**July 2010 Wisconsin Bankers**

**A review of SBA's Portfolio**

Each year since 2000, the U.S. Small Business Administration (SBA) has released statistics on their loan portfolio performance as it relates to default and loss rates. This year's reports show the status as of September 30, 2009 for loans approved and disbursed between 10/1/2000 and 9/30/2009. The free reports can currently be accessed at the National Association of Government Guaranteed Lenders website, http://www.naggl.org.

The first report examines the combined SBA 7(a) and 504 loan portfolio performance by North American Industry Classification System (NAICS) code. The report looks at each SBA eligible NAICS code with statistically relevant results (5 or more disbursed loans) and provides failure and charge-off rates for each. 1091 NAICS codes were represented in this year's report with a total of over 613,000 disbursements over the last 9 years. During that period, almost $130 billion were disbursed for an average loan size of just over $211,000. The default rate for the whole portfolio, which was 8.41% through FY2007 and 11.95% through FY2008 has risen to 17.09% through FY2009. Like the default rate, the average charge-off has more than doubled, increasing from 1.19% through FY2007 and 1.85% through FY2008 to 2.40% through FY2009. These increases reflect the difficult economic times we have been experiencing.

The statistics also reveal the concentration that SBA has in various NAICS codes. To be expected SBA has a large concentration in the retail and service areas, including Limited and Full Service Restaurants. As a whole, restaurants continue to represent about 9% of SBA's total loans and 9.3% of total dollars disbursed. The default rate for the industry was 20.0% through FY2009 compared to 11.5% through FY2007 and 14.8% through FY2008. The average charge-off for restaurants was 3.4% through FY2009 compared to 1.65% and 2.6% respectively in the prior two years.

Other concentrations exist with c-stores, hotels/motels, landscapers and professional service providers, such as dentists, doctors, and lawyers. It is very apparent that some of these industries present more risk than others and the information can be a helpful tool for a lender working with an industry with which he or she is not familiar. Loan requests from dentists often are highly leveraged (RMA industry average -9.0 to 1) due to the practice of distributing most of the retained earning. On the surface, it might appear that a loan to a dentist, so leveraged, might be too risky. However, we gain some additional insights into this industry by reviewing its default and charge-off percentages. Contrary to what might be expected, they have a very low default rate of 4.20%, compared to the average. Their charge-off rate of 0.45% is also very low. It should be noted that dentists have also been impacted by the economic hard times. Default rates for dentists were 1.87% through FY2007 and the charge-off rate was 0.21%.

The second report narrows the focus somewhat and looks at the combined loan portfolio performance of those businesses that are part of franchise organizations. The 500 plus franchises that SBA lists in this report represents 4.94% of the overall SBA portfolio referenced in the first report and 8.22% of the portfolio dollars. The average default rate for a franchise over the last 9 years is 17.14% compared to 10.8% through FY2007 and 13.41% through FY2008. The average charge-off rate is currently 2.69% compared to 1.24% through FY2007 and 2.01% through FY2008. Both of these rates continue to be higher than the portfolio as a whole reflecting that franchises are predominately made up of retail and service businesses, whose default and charge-off rates tend to be higher.

As with the analysis of the portfolio based on the NAICS codes, we are able to see SBA's concentration with various franchises. We can also see that some franchises consistently perform better than others. This information can help the lender identify which franchisors have a sound plan, adequately screen their franchisees and provide quality ongoing support.