



Trends in SBA-Backed Financing to Women-Owned Businesses

FY2004 to FY2008

One essential element in the U.S. Small Business Administration's (SBA) Congressionally-mandated mission to assist the Nation's 27 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

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 FY2008 results as well as data for the previous four 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 FY2008, the SBA made 19,042 loans and equity investments to women-owned businesses, totaling \$3.1 billion.
- The share of dollars lent to women-owned businesses increased from 14.1% in FY2004 to 15.4% in FY2008 and the share of the number of loans and equity investments increased from 21.1% to 22.6% over the same period.
- Between FY2004 and FY2008, the value of loans and investments to women-owned businesses increased at faster rates than assistance to businesses overall. Dollars lent to and invested in women-owned businesses by the SBA increased by 9.3% between 2004 and 2008, compared to a 0.1% decrease among all businesses.
- Over the same period, the number of loans and equity investments decreased by 6.2%

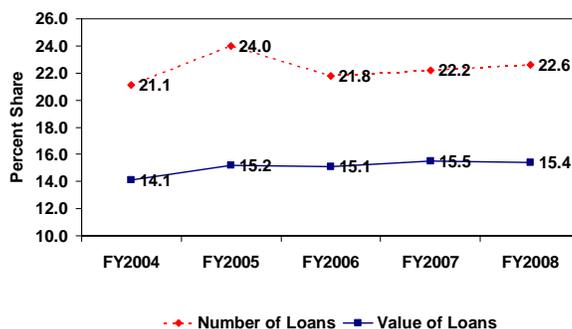
among women-owned firms compared to a 12.5% decrease among all businesses.

- However, both the value and total number of loans are down significantly from just a year before. Between FY2007 and FY2008, the value of loans and investments to women-owned firms decreased by 13.0% and dollars lent to all businesses decreased by 12.3%. During the same period, the number of loans to women-owned businesses and all businesses decreased by 26.1% and 27.4%, respectively.
- In FY2008, the average value of SBA-backed loans

and equity investments provided to women-owned businesses was \$165,073, compared to the average value of \$242,090 for all SBA-backed loans and equity investments.

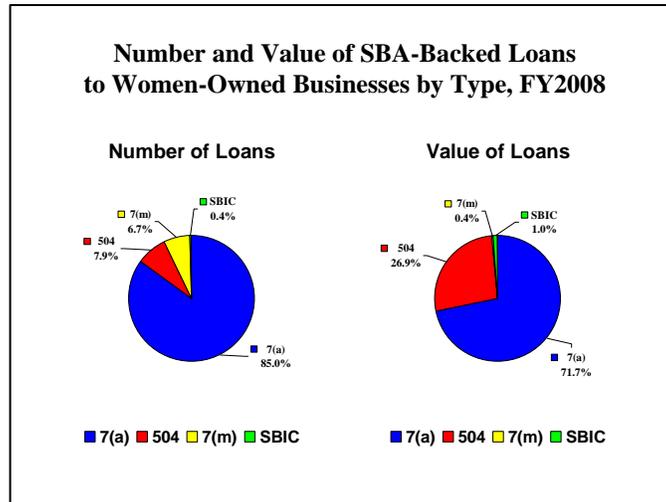
- Between FY2004 and FY2008, there was a 16.6% increase in the average value of loans made to women-owned businesses, compared with a 14.2% increase in the average value of loans made to all

Share of Number and Value of SBA-Backed Loans to Women-Owned Businesses, FY2004-FY2008



businesses.

- 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 FY2008, the 7(a) program accounted for fully 71.6% of all SBA dollars lent to women-owned firms. The 504 program accounted for 26.9%, SBIC for 1.0%, and the 7(m) program accounted for 0.4%. In FY2004, the programs accounted for 75.8%, 21.5%, 2.5%, and 0.5% of dollars, respectively.
- In FY2008, 85.0% of SBA's loans and investments to women-owned businesses were provided through the 7(a) program. The 504 program provided 7.9% of loans and investments, SBIC provided 0.4%, and the 7(m) program accounted for 6.7%. In FY2004, the programs accounted for 87.1%, 6.9%, 0.7%, and 5.4% of loans and investments, respectively.



which is 76% of the average value of \$182,492 for all 7(a) loan guaranties.

- Between FY2004 and FY2008, there was a 12.9% increase in 7(a) average value among women-owned businesses, compared with a 9.1% increase in average value among all businesses.

504/Certified Development Company (CDC) Loan Program³

7(a) Loan Guaranty Program²

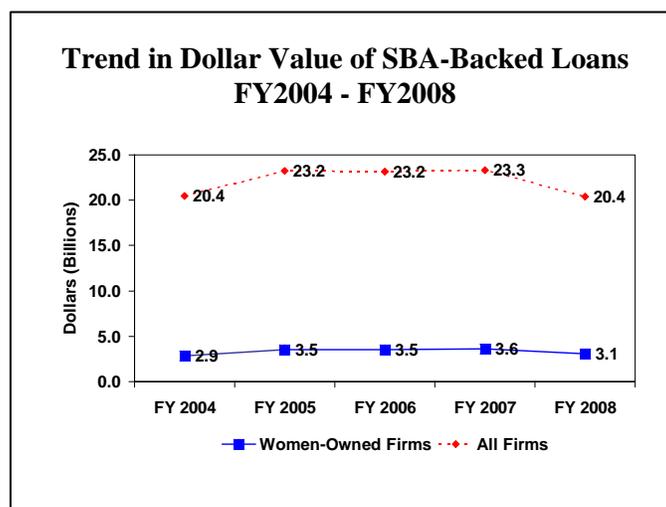
- In FY2008, the 7(a) program made 16,178 loan guaranties to women-owned businesses, totaling \$2.3 billion. This accounted for 17.8% of all dollars lent under the program and 23.3% of the number of loans guaranteed.
- Both the total dollar value and number of loan guaranties from the 7(a) program were stronger among women-owned firms than among all firms between FY2004 and FY2008. While dollars to women-owned businesses increased by 3.3%, dollars overall shrunk by 6.6%. In the same period, the number of loan guaranties decreased both to women-owned firms (8.5%) and among all firms (14.4%).
- Declines were even greater between FY2007 and FY2008. The value of 7(a) loans to women-owned businesses declined by 13.8% and to all firms by 11.3%. The number of loans to women decreased 29.1% and to all firms by 30.3%.
- In FY2008, the average value of 7(a) loan guaranties provided to women-owned businesses was \$139,185,

- In FY2008, the 504 program made 1,511 loan guaranties to women-owned businesses, totaling \$847 million. This accounted for 16.0% of all dollars lent under the program and 17.0% of the number of loans guaranteed.

- Growth in the dollar value of loan guaranties and number of loan guaranties from the 504 program was slightly stronger among women-owned firms than among all firms between FY2004 and FY2008. While dollars to women-owned businesses grew by 36.9%, dollars overall grew by 32.2%. Growth rates for the number of loan guaranties were also higher for women-owned firms than all firms over this period (7.8% vs. 6.3%).
- However, both the value and total number of CDC loans decreased significantly between FY2007 and FY2008. Loans and investments to women-owned firms decreased by 11.7% and dollars lent to all businesses decreased by 16.2%. During the same period, the number of loans to women-owned businesses and all businesses decreased by 14.1% and 16/7%, respectively.
- In FY2008, the average value of 504 loan guaranties provided to women-owned businesses was \$560,268,

which is 94% of the average value of \$595,496 for all 504 loan guaranties.

- Between FY2004 and FY2008, the increase in the average value of a 504 guaranty among women-owned businesses (27.0%) was greater than the increase in average value among all businesses (24.4%).

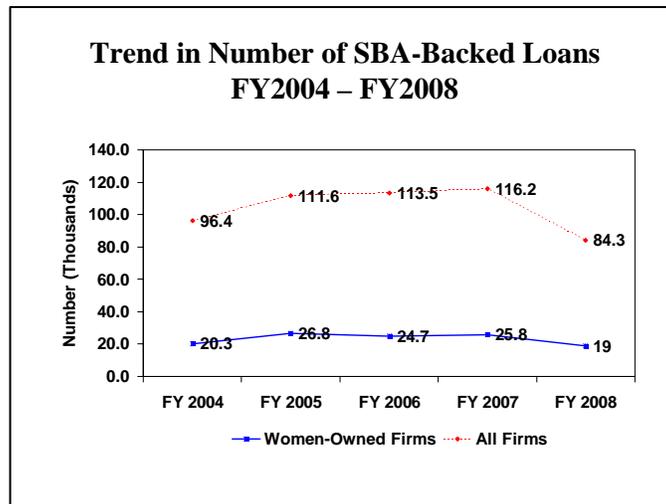


7(m) MicroLoan Program⁴

- In FY2008, the 7(m) program made 1,269 loans

to women-owned businesses, totaling \$13.3 million. This accounted for 43.4% of all dollars lent under the program and 47.8% of the number of loans made.

- The dollar value of loans from the 7(m) program declined among both women-owned and all firms between FY2004 and FY2008. Dollars to women-owned businesses declined by 1.0%, and dollars overall declined by 7.2%. The number of 7(m) loans to women-owned businesses grew by 16.3% over this period, compared to 9.1% among all firms.
- In FY2008, the average value of 7(m) loans provided to women-owned businesses was \$10,485, which is 91% of the average value of \$11,559 for all 7(m) loans.
- Between FY2004 and FY2008, the average value of 7(m) loans among women-owned businesses and among all businesses both decreased by 14.9%.



accounted for 1.3% of all dollars invested under the program and 2.5% of the total investments made.

- The dollar value and number of investments from the SBIC program among women-owned firms declined at higher rates than among all firms between FY2004 and FY2008. The dollar value for women-owned firms declined by 50.3%, compared to 14.4% among all firms. At the same time,

the number of SBIC investments to women-owned businesses declined by 36.4%, compared to a 24.4% decline among all firms.

- In FY2008, the average value of SBIC investments to women-owned businesses was \$377,381, which is just 52% of the average value of \$719,751 for all SBIC investments.
- Between FY2004 and FY2008, there was a 21.9% decrease in the average value of SBIC investments among women-owned businesses, compared with a 13.2% increase in average value among all businesses.

SBIC Program⁵

- In FY2008, the SBIC program made 84 investments to women-owned businesses, totaling \$31.7 million. This

SBA-Backed Loans and Financing to Women-Owned and All Firms: FY2008						
	Number			Dollars (\$000s)		
	Women-Owned Businesses	All Businesses	Share to Women-Owned Businesses	Women-Owned Businesses	All Businesses	Share to Women-Owned Businesses
Total						
2008	19,042	84,343	22.6	\$3,143,313	\$20,418,602	15.4
2004	20,307	96,385	21.1	\$2,875,770	\$20,441,091	14.1
7(a)						
2008	16,178	69,434	23.3	\$2,251,742	\$12,671,136	17.8
2004	17,682	81,133	21.8	\$2,180,246	\$13,571,560	16.1
504						
2008	1,511	8,883	17.0	\$846,565	\$5,289,790	16.0
2004	1,402	8,357	16.8	\$618,279	\$4,000,473	15.5
MicroLoan						
2008	1,269	2,654	47.8	\$13,306	\$30,676	43.4
2004	1,091	2,433	44.8	\$13,445	\$33,058	40.7
SBIC						
2008	84	3,372	2.5	\$31,700	\$2,427,000	1.3
2004	132	4,462	3.0	\$63,800	\$2,836,000	2.2

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

Conclusions and Recommendations

- While the total value of SBA-backed financing to women-owned businesses has increased over the past five years, the Council is troubled that the overall number of loans has declined so sharply, particularly between FY2007 and FY2008.
- In addition, while the total dollars going to women-owned firms is increasing at a faster rate than among all firms, the average value of loans made to women-owned businesses is still less than the average value of loans made to all firms in all four loan categories.
- The share of dollars coming from the 7(a), 504, and 7(m) programs has remained stable over the past five years. More can be done, however, to increase the share of SBIC investment in women-owned firms, which declined from an already low 2.2% in FY2004 to 1.0% in FY2008.
- 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,⁶ more women business owners should be participating in SBA's lending programs. The SBA should more strongly encourage SBA-guaranteed lenders in this regard.
- Given the pressures of the current economic climate, the Council also recommends that the SBA increase its loan-making efforts across the board. The declines in the number and value of loans between FY2007 and FY2008 are troubling.

SBA Lending and Financing Programs⁷

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 million⁸ 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 <http://www.sba.gov/financing/sbaloan/7a.html>

³ <http://www.sba.gov/financing/sbaloan/cdc504.html>

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

⁵ <http://www.sba.gov/INV/>

⁶ 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>.

⁷ U.S. Small Business Administration, "Lender's & Equity Investor's Guide", 2nd Edition. <http://www.sba.gov>.

⁸ 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.