good portion of the borrowers were doctors, lawyers and accountants seeking office space, Sarthou said.

"People still need medical services," said Ken Rosenthal, CDC Small Business Finance senior loan officer. "It makes sense for a medical professional to buy a building for themselves rather than lease."

Rosenthal and Sarthou attribute the increased volume and demand to the federal stimulus program, which temporarily eliminated loan fees, as well as incredibly low interest rates. Also, property values have fallen and vacancies abound, making it an ideal time for a stronger small business to invest for the long term -- provided they're not waiting for prices to fall further.

For Oceanside-based specialty contractor Campbell Certified Inc., however, the time was right. The small business secured an SBA-504 loan to purchase a building for \$1.7 million off Ord Way.

"We went in (to our real estate agent) with a really crazy offer ... and one thing progressed to the next," said Laurie Campbell, the company's office manager. "It was a win-win for the owners as well; we were the last buyers in here."

The Ord Way building is Campbell Certified's third building purchase. The company hasn't been immune to the problems plaguing the construction industry, but was fortunate enough to come off one of its best years last year and put off its own business' slowdown until January, Campbell said.

The company primarily does work in structural steel, fabrication and installation but plans to expand into the solar industry. The new building, which now houses Campbell Certified's business offices, general contracting storefront and 12,000-square-foot shop, will be part of that growth, Campbell said.

"It's a very good time to get your ducks in a row," said Campbell, who anticipates a 40-percent drop in profit this

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year. "You're building a better company in your down time."

The idea of growth is key to the 504 loan program. Borrowers must commit to creating jobs and stimulating the economy in various ways to qualify.

Thus, in a recession, it's expectedly one of the first products to see a significant drop.

"When companies start to struggle and are worried about tomorrow, let alone next year, buying a building is put in the back of their minds," said Tory Nixon, California Bank & Trust's San Diego division president, who also manages the bank's SBA lending in the state.

Volume remains significantly depressed from a year ago. According to CDC Small Business Finance figures, volume for San Diego and Imperial counties is down almost 40 percent from \$35.1 million in July 2008.

Admittedly, demand remains soft as businesses continue to struggle and sit on the sidelines. Delinquencies have risen, even with CDC Small Business Finance, which has a relatively low 3.5 percent delinquency rate in its own portfolio.

Hesitant banks are examining borrowers more closely or are simply less able to lend with the disappearance of the secondary market.

"There used to be a very active secondary market for 504 first mortgages," Nixon said, noting that California Bank & Trust's parent, Zion Bancorporation (Nasdaq: ZION), was among the most active. "I believe we're the only ones left. Everyone else has walked away."

Experts disagree on how much of the current 504 loan demand is being driven by the fee-free federal stimulus benefit, which ceases at the end of the year.

"I don't think it's purely stimulus driven," Sarthou said. "I think people are feeling more optimistic, so I think that's the bottom line."

Rosenthal was less sure and wondered whether more stimulus funds would be needed to provide additional incentive.

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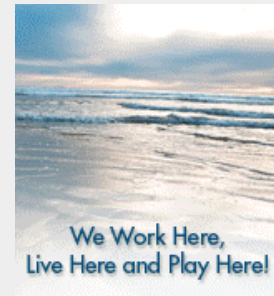


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