



News Release

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Tightened credit, Reduced Demand Push SBA Loan Volume Down in FY 2008; Agency Works with Banks To Jumpstart Small Business Lending

WASHINGTON – A “perfect storm” of tightened credit by commercial lenders, declining creditworthiness, and reduced demand for loans from small business borrowers uncertain about the future has led to a substantial decline in the number of small business loans guaranteed by the U.S. Small Business Administration during FY 2008, SBA Acting Administrator Sandy K. Baruah said today.

Although SBA posted a record year in 2007 with more than 110,000 loans approved, that number dropped by nearly 30 percent in 2008. The dollar value of those loans declined by 13 percent, from a combined \$20.6 billion in 2007, to \$17.96 billion in 2008. Average loan size increased from \$142,000 in FY 2007 to \$183,000 in FY 2008, demonstrating that by increasing the average amount, these loans may in fact contribute to expanding more sustainable and successful small businesses.

These program declines began not long after the fiscal year started in October 2007, and accelerated throughout the fiscal year.

The volume numbers represent loans made under SBA’s two primary loan programs, the 7(a) guaranteed loan program and the Certified Development Company, or 504, loan program. Loans approved under 7(a) declined by 30 percent, from 99,606 in 2007 to 69,434 in 2008, with loan dollars falling 11 percent, from \$14.3 billion in 2007 to \$12.7 billion in 2008. In the 504 program, loan approvals fell by 17 percent, from 10,669 in 2007 to 8,883 in 2008, and loan dollars declined by 16 percent, from \$6.3 billion in 2007 to \$5.3 billion 2008.

Loan volume in both programs had set records in each of the previous five years.

Baruah said he feels strongly that the steps taken by the Administration and Congress will have a positive effect on the credit situation and the economy. The SBA is holding meetings across the country to better understand how the agency can work with both lenders and small businesses to help them during these difficult economic times.

“I am very hopeful,” said Baruah. “I am hopeful because I have seen this great nation tackle and overcome all sorts of challenges in just the last few years. From the Y2K scare, to the bursting of the dot-com bubble, to the 9-11 terror attacks, to corporate scandals, and large natural disasters, we’ve proven that we can take a hit and keep on growing – it’s one of our unique strengths as Americans.

“President Bush and his economic team have been doing everything possible to resolve the financial crisis and restore stability to the markets, aggressively using every tool available on every front to unclog the pipes of our credit system, increase liquidity, and restore confidence in all facets of our economy,” he said.

“The recently signed Emergency Economic Stabilization Act of 2008 does this by giving the government new tools to unclog the arteries of our financial system, allowing credit and capital to flow once again,” Baruah said. “And that objective should be important to all of us because capital is the lifeblood not only of our economic system but also small business.”

The rescue plan also authorizes FDIC to expand insurance to cover all non-interest bearing accounts, which are commonly used by small businesses to cover day-to-day operations including payroll and inventory purchases.

Also, the Federal Reserve will soon become the buyer of last resort for commercial paper. By unfreezing the market for commercial paper, which provides short-term financing for banks and businesses, this action will help businesses of all sizes meet payroll, purchase inventory, and invest to create new jobs.

“All these efforts will need time to fully work their way through the economic system,” Baruah said. “But when they do, we will see results. We will see money and credit and capital flowing once again, making a big difference for small business, whose lifeblood depends upon access to capital.”

Baruah also said SBA is taking steps to encourage the flow of credit to small businesses.

Among the steps taken by the agency are:

- Working to improve the liquidity of SBA loans on the secondary market and exploring strategies to increase access to capital by small businesses.
- The accelerated launch of Small Rural Lender Advantage ahead of schedule, which targets smaller financial institutions – like community banks – and institutions with low SBA volume.
- Encouraging SBA’s lending partners to use their authority to work with qualified borrowers on a case-by-case basis and defer SBA guaranteed loan payments by up to three months.
- Reminding lenders and borrowers that interest rates have fallen with the prime rate, and are now about 40 percent less than a year ago.

For more information on how to get an SBA loan, visit www.sba.gov.

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