

SBA Is Rolling Out Revolving Loans to Small Companies

Capital-Hungry Firms Can Draw on Credit Lines for Receivables, Inventory

By MICHAEL SELZ

Staff Reporter of THE WALL STREET JOURNAL

Uncle Sam is opening the lending spigot wider for small businesses.

Within the next 30 days, the U.S. Small Business Administration plans a nationwide rollout of a revolving-loan guarantee program expected to generate \$1 billion of small-business financing during its first year.

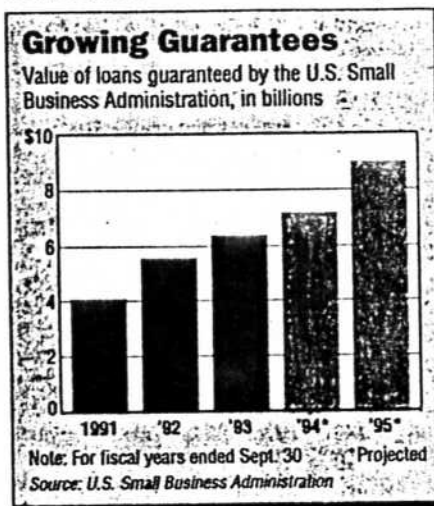
The new GreenLine program could greatly expand the use of a highly flexible financing tool by capital-hungry small businesses. Revolving loans permit companies to draw on a credit line only when they need money to fund increases in receivables and inventory. Term loans, which the SBA has traditionally guaranteed, lock a borrower into fixed monthly payments.

But the SBA will take unprecedented steps to protect itself against repayment problems in its new program, because revolving loans are riskier than term loans, agency officials say. For the first time, the agency will let third parties monitor the collateral that secures the newly guaranteed loans.

The GreenLine program, a revamped version of two troubled regional pilot projects begun in 1992, will guarantee revolving credit lines of as much as \$750,000 a loan. The SBA guarantee will last as long as five years and cover 75% of a loan, which would bear an interest rate of as much as 2.75 percentage points above the prime rate.

Observers see the new revolving-loan guarantee program — and the private sector's unusually heavy role in developing it — as the latest evidence of SBA Administrator Erskine Bowles's efforts to improve the long-criticized federal agency.

The program "definitely reflects a new, pro-active SBA," says William Burke, a vice president of a Florida banking unit of First Union Corp., a big bank-holding company in Charlotte, N.C. Mr. Burke served on a special 12-person panel that advised the agency about organizing the new program.



Adds Jim Mayer, president of DiversiCorp Inc., a collateral-management concern in Dallas and an SBA adviser: "I was startled by the SBA's candor and genuine interest in what we knew, what we could offer and how it could be done."

Revolving loans pose more risks than term loans because they are secured by receivables and inventory, which are less reliable collateral than the real estate, buildings and machinery that typically secure term loans. Small businesses find they often can't get or afford revolving loans.

"We received more requests for this type of lending both from the small-business community and our lending partners than any other program" during seven town meetings across the country last year about the SBA's loan-guarantee efforts, SBA Deputy Administrator Cassandra Pulley told the Senate Small Business Committee last week.

'Starved for Capital'

Anthony Wilkinson, president of the 600-member National Association of Government Guaranteed Lenders, which accounts for 70% of all SBA-guaranteed loans, testified at the same hearing: "Many sectors of the small-business market remain starved for capital and these initiatives [such as GreenLine] address many specific areas of need."

Joyce Prince, president and founder of Frog Pond Kids Inc., an Atlanta apparel maker with \$4 million in annual revenue, says that the new guarantee program could have helped her to better finance her small company's recent expansion.

SunTrust Banks Inc., her firm's bank for 22 years, rejected her request last year to increase Frog Pond's revolving credit line to \$350,000 from \$250,000, according to Ms. Prince. She says she needed the money to fund inventory and receivables growth for a chain of retail stores that she had opened in Atlanta and Boston. "The bank told me, 'We're not doing retail-industry loans right now,'" she recalls. SunTrust, based in Atlanta, declines to comment.

Ms. Prince says she switched to Atlanta's Fidelity Southern Corp. and took out a \$750,000 term loan that partly refinanced a building she owned. She says

she is using some of the loan to fund working capital.

But Ms. Prince says the financing's inflexibility means that sometimes she has \$200,000 — borrowed at one percentage point over the prime rate — sitting in the bank and earning scant interest in a 30-day certificate of deposit. Worse, she says, as she repays the loan over five years, Frog Pond may again face a financing shortfall.

Some Unenthusiastic Lenders

Some lenders aren't enthusiastic about the new SBA program, however. There is no secondary market for revolving loans. Thus, banks won't be able to sell the guaranteed portion of the revolving credit line while still servicing it for a fee. They now can do that with SBA-backed term loans.

And the less-permanent nature of a revolving credit line's collateral makes it riskier to secure such debt. "SBA lenders will need to be more careful about monitoring these loans," says Betty Vaughn, a vice president at Action Capital Corp., an Atlanta commercial-finance concern and SBA adviser. "If they don't, they're setting themselves and the SBA up for losses."

That's why the agency has authorized lenders to use firms that specialize in managing loans' collateral. Their methods include employing agents who watch over inventory that secures the debt, sometimes releasing it to a debtor only after a creditor receives its payment.

Mr. Mayer of the collateral-management concern says the agency's willingness to use firms such as his reflects its increased desire to involve the private sector more extensively.