WisconsinReporter

# Taxpayer-based 'small' business loans support big chains, country club set

**By Courtney Mullen**

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MADISON, Wis. — Holiday Inn Express was among the Wisconsin "small" businesses to pick up Small Business Administration-backed loans between 2007 and 2013, according to a new report.

SBA loans are meant to help "aid, counsel, assist and protect the interests of small business concerns," according to the SBA website, and from 2007-2013, 856 Wisconsin businesses received the taxpayer-subsidized protection, according to a database compiled by OpenTheBooks.com, an online government spending tracker.

And franchisees of global hotel chains had their hands out.

Shirah Rachel Apple, spokeswoman for the Wisconsin District Office of the U.S. Small Business Administration, said loan qualification "depends on the industry."

But there is debate about whether some businesses that receive loan guarantees from the federal government at the expense of the taxpayer are actually "small" in nature.

According to a document from the SBA that matches the Table of Small Business Size Standards to the North American Industry Classification System Codes, the size standards for hotels and motels to classify as "small" is $32.5 million in annual receipts.

From 2008-2011, six separate Holiday Inn Express locations in Wisconsin received SBA loans totaling $8.84 million, according to OpenTheBooks.com. Meanwhile, Intercontinental Hotels Group, the parent company for Holiday Inn and Holiday Inn Express, took in $1.9 billion-plus in revenue and posted $372 million in net income in 2013, the latest earnings data available.

Intercontinental Hotels has "overseen a billion-dollar relaunch of the Holiday Inn and Holiday Inn Express brands, which involved new amenities and design and the removal of 1,400 substandard properties" while adding 1,900 hotels to the company worldwide, according to Business Travel News.

Adam Andrzejewski, founder of OpenTheBooks.com and chairman of the American Transparency organization, said big businesses routinely subdivide their business entities to qualify for taxpayer-subsidized government lending.

"Taxpayers are subsidizing the national roll-out and distribution plans of large companies across America," Andrzejewski told Wisconsin Reporter.

Other giant hotel chains have benefited by the SBA's taxpayer-supported loans.

Six Best Westerns in Wisconsin received a combined $8,716,000 in SBA-guaranteed loans between 2008-2013, while one Comfort Inn & Suites, one Comfort Inn and two Comfort Suites — all owned by Choice Hotels International — received a total of $6,459,000 in loans from 2007-2009. Additionally, four Super 8 hotels took out a combined $4,372,000 in SBA loans in the past eight years.

Apple couldn't speak to specifics, but she said "SBA does guarantee loans to franchises if they meet certain requirements."

Veronique de Rugy, an adjunct scholar at the Cato Institute and a senior research fellow at the Mercatus Center, sees too much waste and abuse in the federal program. She said SBA loans are unnecessary and should be abolished.

"SBA loans are irrelevant in the grand scheme of things," she said. "It is questionable that lenders don't want to put their neck on the line, but then the taxpayer should actually be shouldering the risk."

Taxpayer dollars are on the line when businesses default on the loans.

Randy Charles, CEO of Alive & Kickin' Pizza Crust of Green Bay, said his business has benefited from SBA loans. In 2013, he took out a nearly $6.3 million SBA-backed loan, according to OpenTheBooks.com.

"(SBA Loans) help companies grow and create jobs which in turn helps the economy," Charles said.

But they also can be costly for taxpayers.

Apple said she could not disclose the number of defaults or late payments to SBA loans that have occurred in Wisconsin since 2007. She recommended Wisconsin Reporter submit a Freedom of Information Act request to the SBA district office, which Wisconsin Reporter intends to do.

A Wall Street Journal investigative report last year on SBA loans found the SBA guaranteed nearly $18 billion in 7(a) loans, the most popular loan program by far, in the fiscal year ending Sept. 30, 2103. The SBA guaranteed $2 billion in loans for franchises, like Holiday Inn Express.

Overall, 18 percent of all SBA 7(a) loans — and 13 percent of all such loans to franchisees — were charged off (debt that creditors believe will not be collected), based on The Journal's analysis of the data from 2004 through 2013.

There are plenty of examples of Wisconsin businesses that have shut down since receiving SBA loans.

For example, asphalt plant B.R. Amon & Sons, formerly of Elkhorn, booked a $5 million, SBA-backed loan in 2011 to keep operating, but went out of business shortly afterwards.

De Rugy said there are plenty of accountability problems with the SBA.

"The loan default rates are actually really high," she said. "In theory, SBA is supposed to try and recover some of the money for taxpayers and that isn't working well."

SBA's 7(a) loan program was originally set up to help borrowers who struggle to qualify for traditional loans access funding to start businesses, but the agency backs a lot of loans for upper income clients.

Two of these companies include the Inns of Geneva National in Lake Geneva and Milford Hills Hunt Club in Johnson Creek.

The Inns of Geneva National received $2.4 million in SBA-guaranteed loans in 2012 and Milford Hills Hunt Club took out a $2 million loan in 2011, according to the OpenTheBooks.com database. Both of these private clubs are part of the $67 billion in borrowing to businesses nationwide that largely cater to middle-and upper-income clients.

"The purpose of the SBA isn't to become a slush fund loan pool for established companies, private country clubs, the Fortune 100, or successful companies serving the wealthy lifestyle," Andrzejewski said. "Extreme lending of taxpayer dollars calls into question the entire small business lending program."