

## Funding for startups could suffer a hit

**Byline/Title:** By SHERA DALIN  
Of the Post-Dispatch

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**Correction:**

**Body Text:** \* SBA head says the programs aren't cost-effective for taxpayers. Even so, some entrepreneurs could be shut out.

Funding for the most popular loans for business startups has been eliminated from President George W. Bush's proposed budget, to the dismay of entrepreneurs and some lenders.

The proposed fiscal 2005 budget would cut \$79 million for the U.S. Small Business Administration's popular 7(a) loan program, \$26.5 million for **microloans** and \$15 million for technical assistance, such as basic business training. It also would cut funds for the New Markets Venture Capital program, the Women's Business Center and BusinessLINC technical assistance.

Lenders say **microloans**, capped at \$35,000 each, are critical to launching small companies and are particularly helpful to minorities and people with disabilities, both of whom often can't qualify for conventional loans.

While the loan programs would still exist, they would be far less attractive to lenders.

The budget proposes to raise the rates that businesses and banks pay for 7(a) loans, which would make the program run at no cost to taxpayers, SBA spokesman

Mike Stamler said.

SBA Administrator Hector Barreto said the **microloan** program needed to be cut, because it costs the agency 97 cents on every dollar it lends under the program.

"It's not very cost-effective for the taxpayer, and we don't think we are doing a very good job with it," Barreto said during a recent appearance in St. Louis at the Missouri Venture Forum.

Small borrowers still could access SBA-backed loans through the agency's 7(a) program, he said.

The government guarantees 7(a) loans. By contrast, it provides funds for the **microloan** program, which is administered by certified lenders.

But many entrepreneurs can't qualify for loans under the 7(a) program, said officials at Resources for Missouri Inc. and Justine Petersen Housing & Reinvestment Corp., the area's two **microloan** lenders. Thirty-eight entrepreneurs borrowed an average of about \$10,000 each in **microloans** over the last eight months of the federal fiscal year, the SBA said.

Kimberly Liner, owner of Liner Insurance Consulting Inc. of Imperial, said she probably would have been on public aid if she hadn't received a \$1,300 **microloan** through Justine Petersen. Liner's cancer is in remission, and she receives disability payments. Because she tires easily, she cannot hold a traditional job.

But her business, setting sales appointments for insurance agencies, enables her to keep working and care for her 2-year-old son at home.

"(The **microloan**) was a blessing. I would not have been able to start without it," Liner said. "I can be self-sufficient now."

Without the **microloan** that paid for a computer and other business equipment, Liner figures she would have had to apply for welfare when her disability payments ended.

"I didn't want to be that way," she said. "I wanted to work and be productive."

Morees and Luna Alyatim of Florissant bought Page Auto Sales in October 2002 with the help of a \$20,000 **microloan** through Resources for Missouri. The Palestinian couple, who emigrated from Bethlehem in 2000, couldn't get a traditional bank loan because they had no credit history in the United States.

"I don't have money to start this," Morees Alyatim said. "Without this loan, I can't do anything. It's very hard to start this business."

He works 17-hour days, between repairing cars and selling about 15 vehicles a month from the 40-car lot. Last year, the business reported sales of \$241,175 and a profit of \$70,125, according to Resources for Missouri.

"Now, thanks (to) God, it's happening," Alyatim said. "A man who wants to work, and he gets the money, he will do well."

Page Auto Sales has one employee, but Alyatim said he wants to open another car lot in O'Fallon, Mo. For that, he estimates he will need about \$100,000 and another loan.

He and Liner are concerned that SBA loans may not be available in the future to help expand their businesses and eventually hire employees.

Pulling the rug

Losing the **Microloan** Program especially would hurt entrepreneurs with disabilities, said Mark Nolte, senior

business consultant with the Abilities Fund of Iowa City, Iowa. The nonprofit group helps people with disabilities get training and obtain financing to start businesses.

"The rug is being pulled out from under them," Nolte said.

The unemployment rate for people with disabilities is high, and they typically earn 72 cents for every dollar other workers make. That, combined with poor or no credit, and incomes derived solely from Social Security payments elevates the obstacles that many people with disabilities face getting financing.

Republican Sen. Christopher "Kit" Bond, a member of the Small Business and Entrepreneurship Committee, is bucking the administration and pushing to restore all the loan funding as well as other SBA program cuts.

"For some small businesses, these loan programs are their only hope to keep their businesses alive," Bond said. "For our economy to grow and expand, we cannot afford to jeopardize a program that provides much needed cash-flow to small businesses. They are the backbone of our economy."

Two-thirds of **microloan** borrowers wouldn't meet the credit criteria of commercial lenders, said New York Rep. Nydia Velazquez, the ranking Democrat on the House Small Business Committee. The average **microloan** borrower has a credit score of 600 out of 800 points, far below the 7(a) minimum of 700.

"I find it ironic that Hector Barreto claimed only a year ago that making small loans was a priority -- and a year later, he wants to eliminate the only program that does just that," Velazquez said.

The funding bill hasn't started moving through the Senate yet, but the House Appropriations Committee

approved it June 23.

The Association for Enterprise Opportunity, an advocacy group for the disabled, is lobbying to restore the funding during the congressional budget process, said Michelle Levy-Benitez, the group's manager of policy and research in Arlington, Va.

"The most unbelievable claim is that mainstream banks will serve these clients. That is absolutely not true," she said.

Earl Jones of St. Louis received three **microloans**, ranging from \$1,000 to \$2,500 each, to buy supplies to make his Uncle Earl's Barbecue Sauce.

Jones, a Vietnam-era veteran whose left arm is paralyzed from a stroke, sells the sauce to supplement his disability payments.

Although he isn't pleased with the idea of the **microloan** program cuts, he said he won't let it stop him.

"I like to cook," he said. "I'll find a way."

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MOREES ALYATIM, Page Auto Sales

After struggling with the political situation in Palestine for years, Morees Alyatim gave up his 17-year-old auto-repair shop and moved to St. Louis in 2000.

Shortly after arriving, Alyatim, 43, spotted Page Auto Sales and decided to buy it. With counseling from the International Center and a \$20,000 **microloan**, Alyatim and his wife, Luna, bought the business in October 2002.

She handles administration, and he handles the rest. "I am mechanic. I am salesman. I am worker," he said.

Despite the 17-hour workdays, Alyatim said he wants to open a car lot in O'Fallon, Mo. He estimates that he'll need \$100,000 to do that, much of it from borrowing. "By now, I have good credit, and I'll be able to do it."

He also hopes that rumors of other car lots opening along his stretch of Page Avenue are true. "If we get more dealers," he said, "we get more business."

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#### EARL JONES, Uncle Earl's Barbecue Sauce

Jones, 56, of St. Louis, mixes up three varieties of his sauce. The tiny business adds about \$1,500 a year to his income, supplementing his disability payments. Without a federal **microloan**, he would have difficulty buying jars, labels and other supplies. Jones, who said he wouldn't qualify for a traditional loan because he has no collateral, is concerned that the demise of the federal **microloan** program will hurt other startups. "People aren't going to make money and be entrepreneurs" without those loans, he said.

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#### KIMBERLY LINER, Liner Insurance Consulting Inc.

Starting a business was less a choice for Liner than a necessity. Liner, 36, had to leave her job as an insurance telemarketer to battle cancer. She receives disability payments, but those eventually will run out. She decided to parlay her background into a company, cold-calling businesses to set sales appointments for insurance agents.

With a \$1,300 **microloan**, she started the company in April at her home in Imperial, and she's on target for \$35,000 in revenue for her first year. She plans to begin selling insurance policies eventually and to hire employees to expand the business. For that, she would

 need another **microloan**, if they were available.