

Small business lending: The squeeze goes on

John Tozzi

Banks had ambitious small business lending goals for 2010, but they're having a hard time finding worthy creditors with solid expansion plans.

Brad Sterl didn't think getting a \$1 million line of credit from a bank would be difficult after his pizza crust manufacturing company in Pittsfield, N.H., returned to profitability in 2009. Rustic Crust, founded in 1996, had been doubling sales each year since 2005 when it raised venture capital. It hadn't booked a profit because it was investing in expansion. With sales topping \$10 million annually and \$1 million in cash in the bank, Sterl wanted the credit line as a cushion. Last fall he met with loan officers at three lenders, including Bank of America (BAC), who each told the 44-year-old he would not qualify. "They wanted to see multiple years of profits," he says. Rustic Crust eventually secured a credit line, at a higher cost, through the nonprofit New Hampshire Community Loan Fund.

Under pressure from Washington last year, Bank of America, Wells Fargo (WFC), JPMorgan Chase (JPM), and Huntington National Bank (HBAN) announced they would boost their small business lending in 2010 and set specific targets. Taken together, their pledges represent potentially more than \$12 billion in new credit to small and midsize companies. At the current pace it looks as if only Bank of America is on track to meet its goal. Bankers at BofA and others say that while they hope to hit their targets, many small companies seeking loans aren't creditworthy, and those that are don't want loans right now.

Bank data show that small businesses, which normally seek loans of less than \$1 million, are still having trouble getting credit. For small companies, total outstanding credit dropped to \$663 billion in the first quarter of 2010 from nearly \$700 billion in mid-2008, according to quarterly regulatory filings. The share of business owners who say they cannot get adequate financing rose to 41 percent, according to a National Small Business Assn. (NSBA) survey released in July, up from 39 percent in December and 22 percent two years ago.

Some would-be borrowers appear to have become riskier through no fault of their own, says NSBA President Todd McCracken. During the financial crunch, for example, banks lowered existing credit lines of many small business customers, which in turn lowered their credit scores because they were left using a higher percentage of their available credit, he says. Some also have watched the value of their real estate and other assets plummet, reducing the amount they can use for collateral.

Many companies that once gorged themselves on easy credit now lack the cash flow to support the debt, says Marc Bernstein, head of Wells Fargo's small business division. Too much existing debt is the top reason Wells Fargo declines would-be borrowers, he says. The bank aims to boost new small business lending by 23 percent this year, to \$16 billion. Through the first half, Wells Fargo originated \$6.6 billion in new credit to companies with less than \$20 million in annual revenues. According to Bernstein, demand for loans is down among healthy borrowers. "Small businesses that have lines of credit are using those lines at the lowest level I've ever seen," he says.

Bernstein's counterpart at Bank of America reports the same situation. "If you look at the profile of the businesses that are best positioned to take on new credit, those would be companies that are larger in revenue. But those are also the ones that may have more cash and say, 'You know what, we're going to wait,'" says Robb Hilson, BofA's top small business executive. He says his bank is on track to exceed its goal of increasing lending to small and medium-sized businesses by \$5 billion this year, to \$86.4 billion. That includes new lending and renewals of existing credit lines. BofA's loan data show most of the \$45 billion in loans the

bank made in the first half of 2010 went to companies with \$20 million to \$50 million in revenue. Lending to smaller companies in the first half was essentially flat compared with 2009.

Other banks have increased lending from the low 2009 levels. Chase originated \$4.5 billion in new credit to companies with less than \$20 million in revenue in the first half of 2010, up 37 percent from the same period last year and nearly halfway toward the bank's goal of \$10 billion, says spokesman Tom Kelly. Huntington National Bank, a Columbus (Ohio) regional lender, loaned \$451 million to companies with less than \$15 million in revenue in the first half, said CEO Stephen D. Steinour in a statement. Huntington aims to lend \$1.2 billion to such businesses in 2010 as part of a three-year expansion of small business lending.

The more sluggish than expected recovery also has made the banks' lending target harder to reach. Says BofA's Hilson: "It's a very aggressive goal given the challenging economic environment."

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