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Urban Institute Studies Confirm SBA Loans Fill Market Gap

WASHINGTON – A package of studies released today by the nonpartisan Urban Institute has found that SBA programs are more effective than conventional loans in reaching minorities, women and start-ups, and that SBA loans are a key financing tool for creditworthy small businesses that nevertheless do not meet conventional underwriting standards.

In its most recent fiscal year, nearly a third (32.1 percent) of all SBA-backed loans went to start-up businesses, a third (33.6 percent) went to minority borrowers and 22.3 percent went to women. Overall, loans to businesses in underserved areas – including designated Enterprise Zones, HUBZones and Low and Moderate Income areas – represented more than 36 percent of total loan approvals.

The study also found that during the period studied – 2001-2004 – 18.8 percent of firms that received a conventional small business loan with a term greater than one year got an SBA-backed loan. When firms that received loans of shorter maturities are included, the percentage is 11.6 percent.

The Urban Institute also found that for variable rate loans, borrowers who received SBA-backed loans were willing to pay higher interest rates than borrowers of conventional loans in order to secure commercial credit.

The studies were commissioned by SBA three years ago to study the agency's lending effectiveness and its value to underserved communities. These studies are necessary to establish an initial baseline for evaluating the outcomes achieved through SBA lending.

The studies analyzed the 7(a) Loan Guaranty Program, the Certified Development Company (CDC) 504 Loan Program, the Small Business Investment Company (SBIC) Debentures Program, and the MicroLoan Program to help SBA assess past performance and test methodologies for setting meaningful targets for future accomplishments.

"These reports validate our essential role in getting capital to underserved communities and our success in doing so," said SBA Administrator Steve Preston. "They also support the recent initiatives we have rolled out to enable entrepreneurs who are not receiving capital through the conventional market."

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The studies found that borrowers who get SBA-backed loans are more likely to be minorities, women and start-up entrepreneurs than those who get conventional loans, and find little overlap between SBA and conventional lending. The Urban Institute also reported that commercial lenders, consistent with program intent, use SBA guarantees to support borrowers who are creditworthy but don't meet conventional underwriting standards.

On the other hand, while the studies found that average sales and employment increased over time for SBA-financed businesses, researchers were unable to identify any strong, consistent predictors of success.

The findings support the conclusion that SBA's programs are, in fact, supporting small businesses that cannot obtain "credit elsewhere." Among the specific findings were:

- 7(a) and 504 guaranteed loans were more likely to be made to women or minority-owned businesses and start-ups than conventional small business loans.
- 7(a) and 504 guaranteed loans are, on average, made to small businesses with fewer employees and lower annual sales revenue than conventional small business loans.
- 7(a) and 504 guaranteed loans have longer average maturity terms than conventional loans.
- For variable rate loans, SBA's guaranteed borrowers pay a higher average interest rate than conventional borrowers, indicating that they were not able to find financing at a lower rate elsewhere.

The seven Urban Institute reports are available at http://www.urban.org/projects/sba/. With inquiries, please contact Stuart Kantor, at 202.261.5283 or skantor@ui.urban.org.

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