NSBA
National Small Business Association

ISSUE BRIEF

America's small business advocate

Access to Capital

Small businesses must have access to money to create jobs and thriving enterprises

Small businesses face unique challenges when obtaining financing. Start-up and expanding small businesses frequently do not have the assets necessary for a traditional bank loan. Smaller loans are generally less-profitable for banks, and come with a higher default rate. These challenges spurred the U.S. Small Business Administration to create the 7(a) loan program as a way to provide incentives to banks to make the more risky and less profitable small business loans.

Unfortunately, the 7(a) loan program has fallen on hard times in recent years. Following the imposition of a number of loan-caps, a complete program shutdown, and the zeroing-out of the program budget, the 7(a) loan program has become a small-business funded program with borrower fees that have doubled over the last two years. Any increase in the default rate or ongoing decrease in the size of loans (higher loans charge higher fees) could force lawmakers to pass legislation allowing for even higher fees on small business, since the fees charged on 7(a) loans already at their statutory limit.

While the number of 7(a) loans made continues to increase, the size of those loans is decreasing. Additionally, the number of banks participating in the program has decreased—since 2001 there has been a 47-percent decrease in the number of banks that made at least one 7(a) loan. With fewer banks making loans and increased consolidation among participating banks, 7(a) loans may cease to be an option for rural entrepreneurs.

SBA loan programs serve an important need in the U.S. economy. In fact, SBA is the largest single provider of long-term loans to small businesses. Beyond the 7(a) loan guarantee program, SBA offers a number of other loan programs—including the SBA Express program, which provides loans up to $50,000 with a 50 percent guarantee and an expedited loan process that uses credit scoring. The 504 loan program provides fixed-asset financing in conjunction with local community development corporations. Finally, the SBA Microloan program serves the smallest of the small. With a loan limit maxing out at $35,000, the Microloan program includes technical assistance aimed at start-ups and low-income individuals.

When faced with the looming deficit, the Office of Management and Budget has looked for every opportunity within the federal budget to make cuts. While NSBA is supportive of fiscal responsibility, we urge the administration and Congress to recognize the economic benefits of fully-funded SBA programs. For every $33,000 lent through the 7(a) program, one job is created or retained. In 2002, 7(a) loans created or retained 370,000 jobs. Furthermore, when the 7(a) loan program was given appropriated funds, every taxpayer dollar in the program was leveraged by $99 in the private sector.

Beyond the SBA programs, large businesses have a significant advantage over small businesses in their ability to earn interest on their checking accounts. Available at most large banks, "sweep" accounts allow the balance of a business's checking account to be "swept" into an interest-bearing account up to 24 times a month. Legislation addressing small businesses' inability to utilize these interest-bearing accounts is needed. NSBA will continue to advocate for full Congressional passage of this important legislation.

Despite these obstacles, the Bureau of Labor Statistics recently found that small businesses have created 65 percent of the net new jobs in the U.S. over the last 12 years. Imagine what America's small-business could do for the economy with a little more money! Ensuring equal and fair access to capital, as well as fair banking practices is necessary to the long-term economic health of the nation.

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