



Impact of New SBA Provisions on Restaurants

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For decades, the Small Business Administration (SBA) has been an important source of counsel, advocacy and support for millions of small business across the United States. Since its inception in 1953, approximately 20 million small businesses have received support through the wide variety of SBA programs.

As an industry that is comprised mainly of small, independent businesses, restaurants have historically been among the largest users of SBA programs. More than 98 percent of restaurant firms are classified as a small business under the SBA definition, and it is for this reason that expanding access to SBA-guaranteed loans is of particular importance for the restaurant industry.

Several provisions announced by the Obama Administration today are likely to have a positive impact on the restaurant industry's access to capital through SBA. In addition to temporarily eliminating up-front fees on 7(a) loans and increasing the maximum loan guarantee up to 90 percent, the Treasury Department will now be able to directly purchase securities back by guaranteed portions of 7(a) loans, which will free up additional capital for banks. The secondary market for these securities dried up over the last several months, so this component in particular will provide banks with additional liquidity that can quickly be extended to small businesses. These provisions are all critical steps in the direction of fixing the nation's ailing financial system, and will help get credit flowing to small businesses like restaurants again.

Expanding the flow of capital to the restaurant industry is also a critical component of job creation and preservation. Like small business owners in other industries, many restaurant operators are struggling through their most challenging environment in decades, as households continue to hold back on spending. However, the restaurant industry differs from many other industries in that it is extremely labor-intensive, which means a larger number of employees are needed in restaurants to generate a certain amount a sales. When sales decline, restaurant operators have a comparatively more difficult time meeting payroll, as labor costs represent one-third of the sales dollar. Therefore, expanding access to capital will help restaurant operators meet their day-to-day payroll needs, thereby preserving thousands of jobs that would otherwise be lost if restaurants were forced to downsize operations or close their doors completely during the current recession.