

More small businesses find financing in state guarantee program

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SANTA ROSA — More small businesses in the North Bay and beyond are obtaining financing through the California Small Business Loan Guarantee Program, with lenders lauding it as a strong alternative to loan programs backed by the U.S. Small Business Administration.

As lenders pursue collateral arrangements with one of 11 small business financial development corporations around the state that are authorized to administer the program, Santa Rosa's State Assistance Fund for Enterprise-Business and Industrial Development Corporation — SAFE-BIDCO — has seen a major jump in volume of lending occur through the program over the past year.

"Typically, if we did \$1 million, \$2 million a year, we'd be doing pretty well," said Mary Jo Dutra, president and CEO of SAFE-BIDCO. "Last year alone, we did \$6 million through the program." She added, "We have seen as much in the past month as we did in all of last year."

The California State Legislature created the first-of-its-kind program 30 years ago, setting aside general fund dollars that would be used as collateral for loans made to businesses that might fail to satisfy the underwriting requirements of a typical lender. Similar to the loan programs of the SBA, the money helped protect lenders from the risk of lending to early-stage companies and those facing strong economic pressures.

Yet the program varied from SBA in a number of ways, including the ability for lenders to negotiate their own interest rate terms with the borrower. All lenders — not just those with preferred status from the SBA — were allowed to perform underwriting in-house, and the volume of paperwork was widely considered to be less intensive than in the federal program. Lenders, including Santa Rosa-based Summit State Bank, would then turn to a development corporation to secure the collateral.

"The only additional paperwork from the borrower's standpoint is a piece of paper that shows that Summit and SAFE-BIDCO have an arrangement," said Kevin Gross, vice president of credit administration at Summit State Bank.

In 2009, lending through the state guarantee program was restricted for 18 months, as a wave of defaults during the recession depleted the trust used to back those loans. However, lending has surged following an initial \$29 million infusion of federal dollars through the Jumpstart Our Business Startups or “JOBS” act in 2011, with a full \$84 million set aside for California and contingent on prudent application of those funds.

Over the 2011–12 fiscal year, the program loaned a preliminary volume of \$58.59 million across the state, with 162 loans. In the prior fiscal year, the program provided approximately \$13 million in loans, according to the state.

Lenders are required to promote private lending on a 10-to-one ratio when providing financing through the state program, which could mean nearly \$900 million dollars in future small business lending in California.

After loan limits were increased this year, the state guarantee may be up to 80 percent of a loan or line of credit with a maximum value of \$2.5 million. Fees are 2 percent of the guaranteed portion, versus a sliding scale of less than 1 percent and up to 3.75 percent for the SBA 7(a) loan. The SBA 7(a) carries a loan limit of \$5 million, securing from 75 to 85 percent of the loan value.

Not all lenders utilize the program, and many in the North Bay have developed robust SBA lending departments at a time when the state guarantee was not available.

Yet for those without a dedicated SBA department, like the San Francisco-based Presidio Bank that holds a presence in the North Bay, the state guarantee program has allowed greater options for lending to similar clients, said Mary Leonard-Wilson, executive vice president and chief credit officer at the bank.

“It enables us to provide financing that we would not otherwise be able to provide to our clients,” she said, including money to finance business acquisitions and growth for companies that are under-capitalized. “It’s flexible — it’s easier to use than the SBA program,” she said, noting that the bank does finance some loans with the SBA 504 program.

As both an SBA 7(a) and state guarantee lender, Mr. Gross of Summit State Bank said that he considers both options while serving clients. The \$2.5 million state limit is sufficient for the vast majority of his financing requirements, though he said the SBA 504 program is his preferred vehicle when pursuing a guaranteed loan to finance commercial real estate.

Funneling the infusion of federal dollars into regional small businesses is a contingency for the release of the full \$84 million, Ms. Dutra said.

“If we can get the money out on to the street, then it will stay here,” she said.