

<http://online.wsj.com/news/articles/SB10001424052702304585004579417021571596610?KEYWORDS=small+business+loans&mg=reno64-wsj&url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB10001424052702304585004579417021571596610.html%3FKEYWORDS%3Dsmall%2Bbusiness%2Bloans>

Loan Rebound Misses Black Businesses

Fewer SBA-Backed Loans Go To Black Borrowers

By RUTH SIMON and TOM MCGINTY

Updated March 14, 2014 11:30 p.m. ET



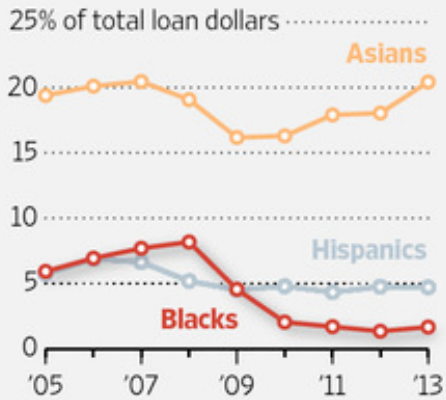
Maurice Brewster says a lack of financing has forced him to limit the growth of his limousine, sedan and shuttle business in Redwood City, Calif. *Jason Henry for The Wall Street Journal*
Black entrepreneurs have largely missed out on a rebound in federal small-business lending since the financial crisis ended.

More than four years into the nation's economic recovery, African-Americans looking for loans are struggling to overcome deeper financial distress, tighter lending standards and cutbacks by some lenders.

U.S. financial institutions made \$382.5 million in Small Business Administration loans to black-owned businesses in the fiscal year ended Sept. 30, according to an analysis of the agency's data by The Wall Street Journal. Black borrowers received 1.7% of the \$23.09 billion in total SBA loans.

Credit Crunch

Black borrowers are getting a smaller percentage of SBA loans since the recession hit.



Note: For fiscal years ended Sept. 30
Source: WSJ analysis of Small Business Administration data
The Wall Street Journal

The percentage is down sharply from 8.2% of overall SBA loan volume in fiscal 2008. By number of loans, black-owned small businesses got 2.3% of the federal agency's roughly 54,000 loans last year, down from 11% in 2008.

The declines among black small-business owners are unusually steep compared with other minorities. After the crisis hit, Asians and Hispanics also got a smaller percentage of total SBA loan volume, the analysis shows. But those two percentages shrank less from their precrisis peak—or have grown faster as the crisis recedes and the U.S. economy gains more traction.

SBA loans are a crucial source of financing for many entrepreneurs, who generally can borrow as much as \$5 million to start, buy, expand or run a small business through the agency's two biggest programs. Banks and other approved financial institutions make the loans, nudged by the SBA's promise to cover as much as 85% of any loan losses.

Borrowers must personally promise to repay what they owe. Loans of more than \$350,000 must be secured by collateral, which can include the borrower's home or other assets.

Government officials and bankers cite many reasons for the falloff in loans to black small-business owners, including tougher scrutiny of loan applications, a decline in particularly small SBA loans and the impact of lower home values and the financial crisis on the credit scores of black borrowers.

"This is the fallout from the recession and housing bust," says J. Patrick Kelley, a deputy associate administrator at the SBA. "The borrowers hardest hit...are the last to see a recovery come to them."

Another factor: Some of the largest lenders to black-owned small businesses have sharply reduced or abandoned SBA lending. [Bank of America Corp. BAC -2.10%](#), the second-largest U.S. bank, made more than 1,400 SBA loans for a combined \$40.2 million to black business owners in fiscal 2007, the Journal's analysis shows. In the latest fiscal year, the Charlotte, N.C., bank made just 247 SBA loans for \$40.7 million to all borrowers.

"It doesn't take as long to do a conventional loan," a bank spokesman says. The cutback also followed losses in a program that let business owners quickly borrow as much as \$100,000 based on their credit scores. For three years in a row, the bank has increased small-business loan originations by more than 20%.

Maurice Brewster, owner of RM Executive Transportation Inc., Redwood City, Calif., says lack of financing is forcing him to limit the growth of his limousine, sedan and shuttle business. The 12-year-old company has 44 employees and provides transportation to corporate clients in more than 400 cities.

In December, [Wells Fargo WFC -0.92%](#) & Co. rejected Mr. Brewster's application for a \$250,000 loan, citing insufficient collateral and no profits for several years, he says. Mr. Brewster says his company started turning a profit again in April 2013 and could "double in size in a year or two" with sufficient funding.

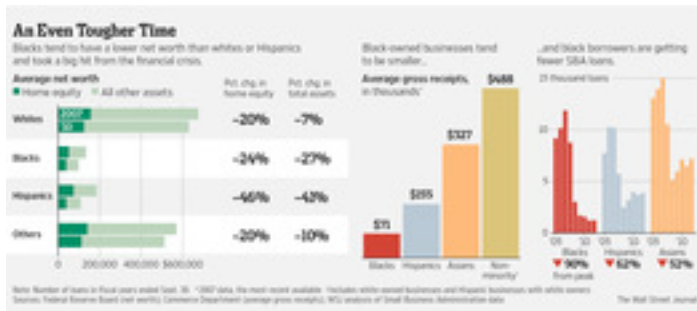
Mr. Brewster, who is black, says he can't take on new clients who want to be billed for payment because waiting for them to pay would put too much strain on his company's cash flow.

Wells Fargo, the fourth-largest U.S. bank, doesn't comment on individual loan applicants. Jon Campbell, head of government and community relations, says the San Francisco bank is "highly incented to make every loan we can make that is fair and responsible." It would be a mistake to "make a loan for any purpose if we don't believe the borrower has an ability to repay."

Paul Brown, a venture capitalist who tried to boost small-business lending through banks when he was a vice president at the Michigan Economic Development Corp., says the numbers are an "ominous sign" that some black entrepreneurs might get left behind as the U.S. economy keeps growing.

"If a community gets left behind during that growth phase, that's a very dangerous thing," Mr. Brown says. "The federal government can't let this trend solidify and become the new normal." Mr. Kelley, the SBA official, says the agency is trying to "broaden and deepen the network of lenders" that make SBA-backed loans.

[View Graphics](#)



In an effort to spur interest from lenders and borrowers, the SBA has waived fees on loans of \$150,000 or less. Since the change Oct. 1, the number of small loans has climbed 21% from the same period a year earlier. Early next year, the SBA will make it easier to underwrite loans electronically.

The total of \$23.09 billion in loans through the SBA's 7(a) and 504 programs in the fiscal year ended Sept. 30 was up 5.6% from \$21.87 billion in fiscal 2012. The two programs represent roughly 90% of the SBA's loan portfolio.

During the crisis, SBA loan volume fell to \$13.02 billion in 2009. That year, loans to white small-business owners shrank to \$8.84 billion—and rebounded to \$14.06 billion last year, the Journal's analysis shows.

An estimated 7% of U.S. business owners are black, up from 6.2% in 2007, according to the SBA's Office of Advocacy. It says the rise isn't statistically significant. About 10% of U.S. business owners are Hispanic.

Hispanic business owners got \$1.09 billion in SBA-backed loans last year, a jump of 85% since 2009, according to the Journal's analysis. Last year's loan volume was 4.7% of the total, up from 4.5% in 2009.

Hispanics saw a larger percentage of their net worth evaporate during the crisis than blacks did, according to a Federal Reserve Board survey that measured changes between 2007 and 2010. But Hispanics tend to be wealthier, so they had more left after the crisis ended and lenders' appetite for new loans started to return. In 2010, Hispanics surpassed blacks in SBA loans by dollars.

In the 7(a) loan program, about 2.5% of the money borrowed by blacks was at least 60 days past due as of Oct. 31, the latest date for which figures are available. Hispanics have a so-called delinquency rate of 1.7%, while 1.2% of money borrowed by whites is past due, the SBA says. The agency began tracking delinquency rates by race a few months ago.

U.S. banks had about \$582.39 billion in business loans of \$1 million or less at the end of 2013, according to the Federal Deposit Insurance Corp. The total is down 18% from a peak of \$711.45 billion in 2008.

Financial institutions aren't allowed to collect information about a borrower's race or ethnic group on non-SBA-backed small-business loans. SBA loan applications include a space for borrowers to disclose their race or ethnicity. About 90% of the applicants in fiscal 2013 did so.

Some bankers say loan demand from black small-business owners is weak. The sluggish demand is "massively frustrating," says Patrick MacKrell, president of New York Business Development Corp. in Albany, N.Y., which collaborates with banks to make small-business loans.

The lender is in discussions with [Carver Bancorp's CARV +0.70%](#) Carver Federal Savings Bank about a potential partnership aimed at boosting small-business loan volume in areas where Carver operates. Carver, based in New York, is the nation's largest African- and Caribbean-American-operated bank.

Before the financial crisis, the average credit score for black Americans was 25.6 out of a maximum of 100, according to a Federal Reserve study in 2007. The average for whites was 54. The Fed hasn't updated the study.

Last year, Malene Barnett decided not to apply for a small-business loan for her custom carpet maker, Malene B Carpets LLC, because she had just bought a house. The four-year-old company is based in Brooklyn, N.Y.

"I knew it would be a challenge to get a business loan because of the amount of debt I already had," says Ms. Barnett, who is black. She kept funding the company out of her own savings. Lenders also have changed how they make SBA-backed loans. Many financial institutions are shying away from smaller loans, which generally require at least as much work as larger loans but generate less interest income in the long run. Smaller loans also fetch less when sold to investors in the secondary market.

On a \$2 million SBA-backed loan, lenders could earn about \$186,000, estimates, Government Loan Solutions Inc., in Wilmington, N.C., compared with \$8,850 for a \$100,000 loan.

In the latest fiscal year, average SBA loan size was \$426,796, more than double the average of \$192,919 in 2005. The increase was about the same at Wells Fargo, the nation's largest SBA lender, with average loan size rising to \$422,694 from \$194,721 in the same period, the Journal's analysis shows.

In 2010, the size limit for most SBA loans was increased to \$5 million from \$2 million. The shift to bigger loans has been especially troublesome for black business owners. Eighty percent of loans to black business owners are for \$150,000 or less, says Mr. Kelley of the SBA. The number of 7(a) loans that size has slid 68% since 2007.

"There's no doubt that banks came out the Great Recession and decided they didn't want to do loans under \$150,000," he says.

[CIT Group Inc. CIT +0.27%](#) was the biggest SBA lender to black borrowers in dollars in 2005 and No. 2 from 2006 to 2008. The New York company no longer makes SBA loans. A spokesman says the move is part of "our portfolio optimization efforts," and CIT remains "committed to the serving the small-business sector" through other products and services offered by the company.

"It is tragic that CIT is no longer doing those loans because they were the one source that did do the process correctly," says Steven Harper. He borrowed \$400,000 through CIT when he bought a small janitorial company in Irvine, Calif., with 13 employees a dozen years ago.

Mr. Harper says he was turned down by several other lenders before CIT said yes. He repaid the SBA loan, and Spectrum Building Services LLC now has about 150 employees and more than \$3 million in annual revenue.

Yet another hurdle came from the SBA's decision in 2011 to kill off a problem-plagued pilot loan program that was often used to make loans to minorities. Default rates soared as high as 40%, higher than any other SBA program. Banking regulators shut down one of the pilot program's most active lenders, Innovative Bank of Oakland, Calif.

SBA officials then launched a new program for loans of less than \$350,000. So far, it has made more than 7,600 loans for a total of \$1.2 billion. Black-owned businesses got about 3% of those loans. Nonprofit lenders are allowed to make SBA-backed loans of less than \$250,000 as part of a separate loan effort started in 2011.

Some frustrated black borrowers have been able to find financing elsewhere. Five different banks rejected Andrew Boyd when he sought an SBA loan for \$150,000 in 2010 to buy and renovate a new location for Supreme Clientele Barber and Beauty Shop. The Chicago Heights, Ill., firm has 10 employees.

Mr. Boyd says he filed for personal bankruptcy in 2005, but his credit score has improved since then. Bank of America and [U.S. Bancorp](#), [USB -0.38%](#) two of the banks that told him no, say they won't comment on individual loan applicants.

A U.S. Bancorp spokeswoman says the Minneapolis bank decides "based solely on financial criteria."

Mr. Boyd and his fiancée, Tiffany Bennett, wound up using \$35,000 in cash to buy the building. They covered the cost of renovations and new equipment with credit cards, help from two clients and a \$50,000 loan from microfinance lender Accion Chicago. Accion Chicago is a member of the Accion U.S. Network.

Mr. Boyd and Ms. Bennett repaid Accion and the two barbershop customers who lent them money using two mortgages for a total of \$108,000 from Seaway Bank & Trust Co., a minority-owned bank in Chicago.