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Small business loans are big business for hotel chains

By Brigette Russell

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SANTA FE, N.M. — When most people hear the term small business, they think of a local hair salon or dry cleaner or a family farm.

They don't think of big hotel chains like Hilton and Sheraton, yet business behemoths are eligible for Small Business Administration loans.

In New Mexico, many of the biggest SBA loans are to hotel franchises: $4.7 million to Country Inn and Suites in Hobbs in 2013; $3.9 million to Four Points by Sheraton in Albuquerque in 2010; $3.6 million to Hampton Inn in Santa Rosa in 2013; $2.8 million to Holiday Inn Express in Gallup in 2011; and $2.7 million to Holiday Inn Express in Las Cruces in 2010.

From 2010 to 2013, 10 large hotel franchises in New Mexico received a total of $26.3 million in SBA loans.

Starwood Hotels, parent company of Four Points by Sheraton, reported revenue of $879 million for 2010, and Hilton Hotels, parent company of Hampton Inn, brought in $2.2 billion in 2013.

"Although lawmakers portray the SBA's loan programs as a boost for small businesses, the programs are actually a form of corporate welfare for some of America's largest banks," wrote Tad DeHaven, a budget analyst at the Cato Institute.

So how does a billion-dollar corporation end up being eligible for a small business loan? The franchise owner, not the corporation, slips through a loophole.

SBA loans are not made to the multimillion or multibillion-dollar corporations, but to individuals who open a single hotel as a franchise of the parent company.

Of the $18 billion in SBA loans guaranteed nationally in 2013, $2 billion went to franchises. Franchises have an above-average default rate and are among the riskiest loans banks make.

The Office of the Inspector General issued a report in 2013 concluding the SBA needed better risk-precaution strategies for franchise loans in particular.

By operating as a franchise, large, wealthy corporations can grow larger and wealthier without risking their own capital or taking out their own loans. The small businesspeople who buy franchises take on the debt.

The big corporations are shielded from loss because the small business franchisees assume their risk. The banks have a safety net because the SBA will bail them out on the lion's share of the loan amounts, anywhere from 50 percent to 90 percent, depending on the type of loan.

Since 2006, the SBA has paid $27 billion to lenders that made bad loans. That's a total of more than four times the entire budget of the state of New Mexico for what the SBA calls "charge offs" in less than 10 years.

Openthebooks.com founder Adam Andrzejewski called SBA loans "welfare for the wealthy" and charged the system pitted taxpayers against one another, with the government picking winners and losers.

Open the Books found that from 2007 to 2013, 34,677 entities received SBA loans and loan guarantees of $1 million. The $1-million-plus loans totaled $67.23 billion. The site provides a searchable database of SBA loans anyone can access.

Merritt Allen is a small business owner who has never received an SBA loan. But her Albuquerque public relations company, Vox Optima, represents Enchantment Land, a New Mexico development company that helps companies get SBA 504 loans for commercial real estate.

Allen told Watchdog.org the 504 loan program was responsible for creating or retaining 2.6 million jobs from 1991 to 2014.

"How many of those jobs were cannibalized from other businesses?" Andrzejewski asks. "When you arm one company in an industry with millions of taxpayer dollars against other businesses in the same field that are paying taxes, that's an unlevel playing field. It creates a pernicious environment."

"SBA's 7a loan program operates at zero subsidy. That means our flagship loan program does not receive U.S. taxpayer funding for support," said Darla Booker, SBA regional communications director in Dallas.

The 7a program makes up to $5 million available to start or expand businesses. The 504 fixed-asset financing program is administered through certified development companies throughout the country. SBA's loan guarantees are supposed to be a self-sustaining program, with loan fees being invested and the proceeds reimbursing lenders for bad debts.

During the recession, funds ran low and taxpayer dollars subsidized the program. The 7a program is subsidy free this year, and the 504 program subsidy will end in October.

The SBA has at least one office in each of the 50 states, more in large states, and numerous employees in Washington, D.C., as well as in local offices. The salaries of those employees, as well as office rents, utilities, equipment, supplies, travel, etc., are paid with federal tax dollars. The SBA budget request for FY15 was $710 million.