

Government Loans To Small Business Turn Into Boondoggle

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The Small Business Administration is under fire for lending billions of taxpayer dollars a year to exclusive country clubs, golf resorts, yacht clubs, pet resorts, upscale plastic surgeons, wineries and other businesses catering to the lifestyles of the very wealthy.

A new report by the federal spending watchdog OpentheBooks.com has uncovered these and other questionable loan activities by the SBA and its roughly \$106 billion loan portfolio.

It's the latest in a long history of hard-to-justify lending activities by a federal agency that proclaims its purpose is to "help Americans start, build and grow businesses."

That mission sounds as American as baseball and apple pie — which is why it has survived defunding attempts by conservatives going back to the early years of the Reagan administration.

Critics of the SBA ask why a select few of the millions of startup businesses in America should receive subsidized loans.

After all, Sen. Tom Coburn of Oklahoma has noted in his annual federal waste report that "less than 1% of entrepreneurial startups ever receive any help from SBA." The other 99% find funding from savings, friends, family, local banks and venture capitalists.

The SBA has come under attack for gross misallocation of funds and even potential fraud. A 2008 inspector general report found 1-in-4 SBA loans involved improper payments.

In 2011 the Cato Institute investigated the program and concluded: "Although lawmakers portray the SBA's programs as a boost for small businesses, the programs are actually a form of corporate welfare for some of America's largest banks. The banks reap profits from the program, but taxpayers are liable for the losses."

The profits flow to some of the biggest banks that snatch up the loan guarantees — which are like licenses to make money on risky loans.

In 2009, the top 10 lending institutions swallowed up roughly one-quarter of all the SBA loan guarantees. Wells Fargo & Co., JPMorgan Chase, U.S. Bancorp and PNC Financial Services Group were the big beneficiaries, with taxpayers guaranteeing repayment of the loans and the banks collecting the profits.

The businesses that benefit from the low-cost lending often aren't small at all.

According to a 2010 audit by the Government Accountability Office, 61 of the top 100 small business contractors were in reality large businesses. This same study found that the government awarded more than half of the \$8 billion of the government's \$14 billion in "small" business contracts to large businesses.

Now OpentheBooks.com exposes the loan portfolio of an agency that has strayed far from its purported mission of aiding aspiring entrepreneurs, particularly minorities, build pioneering businesses in credit-starved areas.

Open the Books found that from 2007-13, \$92 million went to beauty spas in upscale towns such as Lake Tahoe and Napa Valley.

More than \$160 million was lent to at least 40 exclusive "members only" country clubs. An additional \$1.5 million was lent to the Pequonnock Yacht Club in Connecticut. Several Rolex jewelers cashed in on \$20 million in loans. A \$3.5 million loan went to Lamborghini dealerships in Chicago and Orange County, Calif.

"Taxpayers are underwriting the lifestyles of the Rich and Famous," complains Andrew Andrzejewski, founder of Open the Books.

Loans were made to 45 Burger King franchises and 56 Jack in the Box hamburger restaurants. Chevron/Texaco stations cashed in on more than \$100 million in loans even as the oil and gas industry was making record profits.

Another scandal at SBA is how private equity firms game the system to cash in on loan guarantees. In total, \$9 billion of SBA funds flowed through "venture capital, capital partner firms, mezzanine finance firms and private investment funds," the report discovered.

"It's an amazing scam," says Andrzejewski. "These billion dollar equity firms are making investments backed by taxpayers. It's a federally insured license to make money."

But not for taxpayers. "Charge offs" on loans and guarantees have totaled \$11 billion since 2010 and \$27 billion since 2005.

Coburn says of the SBA: "It's an incredible fleecing of taxpayers. We need to embarrass Congress into reining in this agency that keeps ripping off taxpayers year after year."

But banks, business lobbyists and even liberal think tanks support SBA, and every year comes a lobbying blitz to preserve and even expand it.

"SBA is just another form of corporate welfare in the budget," says Coburn, "and Republicans should oppose it." Whether the new GOP majorities in the House and Senate next year take his advice is an open question.

