

MN SBA loans jump as stimulus takes effect

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The credit freeze is thawing and the stimulus package is working.

That's the story Small Business Administration lenders are telling in Minnesota. SBA lending in the state is back up to pre-economic-crisis levels, and lenders say incentives in the federal stimulus package are behind the trend, as are historically low interest rates.

The number of SBA loans guaranteed in Minnesota dropped to a low of 96 in January, but jumped up to 177 in April — the same number it guaranteed in June of last year.

"The numbers are showing that lending is going again," said Ed Daum, district director for the Minnesota SBA office. "Two months ago, we would not have said that. We're very positive about it."

Incentives to borrow and lend

The American Recovery and Reinvestment Act of 2009, signed into law by President Barack Obama in February, included a number of incentives to stimulate SBA lending. The SBA has reduced or eliminated the fees it normally charges borrowers to take out SBA loans through the end this year. Typically, a loan of \$1 million to \$1.5 million could cost a borrower up to \$30,000 in fees.

For Scott Otto, founder and co-owner of Organizational Change Advisors in St. Louis Park, that fee reduction was an incentive to take out an SBA-guaranteed loan from Bremer Bank in St. Paul.

"If we had not gotten that break, [the loan] wouldn't have been cost-effective," Otto said.

The SBA also increased the percentage of the loans it backs to 90 percent from 75 to 85 percent. That reduces the risk for SBA lenders.

The incentives were a "positive move," said Rick Beeson, president and CEO of Park Midway Bank in St. Paul, which was the state's seventh-largest SBA lender in



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Kristin Wood, executive director of SPEDCO, said her organization has finalized more SBA loans in the past six to eight weeks than it had in the previous six to eight months.

2008. "I just wish it had been done earlier."

Kristin Wood, executive director of SPEDCO, an Arden Hills-based SBA lender, was skeptical that the stimulus package would make much of a difference when it was signed in February. Now, SPEDCO, Minnesota's ninth-largest SBA lender in 2008, has done more lending in the past six to eight weeks than it did in the previous six to eight months, and Wood has changed her mind.

"I think psychologically it's made a very big difference. I think [some borrowers] were sitting on the fence and this was the last nudge," Wood said.

The SBA also expanded the size of businesses that are eligible for loans, and that's helping as well, said Paul Flood, regional SBA manager for Bremer Bank in St. Paul.

Last Friday, the SBA announced that companies with a net worth of up to \$8.5 million would be eligible for SBA loans,

up from \$7 million previously. Nationwide, that expansion will make 70,000 more businesses eligible for an SBA loan.

Strong borrowers turning to SBA

Some customers that have healthy balance sheets and are performing well through the economic downturn are using SBA loans to invest in their businesses, said Melissa Kraemer, vice president and SBA manager for Wayzata-based Anchor Bank, the state's eighth-largest SBA lender.

"For companies that are strong and have been less affected by the economy, this is a time to buy real estate. Land has been so costly over the last several years, it hasn't been cost-effective," said Kraemer, adding that low real estate prices along with the SBA fee reduction have created an incentive for businesses to invest in real estate.

For Kathleen Charlson, founder of Anoka-based Poly-Cam Inc., it was the low interest rates that prompted her to apply for an SBA loan through SPEDCO for a large

SBA: Stimulus package included measures to boost SBA lending; real estate sector slowest to respond

piece of equipment her company needed.

“Now was a good time for me to invest in a machine, because I don’t think we’re going to see this low rate of interest for a long time after the recovery,” said Charlson, who also took out an SBA loan two years ago to buy her company’s building.

Conventional loan customers also are refinancing their debt into SBA loans because SBA loan payments can be more easily deferred if a company has a cash-flow problem, Beeson said. “One of the opportunities is to potentially convert some of our conventional borrowers into an SBA profile at the time they need some additional money.”

Real estate not caught up yet

SBA lenders who focus on commercial and residential real estate are experiencing a slight uptick in loan demand after a slow



Blum

winter, but they’re not back to pre-crisis levels. Twin Cities-Metro Certified Development Co., based in Vadnais Heights, focuses 95 percent of its portfolio in real estate loans, said Pete Ingebrand, the lender’s vice president.

In a normal month, it might handle 10 or 12 SBA loans. In April, it had six approvals, up from three per month for the first part of 2009.

Real estate lending, especially on the commercial side, might be slower to recover because the market is still in a slump and projects take such a long time to plan, said Alexandra Blum, president of the Minnesota Business Finance Corp. in Minneapolis.

“It really is too soon to determine how the stimulus package has affected us,” Blum said.

Effect on banks

It’s really the banks, not the borrowers, who are pushing the SBA numbers higher this spring. When a customer comes into a bank for a loan, they typically don’t have a particular loan in mind, said Steve Bianchi, Minnesota regional president for Associated Bank, based in Green Bay, Wis., and Minnesota’s fourth-largest SBA lender in 2008.

“It’s up to us to profile that customer and to recommend the right products and services based not only on their needs, but on managing the risks from a banking perspective,” Bianchi said.

From the customers’ perspective, spring-time always sees a bump in lending applications, especially in the upper Midwest, said Jeff Sheffler, government guaranteed lending program manager for Associated Bank.

“As things start to pop out of the ground, things start to pop for businesses, as well. They need equipment, or they want to break ground on a new addition. It just so

happens that the national economy is perking up as well, so there’s some semblance of confidence,” Sheffler said.

If SBA lending continues to increase, lenders, especially the larger ones, will need to hire salespeople and underwriters.



Burke

“One thing we’re doing is hiring more salespeople around the country,” said Tom Burke, senior vice president of Wells Fargo & Co.’s SBA office. Wells Fargo is based in San

Francisco, but its SBA division is headquartered in Minneapolis. Burke said the bank is searching for 30 salespeople on the East Coast and will soon bolster its SBA underwriting staff in the Twin Cities.

The stimulus act also is intended to stimulate the economy by creating jobs, and that’s why Otto, of Organizational Change Advisors, took out the SBA loan.

“Our strategy to build our business is to fund additional employees,” said Otto, whose human-resources consultancy will hire one or two employees with the SBA loan funds. “Hopefully we’re doing our part to help the economy by keeping people and seeking out other employees.”

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