

Small Business/Credit

Recession Sucked \$100 Billion from the Economy. What's Left to Lend?

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It's always the hard way for the nation's startups and scrappy small firms. Federal figures show a credit clampdown. We'll see if ingenuity can fill the gap.

Scott Testa wasn't satisfied. He couldn't get a good rate on a line of credit from his banker and other Philadelphia banks weren't offering his 50-person software company, Mindbridge, any deals either.

So he scoured the Internet, got 10 new leads and signed a deal outside the state for better terms and more money. "Banks have become more conservative," Testa says. "We had to search hard for the money we needed to fuel our expansion." Small business has always been about turning over every rock to look for dollars. It's increasingly looking like a credit drought.

According to the Federal Reserve, commercial and industrial loans fell by \$113 billion, about 10 percent, between March 2001-which marks the beginning of the latest recession-and August 2002. The last time there was a recession, from July 1990 to December 1991, these loans fell only four percent. "During times of economic uncertainty banks tighten their lending, especially to small- and medium-sized businesses," says Giovanni Coratolo, director of small business policy for the U.S. Chamber of Commerce in Washington, D.C.

In tough times the number of Small Business Administration loans increases; over the last year the SBA has had record numbers of loans. "Banks didn't want to go it alone in lending to small businesses during this downturn and secondly, with layoffs, there may be an uptick in people seeking money to start their own businesses. They may be coming to us because they can't get money elsewhere," says the SBA's Ron Bew.

John Gullman, head of the Florida offices of **USBX** Advisory Services, an investment bank specializing in small- and mid-sized businesses in Fort Lauderdale, says in the last two years there's no question of a tightening. "The lack of capital has put the brakes on a lot companies, making it difficult to grow," says Gullman.

There's plenty of debate about how severe the squeeze is. Despite worsening financial conditions in 2001 and the first three quarters of 2002, creditworthy borrowers of every size can still get a loan, according to a Federal Reserve report. "Rates are falling-averaging 6.8% for short-term rates. There's no real difficulty in getting credit," says William Dunkelberg, chief economist for the National Federation of Independent Business based in Washington, D.C., which has 600,000 members. In the federation's September survey, only three percent said it was harder to get loans, compared to some 37 percent who felt that way in the '80s.

There may be fewer companies that look good, says Ivo Welch, a finance professor at Yale. Charles Matthews, an associate professor with the University of Cincinnati's Small Business Institute, is an optimist. "Venture capital and angels' wallets aren't as wide open as they were," Matthews says. "If you can make your case, money is available."

This year the Chugwater Chili Corporation, a 12-employee firm in Chugwater, WY, got the biggest loan in its 16-year history-which still amounts to under \$100,000. The firm, which sells gourmet

chili seasoning blends and other products, was then able to move into much-needed new digs. "We had absolutely no problem in obtaining financing for our new building," says Marcelyn Brown, a partner in the business.

Marx Acosta-Rubio, CEO of One Stop Shop, an 18-employee, Chatsworth, CA office-supply company, was able to get an additional line of credit this year to keep fueling the firm's 80 percent annual growth. The four-year-old firm will do some \$6 million in business this year. But while Acosta-Rubio has a big smile on his face these days, he considers himself fortunate. He knows first hand that other entrepreneurs aren't as lucky. Banks have gotten more selective.

Ray Keating, chief economist for the Washington, D.C.-based advocacy group the Small Business Survival Committee, points out another possibility. "The commercial paper market has also tumbled, driving some large companies that are being denied paper into the arms of bankers," he says. Bank consolidation has also had an impact on small business access to credit. The Fed report notes that large banks tend to be, proportionately, less committed than smaller banks to small business lending.

John Dalby, who is planning to open a new community bank in California's Humboldt County next year, sees potential in his little neck of Americana. "There's a huge void for those starting businesses or in the growth phase. We plan to fill that niche." And Mindbridge's Testa, the Philadelphia bargain-hunter, says the onus is on the entrepreneur. "In this environment you have to explore all your options, not just the bank in your neighborhood."

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