

The SBA sees a lending shift

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A Small Business Administration report on 2008 shows slower growth in small business loans and a rise in the use of small business credit cards.



Small business lending was still growing through the first half of 2008, albeit more slowly—and much of the growth was via credit cards rather than traditional business loans, according to a new analysis by the Small Business Administration.

Lending to small businesses increased in the 12 months ending in June 2008, but at a slower rate than in the years before, reflecting the effects of the global credit crunch and weaker demand from business owners. The total value of small business loans outstanding increased 4%, to \$711 billion in the 12 months ending in June 2008. That's half the growth in small business credit than the SBA recorded the year before.

While the data do not show the size of the companies taking out loans, the report tracks loans made for amounts under \$1 million and under \$100,000, since most of these go to small businesses. In particular, loans under \$100,000 tend to represent credit-card lending as well as smaller commercial loans, says SBA economist Charles Ou, who co-authored the study. Loans greater than \$1 million tend to go to large or midsize enterprises.

The number of business loans under \$100,000 rose from 21.6 million in 2007 to 25 million in 2008—growth researchers attribute largely to small business credit cards. "Availability of business credit cards is one of the major contributions by the lending institutions to make credit more available," says Ou. The number of larger loans more than \$100,000 but less than \$1 million—which include things like commercial mortgages, equipment loans, and inventory financing—dropped from 2.9 million to 2.2 million, though the dollar amount of these loans climbed by 3.2%.

Aggressive moves by credit-card companies

Of course, the financial landscape has changed since the data were collected June 2008. After Wall Street's collapse last fall, top lenders began cutting credit lines for small businesses. And a landmark credit-card reform bill passed last month promises new protections for consumers, though small business cardholders are left out for now.

Still, the data paint a picture of lenders—especially the nation's largest—increasing credit-card lending while cooling on larger traditional loans. The 100 lenders with more than \$10 billion in assets accounted for 61% (in dollar volume) of business loans under \$100,000 in 2008, up

from 53% two years earlier. "These giants continued to concentrate in the credit card market. Large lending institutions remained passive or less active in the market for loans between \$100,000 and \$1 million," the report says.

The shift may reflect changing demand for small business credit. Internet companies and home-based businesses have less need for larger loans because they need fewer hard assets, such as machinery or vehicles. At the same time, credit-card issuers have moved aggressively into the small business market, and lenders have tightened standards on bank loans. That explains why the top lenders to small businesses nationally are also among the nation's top credit-card issuers, including American Express (AXP), Capital One (COF), and JP Morgan Chase (JPM). "These are actually the major players in the credit-card business," says Ou. (The SBA also tracks the top lenders by state—that data are available on its Web site.)

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