Small Business Administration: Welfare for the Well-to-do

According to its mission statement, the Small Business Administration (SBA) "helps Americans start, build and grow businesses." That description, together with the agency's name, conjures up images of Uncle Sam's offering a helping hand to the corner grocer or a small, independently owned coffee shop. In reality, however, the SBA puts taxpayers on the hook for billions of dollars' worth of loans to luxury businesses, exclusive clubs, big corporations, and well-heeled investment firms, says a recent report from government-watchdog group Open the Books.

The organization, whose goal is to post "every dime" of government spending "online," reviewed SBA figures for fiscal years 2007-2013 and found nearly 35,000 SBA loans and loan guarantees in the amount of $1 million or more — not the kinds of loans normally sought by small, local businesses — totaling over $67 billion. That comes to about 20 percent of the SBA's entire spending for that time period, the agency told the *Washington Times*.

The majority of this spending has, of course, occurred on the watch of that alleged foe of big business, President Barack Obama. Obama actually pushed for — and got — a $730-million increase in the SBA's funding as part of the 2009 "stimulus" package, claiming the additional money was needed to alleviate the supposed "credit crunch" of the time. But a significant portion of that increased funding didn't go to struggling small businesses but to corporate fat cats and their affiliates.

Exclusive private clubs that cater to the rich, for instance, got over $160 million in SBA loan guarantees, according to Open the Books. Among those on the receiving end of these taxpayer-subsidized loans: Horseshoe Bend Country Club of Marietta, Georgia ($5 million); the Frisco Gun Club of Frisco, Texas, whose memberships start at $7,000 ($3.3 million); the Vellano Country Club of Chino Hills, California, which boasts "the first Greg Norman Signature Golf Course in metropolitan Los Angeles" ($2.8 million); and the Houston Yacht Club of La Porte, Texas ($2 million).

Businesses serving the well-to-do also made out, taking in $760 million in SBA loans. Rolex and other high-end jewelers took out $67.3 million in such loans. Two Lamborghini automobile dealers borrowed a combined $3.5 million; both dealers have since gone out of business, and one of them appears not to have repaid the loan, sticking taxpayers with the bill. California wineries and associated businesses got loans totaling $119 million. Plastic surgeons, cigar shops, restaurants (including major franchisees), helicopter tour companies, BMW motorcycle dealers, beauty spas, and limousine companies also borrowed millions with taxpayer backing.

Over $4 billion in SBA loans went to lodges, resorts, and hotels in jet-set vacation spots, as well as to exclusive resorts where the pets of the rich can stay while their owners are away.

Should there remain any doubt that these loans aren't going to mom-and-pop businesses, consider this:

The SBA guaranteed loans worth $251.1 million to Fortune 100 companies and their affiliates.

"Fortune 100 companies — the wealthiest in the world — are off loading investment risk to taxpayers by gaming the system to receive low, taxpayer-subsidized interest rates and guaranteed loans through the Small Business Association [sic] on their national distribution networks," wrote Open the Books.

Chevron/Texaco's affiliated stations, for example, got $109.5 million in SBA loans. "As Chevron expanded its retail dealers across the country, taxpayer's [sic] picked-up millions in expansion plan financial risks," Open the Books observed. "How is it that the affiliated business financially qualifies for Chevron licensing, but is so under-capitalized that it still qualifies for government loans?"

The SBA also underwrote $12.8 million in surety bonds for contractors for Walmart, a company with total assets topping $204 billion. These bonds ensure that contracting work, in this case mostly for facility expansions, will be completed. By having the SBA guarantee the bonds, Walmart is able to keep its contracting costs lower.

Then there are the $9.2 billion in SBA loans and loan guarantees to private equity firms. Such assistance can triple or even quadruple the value of private capital raised by a firm. "The SBA guarantees commonly power 20% investment returns to limited partners of a well-managed fund," noted Open the Books. One such firm, Hercules Technology Growth Capital of Palo Alto, California, with approximately $1 billion in stock market capitalization, has over 29 percent of its assets in two SBA-backed funds; got a $25,000 SBA-guaranteed loan at 2.83-percent interest in 2011; and is now lobbying for an increase in the amount of money funds can borrow with SBA assistance, having already reached the current statutory maximum of $225 million.

"It's an amazing scam," Open the Books founder Adam Andrzejewski told *Investor's Business Daily*. "These billion dollar equity firms are making investments backed by taxpayers. It's a federally insured license to make money."

"But not for taxpayers," the paper continued. "'Charge offs' on loans and guarantees have totaled $11 billion since 2010 and $27 billion since 2005."

"The SBA loan programs are just another examples [sic] of corporate welfare," argued *National Review's* Veronique de Rugy. Like all public-private partnerships, the politically connected — in this instance, the big banks that make most of the loans and collect interest on them, plus the corporations that get the lower interest rates — profit, while taxpayers take the losses. "And boy, are taxpayers exposed to serious losses," de Rugy added, pointing to "a long list of franchise brands with default rates from 40 percent to over 94 percent through 2011," including McDonald's (20 percent), Cold Stone Creamery (42 percent), and Noble Roman's Pizza (86 percent).

Moreover, like most government programs, the SBA's handouts are rife with fraud and abuse. "A 2008 inspector general report found 1-in-4 SBA loans involved improper payments," according to *Investor's Business Daily.*

The SBA is "an incredible fleecing of taxpayers," Senator Tom Coburn (R-Okla.) told the newspaper. To make matters worse, among those taxpayers are businesses that are being forced to subsidize loans to their (often much larger) competitors, a truly perverse state of affairs. Indeed, penned de Rugy, "there is plenty of evidence that today the SBA hurts more small businesses than it helps, by wasting taxpayer money and distorting economic activity."

Coburn, in typical Washington fashion, called for "reining in" the SBA, but de Rugy had a better idea.

"The bottom line is the Small Business Administration is not doing what it claims it does, is careless with taxpayers' money, and is misleading the public," she declared. Although she left out one other pertinent fact — that the SBA is plainly unconstitutional — her conclusion is 100-percent correct: "Let's abolish it once and for all."