

RS Number: 40 December 1986

VIABLE LOAN CATEGORIES FOR VETERANS

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Washington, D.C.
Completed, May 1985

I. Purpose of Study

The study was designed to determine the relative repayment experience of various types of SBA loans. The loan types with best repayment record would presumably reflect those types of businesses or business conditions most likely to accompany business success. A secondary purpose of the study was to determine the repayment experience of guaranteed loans compared to direct loans. The study also included geographic comparisons so that repayment experience under the veteran direct loan program could be anticipated. This study is the only work to date sponsored by SBA that scientifically samples the relative success of particular types of SBA loans.

II. Highlights

The principal findings of the study are that successful loan repayment is clearly correlated with:

- o the economic growth rate of the region in which the business is located;
and
- o the economic growth rate of the industry involved.

There is some evidence suggesting that further relevant factors might include:

- o franchised operations compared to independent businesses; and
- o the years of previous experience of the owners.

It also was found that marginal improvement in probability of loan repayment was present for:

- o businesses with larger numbers of employees; and
- o businesses relatively high in assets per employee.

The loan repayments were current or paid in full on:

- o 71 percent of the guaranteed loans; and
- o 36 percent of the direct loans.

The study also indicates other factors which frequently were noted in problem loan situations:

- o a current or recent divorce involving the business owner;
- o failure to maintain business liability insurance coverage; and
- o disputes between co-owners of a business.

III. Scope and Methodology

This is the first project funded by the SBA that scientifically sampled and analyzed SBA direct and guaranteed loans. The final sample consisted of 724 guaranteed loans and 290 direct loans. They are representative of four areas of the Nation and three industry sectors. Each loan was awarded during the five-year period of 1975-1979.

The report is not a study of the impact of SBA loans, nor is it an investigation of small business capital access. It attempts to answer the questions of how many and what types of businesses did best in paying off their SBA loans.

The study focused on three particular industries for comparative purposes, restaurants, auto repair, and a general category of "high-tech" industry. The study sampled loan records from five states, two with very active economic growth (Florida and Texas) and three with sluggish or negative growth (New York, Michigan and Illinois).

The sample data were collected in 1984, so there was at least four years' performance of a loan measured.

IV. Summary

The study found that about three out of four guaranteed loans were either paid in full or were being paid on schedule. However, less than one out of every two direct loans was paid off or current in payment schedule. "High-Tech" industries showed a better repayment record than slower growth industries, such as auto repair and restaurants. During the period measured, the southern regions experiencing economic growth (Florida, Texas) showed a better repayment rate than the northern regions with sluggish economies (New York, Chicago, Detroit).

After adjusting for age, sex, education and experience, no difference was detected in the loan repayment rate of veterans compared to nonveterans. The study does supply information useful to counselors of veterans indicating which types of business activity are most viable as evidenced by overall loan repayment experience.

Contract Number: SBA-7213-VA-83
The complete report is available from
National Technical Information Service (NTIS)
U. S. Department of Commerce
5285 Port Royal Road
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(703) 487-4650
Accession No. (Pending)
Cost: (To be determined)