

April 03, 2009 2:00 PM

Obama small-business plan: boost or bust?

By JAN NORMAN
The Orange County Register

Story Highlights

Orange County small-business owners weigh the relevance of federal help.

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The Obama Administration and Congress have announced economic recovery help for the nation's small businesses, which account for about half the U.S. gross domestic product and half the private jobs.

However, these efforts - targeting mostly the federal guaranteed loan program - miss all but a sliver of the nation's 27 million small businesses, Orange County business owners and national advocacy groups say.



Bud Reed of SI Manufacturing gives Joan Earhart, SBA Manager for Business Community Capital, a tour of the building he was able to purchase with an SBA loan.

PAUL RODRIGUEZ, THE ORANGE COUNTY REGISTER

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Simply put, few small businesses want or can qualify for loans right now. But even in good times, relatively few of them use loan guarantees from the U.S. Small Business Administration.

Orange County, for example, has about 94,000 companies with employees that qualify as small businesses. In 2007, 1,654 businesses took out SBA loans totaling \$450.6 million. In 2008, the number of loans in the SBA's Santa Ana district dropped 35 percent and in the first four months of this fiscal year, the number plunged 66 percent.

Even so, only about 10 percent of commercial loans to U.S. small businesses have SBA guarantees, according to the National Association of Government Guaranteed Lenders.

"The SBA fulfills the needs of a very small niche," said Matt Stewart, co-founder of **National Services Group** in Irvine. "I believe in the SBA but I also feel we need to broaden its scope or create a sister organization for companies that are a bit bigger or need different types of funds."

The federal plans to help small businesses toward economic recovery include:

- Last fall's economic stimulus package included \$730 million to reduce fees and increase the amount of the guarantee for SBA loans in order to reduce the risk for lenders. Previously the amount of a loan that the SBA guaranteed ranged from 50 percent to 85 percent depending on the size and type of loan.

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For more information
 Although the U.S. Small Business Administration guarantees loans, they are actually made through private lenders.

- List of lenders active in Santa Ana District
- SBA's Santa Ana District web site
- SCORE Orange County chapter offers business counseling
- Orange County Small Business Development Center provides help
- Women's Business Institute assists female entrepreneurs
- Cal State Fullerton's Small Business Institute

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- President Obama's recent plan has \$15 billion to buy SBA loans in the secondary market in order to free up bank money to make more loans.

- Obama's plan will waive the fees on SBA loans in 2009 and increase the guarantee to as much as 90 percent.

- It also expands the tax deductions for capital spending.

- Obama's proposed 2010 budget would also lower capital gains taxes for investments held more than five years. However, it would also restore the estate tax that has killed some family-owned businesses, raise income taxes on many small-business owners and increase their health care and energy costs.

"While the lending measures may help on the margins, entrepreneurs would feel much more confident and appreciated if their political leaders in Washington were not proposing assorted measures to increase their taxes and restrict operations through costly regulations, said Karen Kerrigan, president of the Small Business & Entrepreneurship Council, an advocacy group.

Many Orange County business owners echo Mike Aversa of **Aversa Antiques** in Yorba Linda, who said, "Frankly, we are not at all interested in borrowing any money from anywhere. We are trying to maintain a debt-free operation. Given the status of the economy, I don't want to owe money in any form."

Most business owners need to closely watch the revenues and resources they do have, rather than apply for a loan, said Judee Slack, owner of **SlackTax Inc.**, a Fountain Valley bookkeeping and tax preparation service.

"The government wants to throw money at businesses with the hopes that everything will get better," she added. "Without adequate planning and a good business plan, how do business owners think they will repay this debt? Didn't the housing market fiasco teach us anything?"

Stewart of National Services Group said, "The stimulus package has not made it easier for us to finance our operations, and this year is much tougher in that regard."

The banks aren't in any better position to make the federal proposals effective, said Joan Earhart, head of SBA lending at **Fullerton Community Bank** who raised the issue with President Obama during his recent Orange County Town Hall.

"It's fantastic that the White House increases the loan guarantees and reduces fees, but banks still have two problems," she said.

First, many small businesses had poor financial performance in the past year, so they are less credit worthy, Earhart said. "If we make that loan to a borrower with less than stellar credit, we get our hands slapped by the regulators."

Second, about half the banks that participate in the SBA loan program sell their loans in the secondary market, which has been frozen for months. Even if the federal government buys \$15 billion of these loans, it probably won't pay the typical premium, which has made these loans attractive for investors and banks, she said.

Not that banks have a lot of loans to sell into the secondary market.

"We have had very little loan demand," Earhart said. "People are afraid. Every day is 9/11. But we have seen a tremendous increase in phone calls (from business owners) in the past 30 days."

One loan her bank did make recently was to **SI Manufacturing** in Anaheim to buy another building. Co-owner Bud Reed said three other banks were interested in the deal but couldn't make the loans because of the regulatory restrictions.

"I don't think the (administration's small-business plan) helped us at all," he said.

Cara Good, chief executive of **Wunderman**, a public relations firm in Tustin, thinks the government efforts will help her business. "I haven't even bothered talking seriously with a bank because most bankers overlook the incredible earning power of small businesses. (But) small businesses usually run so lean that having access to capital can mean the difference between stagnation and growth. Small-business owners like me rely on loans to get us through times of cash crunches."

The government proposals have been a boon to some companies, said Greg Arbus of **Client Advocate Network** in Santa Ana, which helps business clients find capital. His company has \$30 million in commitments from lenders that had been waiting for the federal stimulus program.

"This will open the capital gates for the companies that have been able to stop the red ink and manage to break even," he said. "No one is going to lend money to a company that is losing money with no game plan to get back in the black. The stimulus plan is not going to help them."

Hilary Kaye, president of **HKA Inc.**, another Tustin public relations firm, thinks small businesses would get greater stimulus from tax incentives for creating jobs rather than loans.

"The unemployment rate and the fear and anxiety that go with it in the business world are potentially crippling to businesses," said Kaye, who has recently hired two new employees. "If the government would actually encourage hiring, maybe more employers would not be so fearful of doing this."

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