

Trends in SBA-Backed Financing to Women-Owned Businesses FY1998 to FY2003

One essential element in the U.S. Small Business Administration's (SBA) Congressionally-mandated mission to assist the Nation's 23 million small businesses is to help meet their capital needs. SBA-backed financing helps provide loans to customers who might not qualify for business loans through normal lending channels. There are four primary types of SBA lending and equity investment programs available to borrowers: the 7(a) Loan Guaranty Program, the 504 Certified Development Company (CDC) Loan Program, the 7(m) MicroLoan Program, and the Small Business Investment Company (SBIC) Program.¹ In FY2003, the SBA set a 50-year record in loans to small businesses, with a 29% increase in the total number of loans backed by the agency over the prior year, including a 33% increase in lending to women-owned businesses.²

As the number, employment and revenues of women-owned businesses have increased, so has the need for financing – both to start new businesses and to fuel the growth of existing businesses. This Issue in Brief examines the most current information on the SBA's loan and financing programs, focusing on lending to women-owned firms and drawing upon newly-available information on FY2003 results as well as data for the previous five years. Numbers of loans, dollars lent, and average loan value to women business owners are examined on both an absolute and growth basis, with comparisons made to all firms over the same timeframe.

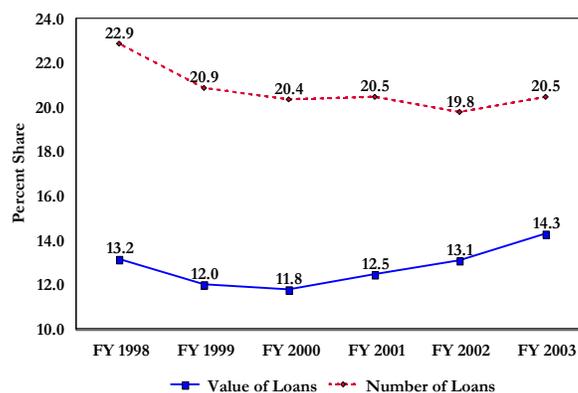
The State of SBA-Backed Financing to Women-Owned Businesses

- In FY2003, the SBA made 16,721 loans and equity investments to women-owned businesses, totaling \$2.4 billion.
- The share of dollars lent to women-owned businesses increased from 13.2% in FY1998 to 14.3% in FY2003, while the share of the number of loans and equity investments decreased from 22.9% to 20.5% over the same period.
- Between FY1998 and FY2003, the value of loans and investments to women-owned businesses increased at a faster rate than assistance to businesses overall, while the growth in the number of loans and equity investments made to women-owned businesses did not keep pace with growth among firms overall. Dollars lent to and

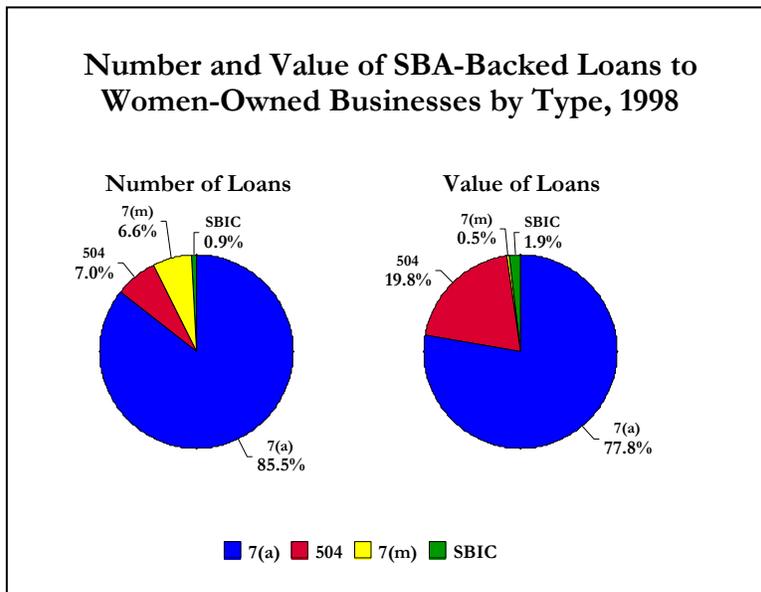
invested in women-owned businesses by the SBA increased by 29.9% between 1998 and 2003, compared to a 20.5% increase among all businesses. Over the same period, the number of loans and equity investments grew by 40.5% among women-owned firms over this period, much lower than the 56.9% increase among all businesses.

- In FY2003, the average value of SBA-backed loans and equity investments provided to women-owned businesses was \$144,326, compared to the average value of \$207,872 for all SBA-backed loans and equity investments.
- Between FY1998 and FY2003, there was a 7.5% decrease in the average value of loans made to women-owned businesses, compared with a 23.2% decrease in the average value of loans made to all businesses.

Share of Number and Value of SBA-Backed Loans to Women-Owned Businesses, 1998-2003



- The 7(a) Loan Guaranty Program is the largest of the SBA-backed loan and equity programs, in terms of both the number of loans and the total amount lent. In FY2003, the 7(a) program accounted for fully 77.8% of all SBA dollars lent to women-owned firms. The 504 program accounted for 19.8%, SBIC for 1.9%, and the 7(m) program accounted for 0.6%. In FY1998, the programs accounted for 84.0%, 14.0%, 1.7%, and 0.3% of dollars, respectively.
- In FY2003, 85.5% of SBA's loans and investments to women-owned businesses were provided through the 7(a) program. The 504 program provided 7.0% of loans and investments, SBIC provided 0.9%, and the 7(m) program accounted for 6.6%. In FY1998, the programs accounted for 86.3%, 7.0%, 1.7%, and 4.9% of loans and investments, respectively.



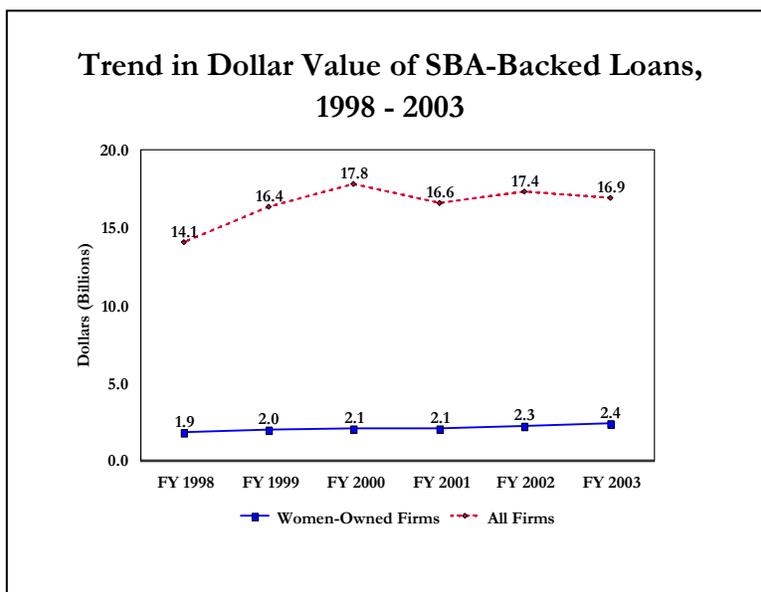
- In FY2003, the average value of 7(a) loan guaranties provided to women-owned businesses was \$131,212, which is 78% of the average value of \$167,410 for all 7(a) loan guaranties.
- Between FY1998 and FY2003, there was a 13.7% decrease in 7(a) average value among women-owned businesses, compared with a 21.5% decrease in average value among all businesses.

504/Certified Development Company (CDC) Loan Program⁴

- In FY2003, the 504 program made 1,163 loan guaranties to women-owned businesses, totaling \$479 million. This accounted for 15.1% of all dollars lent under the program and 16.9% of the number of loans guaranteed.
- Growth in the dollar value of loan guaranties from the 504 program was stronger among women-owned firms than among all firms between FY1998 and FY2003. While dollars to women-owned businesses grew by 84.1%, dollars overall grew by 77.7%. Growth rates for the number of loan guaranties were similar among women-owned and all firms over this period (38.9% and 39.2%, respectively).

7(a) Loan Guaranty Program³

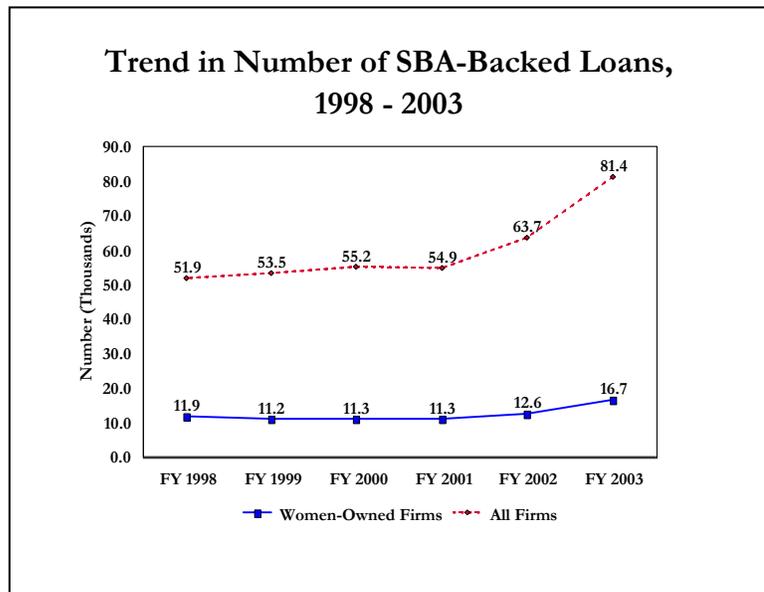
- In FY2003, the 7(a) program made 14,300 loan guaranties to women-owned businesses, totaling \$1.9 billion. This accounted for 16.7% of all dollars lent under the program and 21.2% of the number of loans guaranteed.
- Growth in both the total dollar value and number of loan guaranties from the 7(a) program was stronger among all firms than among women-owned firms between FY1998 and FY2003. While dollars to women-owned businesses grew by 20.2%, dollars overall grew by 25.0%. Similarly, the number of loan guaranties to women increased by 39.2%, compared to 59.2% among all firms.



- In FY2003, the average value of 504 loan guaranties provided to women-owned businesses was \$460,589, which is 89% of the average value of \$167,410 for all 504 loan guaranties.
- Between FY1998 and FY2003, there was a 32.5% increase in the average value of a 504 guaranty among women-owned businesses, compared with a 27.6% increase in average value among all businesses.

7(m) MicroLoan Program⁵

- In FY2003, the 7(m) program made 1,110 loans to women-owned businesses, totaling \$13.3 million. This accounted for 43.7% of all dollars lent under the program and 45.4% of the number of loans made.
- Growth in the dollar value of loans from the 7(m) program was strong among both women-owned and all firms between FY1998 and FY2003. Dollars to women-owned businesses grew by 147.7%, and dollars overall grew by 134.4%. The number of 7(m) loans to women-owned businesses grew by 88.5% over this period, compared to 97.4% among all firms.
- In FY2003, the average value of 7(m) loans provided to women-owned businesses was \$11,984, which is 96% of the average value of \$12,449 for all 7(m) loans.
- Between FY1998 and FY2003, there was a 31.4% increase in the average value of 7(m) loans among women-owned businesses, compared with an 18.7% increase in average value among all businesses.



SBIC Program⁶

- In FY2003, the SBIC program made 148 investments to women-owned businesses, totaling \$45.2 million. This accounted for 1.8% of all dollars invested under the program and 3.1% of the total investments made.
- Growth in the dollar value of investments from the SBIC program was a strong 45.4% among women-owned firms between FY1998 and FY2003, while the dollar value declined by fully 23.7% among all firms. However, the number of SBIC investments to women-owned businesses declined by 28.8% over this period, compared to 39.8% growth among all firms.
- In FY2003, the average value of SBIC investments to women-owned businesses was \$304,859, which is just 60% of the average value of \$511,312 for all SBIC investments.
- Between FY1998 and FY2003, there was a 104.4% increase in the average value of SBIC investments among women-owned businesses, compared with a 45.5% decline in average value among all businesses.

SBA-Backed Loans and Financing to Women-Owned and All Firms: FY2003						
	Number			Dollars (\$000s)		
	Women-Owned Businesses	All Businesses	Share to Women-Owned Businesses	Women-Owned Businesses	All Businesses	Share to Women-Owned Businesses
Total						
2003	16,721	81,446	20.5	\$2,413,274	\$16,930,309	14.3
1998	11,905	51,894	22.9	\$1,857,853	\$14,047,900	13.2
7(a)						
2003	14,300	67,306	21.2	\$1,876,326	\$11,267,689	16.7
1998	10,271	42,270	24.3	\$1,561,474	\$9,016,559	17.3
504						
2003	1,163	6,863	16.9	\$478,527	\$3,161,024	15.1
1998	837	4,930	17.0	\$259,983	\$1,778,922	14.6
MicroLoan						
2003	1,110	2,444	45.4	\$13,302	\$30,424	43.7
1998	589	1,238	47.6	\$5,371	\$12,980	41.4
SBIC						
2003	148	4,833	3.1	\$45,119	\$2,471,171	1.8
1998	208	3,456	6.0	\$31,025	\$3,239,439	1.0

Source: All data from SBA loan and financing program offices.

Conclusions and Recommendations

- Both the number and the value of SBA-backed financing to women-owned businesses have increased strongly over the past five years, a trend that we look forward to seeing continue. However, while the dollars going to women-owned firms is increasing at a faster rate than among firms overall, the increase in the actual number of loans and investments to women-owned businesses is not keeping pace. We recommend that the SBA increase its outreach efforts to the women's business community, and to the financial community, to encourage more participation by women business owners in these valuable programs. Given the fact that women-owned firms are just as financially strong and creditworthy as the average U.S. firm, showing no significant differences in terms of bill payment, financial stress, and overall creditworthiness,⁷ more women business owners should be participating in SBA's lending programs. The SBA should more strongly encourage SBA-guaranteed lenders in this regard.
- It is encouraging to see that the diversity of SBA lending to women-owned businesses has increased since FY1998. The share of dollars coming from the 504, SBIC, and 7(m) programs have all increased over the past five years. More can be done, however, to increase the share of SBIC investment in women-owned firms. Again, greater outreach to SBIC lenders and to the women's business community is encouraged.
- There has been tremendous growth in the MicroLoan program for women-owned businesses, with a doubling of loans made and dollars lent over the past five years. With this tremendous progress, we recommend that the 7(m) program continue to maintain its own identity within the range of financial assistance programs offered by the SBA.

SBA Lending and Financing Programs⁸

The 7(a) Loan Guaranty Program: This is the SBA's primary business loan program. It is also the most flexible, since the agency can guarantee financing for a variety of general business purposes. 7(a) loans are provided by lenders who choose to structure their own loans under the SBA's requirements, and who apply for and receive a guaranty from the SBA on a portion of these loans. Under the 7(a) program, the SBA guarantees up to \$1.5 million⁹ of a private-sector loan. – as much as 85% on loans of \$150,000 or less and up to 75% on loans greater than \$150,000.

A key concept of the 7(a) Loan Guaranty Program is that the loan comes from a commercial lender, and the guaranty comes from the SBA. A business applies to the lender, and the lender decides whether to make or reject

the loan internally, or if the application needs to be bolstered with an SBA guaranty.

504 Certified Development Company Program: The CDC/504 loan program is a long-term financing tool for economic development within a community. The 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. A Certified Development Company is a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. There are about 270 CDCs nationwide. Each CDC covers a specific geographic area.

Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

The maximum SBA debenture is \$1 million for meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every \$50,000 provided by the SBA. The maximum SBA debenture is \$1.3 million for meeting a public policy goal. Expansion of small business concerns owned and controlled by women is included among listed public policy goals.

The 7(m) MicroLoan Program: This program provides loans to start-up, newly established, or growing small business concerns. Under this program, SBA makes funds available to nonprofit community based lenders (intermediaries) which, in turn, make loans to eligible borrowers in amounts up to a maximum of \$35,000. Applications are submitted to the local intermediary and all credit decisions are made on the local level.

Small Business Investment Company (SBIC) Program: The SBIC Program helps to fulfill a small business' need for larger amounts of capital – whether for start-up or growth. SBIC financing typically fills the gap between debt capital and venture capital. Licensed and regulated by the SBA, SBICs are privately owned and managed investment companies that make capital available to small businesses either through equity investments or loans. They use their own funds plus funds obtained at favorable rates with SBA guaranties. SBICs are for-profit companies whose incentive is to share in the success of small businesses. In addition to equity capital and long-term loans, SBICs provide debt-equity investments and management assistance.

All SBA loan and investment programs are managed at the district level. For further information, please contact your local SBA office. You can find your local office at <http://www.sba.gov/>

The National Women's Business Council is a bi-partisan Federal government body created to serve as an independent source of advice and policy recommendations to the President, Congress, and the U.S. Small Business Administration on economic issues of importance to women business owners. Members of the Council are prominent women business owners and leaders of women's business organizations. For more information about the Council, its mission and activities, contact: National Women's Business Council, 409 3rd Street, SW, Suite 210, Washington, DC 20024; phone: 202-205-3850; fax: 202-205-6825; e-mail: nwbc@sba.gov, web site: <http://www.nwbc.gov>.

¹ U.S. Small Business Administration, "Lender's & Equity Investor's Guide", 2nd Edition. <http://www.sba.gov>.

² U.S. Small Business Administration, News Release 03-72. October 10, 2003. <http://www.sba.gov/news/>.

³ <http://www.sba.gov/financing/sbaloan/7a.html>

⁴ <http://www.sba.gov/financing/sbaloan/cdc504.html>

⁵ <http://www.sba.gov/financing/sbaloan/microloans.html>

⁶ <http://www.sba.gov/INV/>

⁷ Center for Women's Business Research, "Removing the Boundaries: The Continued Progress and Achievement of Women-Owned Enterprises," November 2001. <http://www.womensbusinessresearch.org/Research/11-13-2001/11-13-2001.htm>.

⁸ U.S. Small Business Administration, "Lender's & Equity Investor's Guide", 2nd Edition. <http://www.sba.gov>.

⁹ H.R. 4062 was signed into law on April 5, 2004. As a result of this legislation, the 7(a) loan guaranty limit was raised from \$1 million to \$1.5 million.