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 D/B/A of Gary Meyers Realty, Inc., founded 1977.  
 Provides Real Estate Consulting and Lending Service.  
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## THE MEYERS REPORT Economic Notes

### The best 10 franchises that use SBA loan guarantees.

Best Brand	Failure Rate	Disb #	Disb \$ x 1,000
1 AMERIPRISE FINANCIAL SERVICES	0.00%	63	\$14,083
1 CHRISTIAN BROTHERS AUTOMOTIVE	0.00%	82	\$25,815
1 SLEEP INN MOTEL	0.00%	67	\$81,545
4 HOLIDAY INN EXPRESS	0.68%	295	\$452,098
5 PLATO'S CLOSET	1.37%	73	\$12,006
6 COMFORT INN	1.56%	256	\$320,565
7 COMFORT SUITES	1.59%	63	\$81,600
8 MELLOW MUSHROOM	1.75%	57	\$38,110
9 LA QUINTA INN	2.25%	89	\$127,995
10 MOTEL 6	2.82%	71	\$83,476

Source:  
[http://www.bluemaumau.org/11669/best\\_10\\_franchises\\_buy\\_lowest\\_loan\\_default\\_rates\\_2012](http://www.bluemaumau.org/11669/best_10_franchises_buy_lowest_loan_default_rates_2012)

**HUMOR** A passenger in a taxi leaned over to ask the driver a question and tapped him on the shoulder. The driver screamed, lost control of the cab, nearly hit a bus, drove up over the curb, and stopped just inches from a large plate glass window. For a few moments everything was silent in the cab, and then the still shaking driver said, "I'm sorry, but you scared the daylight out of me." The frightened passenger apologized to the driver and said he didn't realize a mere tap on the shoulder could frighten him so much. The driver replied, "No, no, I'm sorry, it's entirely my fault. Today is my first day driving a cab. I've been driving a hearse for the last 25 years."

### Case in point ... CCF doesn't take no for answer!

**Challenges:** Bring long-term money to a rural market in south central Missouri when all national lenders looked away from this and other tertiary markets. The only capital available was short-term from local banks. Worse yet for the borrower, most all of the banks were at their lending limits, or were out of meaningful lendable funds, but \$18.3 million was needed.

**CCF Action:** After four rejections by HUD, CCF and their correspondent, CCF used detailed market research and reason, was able to prove that the market had powerful hidden strength that not only justified the loan, but also showed financial opportunity.

**Conclusion:** CCF closed the \$18.3 million non-recourse, multi-family apartment loan with a rate of 3.1%, fixed for 35 years. And added \$75,000 to the borrower's cash flow each month.

**BOTTOM LINE**  
 Call CCF 224-715-5555.

# THE MEYERS REPORT

by Gary S. Meyers and Robert Genetski, Ph. D.

## More On SBA Loans

Last week's feature on SBA financing created a series of questions on government involvement in creating jobs. Make no mistake; our opinion is that generally the government is a poor job generator. However, there are exceptions, such as in SBA loan programs, because there is limited government involvement in the process.

This is how it works. Borrowers go to mortgage bankers and banks for SBA loans. The bankers then submit the loans to a CDC for approval by the SBA. CDCs are not-for-profit companies which have conventional bankers forming their loan committees—which underwrite the loans for SBA approval.

**Question.** We agree that regulators have created a problem for small businesses, by increasing capital requirements of banks and dictating the types of loans they can have on their books. This is why small businesses can't get loans from banks. The idea of then having another government agency (the SBA) make the loans to correct the first problem is not appealing. Why should we expect regulators, who have no skin in the game, to be more capable than private bankers at deciding which businesses are best served at providing funds?

**Answer.** Government employees do NOT decide which loans to give. For SBA 504 loans, "My loan committee decides," said David Frank, CEO of Somercor 504, one of the largest CDCs in Illinois. "My loan committee is made up of commercial lenders (bankers) who make these same decisions at the banks they are running."

**Question.** Given large federal deficits, every dollar the government borrows to fund this program is a dollar less that's available to the private businesses. Why?

**Answer.** User (borrower) fees pay for the programs. "Do deals go bad? Yes. Are the reserves there to pay for the bad deals? Yes," said Frank. "Did the current financial crisis stress those reserve systems? Yes. But, make no mistake, there isn't one borrowed dime of taxpayer money in SBA financing."

**Question.** As with so much of what the government does, do SBA loans make any sense?

**Answer.** Yes. In 2012, SomerCor did \$180,000,000 in loans. "Ask the over 200 businesses that were funded whether SBA loans made sense to them," said Frank.

**Question.** If the funds don't come from the federal budget, does the government guarantee that allows people to borrow the funds at below market rates?

If not, from where are the funds coming?

**Answer.** The funds are coming from the banks, but are based on government guarantees. With a success rate of 90% or better, the fees from the successes cover the losses.

**Question.** To the extent a government guarantee is being used, doesn't that mean that there is a redirecting of funds from other uses? Is the assumption that CDCs are making better decisions on the use of these funds than the market would make, or, other government programs, such as student loans?

**Answer.** There are differences between SBA loans and student loans. First, SBA loans help businesses create jobs. Student loans do not. Second, the commitment in the form of personal risk and personal accountability for SBA borrowers is higher than for those who take out student loans.

Remember, the average SBA borrower is not an 18-20-year old in college. "SBA borrowers generally have greater life experience than college students. They also have business plans as well as business and credit histories that give a much clearer picture of the risk—all of which are reviewed," said Frank.

Experts say that, depending upon the economy, only between 5% and 10% of SBA loans go into default, even in the current economy. While this may seem high to some, it really means that between 90% and 95% don't. This is very good news.

**The bottom line.** In a tough lending environment, the SBA does in fact encourage banks to make loans when they otherwise are afraid to or cannot for some reason, such as tight bank capital. The SBA guarantees 40% of the loan, with the bank carrying the rest of the risk. Since the SBA portion is a guaranty, it only comes into play if the loans fail. The problem for fiscal conservatives is simple: It is government interference that makes the government guarantees even necessary for banks to make loans to start-up businesses.

**Disclosure note.** In addition to being CEO of Chicago-based Somercor 504, David Frank also is the SBA advisor to Commercial Corp Finance for the loans we do throughout the U.S.



### Robert Genetski's Weekly Financial Update & Stock Impact Gauge

	Fundamental	Actual	Immediate Outlook
Fixed-income: 10-yr Treas.	5.0	2.03	heading higher
Equities: S&P 500	2000	1563	heading higher
Equities: Dow Jones	16,000	14,539	heading higher

Economic news and the stock market continue to feed on each other. Odds are the upward momentum in stock prices will continue.

**Market Outlook** Stocks moved higher this past week. Most key indexes were up roughly 1%. The Russell 2000 outperformed all with a gain of 2%.

Although markets seldom go in one direction for very long, the overall market has remained in a sharp upward sloping channel for almost five months. The latest move has it only slightly above the mid-point of this channel.

The relative ease with which various market indexes have broken through resistance points indicates the stock market's upward momentum remains intact. As such, I recommend shifting equity portfolios from ¾ of fully-invested to a maximum fully-invested position.

Longer-term interest rates moved slightly higher this past week. As indicated in the above chart, the 10-day averages remain above the 50-day averages for both corporate and Treasury rates. As with stocks, momentum for long-term interest rates is up and the odds favor further increases.

**Ratings for** 10 is best  
**forces** — means no change  
**impacting** > change for better  
**stocks** < the other direction