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Small businesses find it tough to borrow

Banks cautious as companies fold. Type of service plays major part in approval, some lenders explain.

By Michael E. Kanell
The Atlanta Journal-Constitution
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Gus Von Brink is playing with house money — but in his case, that is not a good thing.

In recent months, the owner of an Aamco franchise in Canton has been stymied in his efforts to get bank loans to meet expenses and buy new equipment. Worse yet, his existing lines of credit got crimped.

"They said, 'We are not going to loan you any more money than you've already taken,'" Von Brink recalled. "And I asked why and they said, 'Times have changed.' "

What changed, of course, was the economy and the financial system's health.

Things will have to change again for the economy to recover. Millions of small businesses need to borrow to expand, to hire, to improve or just to meet ongoing costs such as payroll.

The Obama administration's stimulus plan includes a program to spur such lending, and early numbers indicate some success in Georgia. But anecdotal evidence suggests loans remain harder to get than in the past — and that even if the answer is going to be yes, it takes longer to answer the question.

Von Brink started out less than three years ago using his own money. But even his small shop of five employees could not be run on cash flow. Credit helped bridge the gaps.

"Sales are not the same every week," he said. "You need a loan to smooth things out. So I am basically financing everything myself."

Von Brink fears he can only do that for a while — and many other entrepreneurs cannot do it at all.

Tight credit means fewer companies hiring and growing and more danger of failures that destroy not just businesses but entrepreneurs' personal finances.

With roughly one in every 18 jobs gone since 2007, metro Atlanta's unemployment rate has climbed to 9.6 percent. While much attention is focused on the fortunes of corporations, small- and medium-sized companies have to grow for the job market to improve.

Bankers generally want to make loans — it's how they make money. But there is no profit in having the borrower go bust and stop making payments.

That makes bankers more cautious and selective, said Carolyn Brown, chief executive of the Georgia Community Bankers Association.

"They are in lending mode, but they are concerned about risk," she said. "I think they are willing to lend but it depends on the type of business that is applying."

Lending is not tight for a lack of money.

"Capital resources are available but the market and the economy remain bigger question marks," said Charles Green, president of Sunrise Bank of Atlanta. "If I have five restaurants defaulting, I'll be very skeptical about another loan to another restaurant. Clearly, banks are going to be cherry-picking."

Sunrise is not making loans at the pace it did in the past, but it is still making them — including one to a restaurant.

"You can't rule anything out," Green said. "I have had several restaurant loans default, but every deal has a different story."

For lenders who are less financially stressed, banks' caution creates business opportunities.

Tom Matthesen, CEO of Alpharetta-based Presidential Financial, said his company avoided loading up on housing-related loans. That's left his firm better-positioned than many local banks to seek qualified business borrowers, he said.

"We saw this coming," Matthesen said, adding that a number of current clients were turned down by banks.

The Small Business Administration has for decades offered loan guarantees designed to reduce lenders'

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risk — and fuel small business growth — by guaranteeing loans up to certain amounts.

This year, the stimulus package included a new program called America's Recovery Capital, in which bank loans up to \$35,000 are guaranteed by the SBA.

Terri Denison, state director for the SBA, said loans have risen.

In the two months before the new program took effect, the SBA in Georgia guaranteed 126 loans, totaling \$48.9 million, she said. In the two months after, it guaranteed 171 loans amounting to \$67.3 million.

Borrowers include accounting companies, temporary help services, restaurants, day care centers, professional services and even a couple of construction companies, she said.

"Across the state there's an increase in activity," Denison said.

But David Raynor, director for the National Federation of Independent Business in Georgia, said banks aren't exactly leaping to make loans, regardless of SBA programs.

"What our members have been finding is that banks are not incentivized to create the loans," he said. Some lenders don't like the SBA program because loans are structured so that profits are low compared with conventional loans.

Some small business people note that getting loans can be a major issue even in good times, so it's a fact of life that it will be tough now.

Audrey Harrelson, co-owner of Wild Birds Unlimited in Peachtree City, opened her 2,400-square-foot store five years ago. It now has four part-time employees.

Even then she and her husband couldn't get a loan without using family resources as security.

"I was absolutely appalled when we went to the bank where we'd financed our house and they just blew us off," she said. "And at that point, the money was flowing."

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