Bankers’ Perspectives on Treasury’s State Small Business Credit Initiative (SSBCI)

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The ability of credit-worthy small businesses to obtain loans is essential to the ongoing economic recovery and to healthy communities generally. As a former community bank CEO, I understand the challenges that banks encounter in extending loans that both meet their standards and are acceptable to the examiners. This mismatch between available credit and credit-worthy borrowers is where the Treasury’s State Small Business Credit Initiative (SSBCI) can be most useful. SSBCI provides direct funding to states for a variety of programs that expand access to credit for small businesses and leverage private investing. The article in the October 2012 issue of Commercial Insights provided an overview of SSBCI programs and was followed in the December 2012 issue with the perspectives of SSBCI state officials. To wrap up this series, I felt that speaking to bankers themselves would be a useful complement to the perspectives offered in earlier articles.

I first spoke with Blake Marchant, senior vice president and chief credit officer from Ireland Bank, a community bank in southeastern Idaho and a long-standing participant in SSBCI’s collateral support program.

Q: How did you learn about the SSBCI program and what attracted you to it as a banker?

A: I first heard about it at a meeting hosted by the Idaho Banker’s Association where it was spoken of very highly. I also had the chance to speak with a banker who had been able to use SSBCI funding to move some “almost bankable” loans to “fully bankable” with the collateral support program. Having recently dealt with a few similar loans which had fallen just short of our credit criteria, I began to investigate SSBCI as a possibility for our organization.

Q: Can you provide an example of a collateral support loan you’ve issued recently?

A: There was a retail establishment looking to expand its operations but didn’t quite have the collateral necessary. With SSBCI collateral support program, they met collateral requirements, qualified for the loan, were able to maintain their existing workforce of about ten employees and were able to add an additional seven employees. For an Idaho town with only a few thousand people, that can mean a lot.

Q: What lessons have you learned as an experienced user of the SSBCI programs?

A: It’s important for states to make their programs as user-friendly as possible. Here in Idaho, they did an excellent job in making them simple. We have a good relationship with the state and when we feel collateral for a loan is insufficient, we can deal directly with them to quickly find a collateral support solution. We’ve done approximately 14 percent of the total collateral support loans issued by Idaho’s SSBCI program. I would recommend SSBCI to other bankers who want a convenient credit enhancement tool.

Next I spoke with Alex Jones, vice president and commercial lending officer at United Bank, a community bank that serves southern Alabama and uses Alabama’s loan guarantee program funded with SSBCI funds.

Q: What initially drew you to Alabama’s SSBCI programs?

A: Our ADECA(Alabama Department of Economic and Community Affairs) representative was enthusiastic about the program as an additional tool to use in making loans more bankable, so we decided to give it a try. We’ve done about 15 to 20 loan guarantees thus far with promising results.

Q: Can you describe a recent loan guarantee you participated in?
A: We were able to lend to an existing borrower who operates nursing homes and wanted an additional loan to construct a new facility. The borrower was on the edge for credit approval but with SSBCI loan participation, the proposed loan was saved. As a result, the borrower was able to add around 20 jobs.

Finally, I spoke with David Jackson, vice president and national director of SBA Lending for Fifth Third Bank, a regional bank based in Cincinnati that participates in SSBCI’s collateral support program across several states.

Q: You are now the nation’s biggest institutional participant in SSBCI. Can you talk about the origins of your partnership with SSBCI?

A: We had some experience with a similar state collateral support program instituted successfully in Michigan, so when we found out that other states would be offering credit enhancement programs through SSBCI, we knew we wanted to participate. We’ve now done over $35 million in loans in Michigan alone.

Q: Under SSBCI, each state administers its own programs. Has working across state lines been an issue for you?

A: We haven’t faced significant hurdles, despite Fifth Third using centralized underwriting for the loans. There are different reporting requirements which required some logistical work, but things are running quite smoothly. Our biggest task now is extending the success we had in Michigan in working with local state and trade associations in promoting the program in the other states where we are operating.

Q: Being such a successful participant, could you offer a word of advice to banks looking at the program?

A: If you decide to participate, keep the lines of communication open beyond your borrowers’ relationship managers. Make sure you educate your credit staff as well as others who will be seeing the requests for the first time. You may find that the credit staff will identify opportunities to use the program as frequently as relationship managers. Also, I would suggest a bank pick the programs that it believes will provide the biggest benefits to its customers. Don’t feel compelled to offer all the programs that your state offers if you feel they may not be as useful. I was looking at a whole host of programs initially, which is rather daunting. I ended up picking the collateral support program which was the most successful of the two in Michigan.

Bankers agree that SSBCI offers user-friendly credit enhancement tools that can facilitate lending to borrowers who would not have been able to obtain credit otherwise. Increased lending to credit-worthy small businesses will lead to jobs and more stable communities. We invite you to learn more about the SSBCI and the programs offered by your state. For more information, please visit us at www.treasury.gov/ssbci.

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