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Brother, Can You Spare a Loan?

Chip Litherland for The New York Times

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MANY of America's small-business owners are scrambling for cash.

CONSTRAINED Jennifer Behar of Jennifer's Homemade, at her Miami bakery.

TURNED DOWN William Treciak, whose Dover, Ohio, business processes credit card transactions.

Although experts do not yet have hard data about how the financial turmoil of the last few weeks may hamper entrepreneurs' access to capital, many were already having difficulties getting financing before the escalation in the [credit crisis](#).

By now, financing options for all stages of the small-business cycle are limited. Typically, start-ups and unprofitable companies have relied on credit cards and home equity loans. As their businesses thrived, they often turned to bank credit lines. And when it was time for the next big growth spurt, they usually got a small-business loan. But all of these options are less feasible now than they were a short while ago.

For example, after a quarterly survey of senior loan officers in July, the [Federal Reserve](#) reported that 65 percent of domestic banks said they had tightened their lending standards for small-business loans over the previous three months. At the same time, 70 percent told the Fed that they were charging more for those loans.

And in an August opinion poll, two-thirds of entrepreneurs told the National Small Businesses Association that their companies had been hurt by the credit crunch. Todd McCracken, the organization's president, said that members tended to own larger and more profitable businesses, so he thought that the credit crunch was probably having an even greater impact on America's small businesses.

"If you think you might have a cash crunch, you should act now," Mr. McCracken said, adding that it would be better for many small-business owners to have cash on hand, even if that meant paying a little extra interest.

But small-business owners are not without financing options, even in these tenuous times, especially if they have strong enterprises with solid balance sheets. If, on the other hand, their businesses rely on a particularly shaky area of the economy — like the housing or auto markets — then some small-business experts advise them to reassess the wisdom of taking on more debt.

Above all, entrepreneurs will need more of a financial stake in their own companies.

“Bankers are more selective than they were a year ago about the businesses they choose to finance, and the owner is going to have to have more equity in the deal,” said Ken Esch, a partner at PricewaterhouseCoopers in the private company services group.

This could also be a bad time for owners with established companies to take equity out of their businesses — no matter how tempting that may seem, given the sinking values of their personal brokerage accounts or home equity.

“Many small-business owners don’t keep enough money in their businesses,” said Robert C. Seiwert, the head of the Center for Commercial Lending and Business Banking at the American Bankers Association. “They take it out for lifestyle reasons. Bankers don’t like to see that. They don’t want to support someone’s lifestyle in the form of a small-business loan.”

Mr. Seiwert also advised owners to strengthen their business plans, especially if they had not recently updated them. “They should have three scenarios — the good, the bad and the ugly — and they should be prepared to execute on all of them,” he said. “And if their business plan is based on expansion, I would revisit those assumptions given the economic uncertainty today.”

Some small-business owners who are finding it difficult to get a credit line with a bank may be tempted to carry large balances on their business credit cards. But the terms can change suddenly, just as they can with personal credit cards.

William L. Treciak has spent the entire 20 years of his working life in the credit card payment-processing industry. Five years ago, he founded his own company, Electronic Data Payment Systems, which is based in Dover, Ohio, and processes credit card transactions for merchants. He found it ironic that even he was ensnared by escalating credit card interest rates.

Mr. Treciak said he was offered a small-business card with an interest rate of 11.99 percent in mid-2006. That was lower than interest rates on his company’s bank credit lines at the time, so he took the deal. But then, he said, the card company raised his rates six times, to reach 34.99 percent this spring.

“Obviously, I paid the balance off and shut the card down,” said Mr. Treciak, who added that he had never been late for a payment and had never given the company any other cause to raise his rates. “I grew up in this industry, so I knew better.”

Financial experts say this situation demonstrates why small-business owners should opt for a small-business credit line at a bank — if they can qualify for one. But even a bank credit line may not be a sure thing, especially if a small business encounters an obstacle.

Dave Boothe, who owns Allstates Refractory Contractors, in Waterville, Ohio, said his bank closed his credit line after a difficult year in 2005, when he suffered his first loss since buying the business in 2002. In early 2006, Mr. Boothe's bank said it was closing his \$50,000 revolving credit line and issuing him a five-year note for the balance of \$47,000. This debt had a fixed interest rate of 10.5 percent, which he said was two percentage points higher than the credit line.

Mr. Boothe said that his business, which fixes industrial furnaces, had become profitable again over the last two years and that he had tried to open another credit line with several banks, to no avail.

Mr. Esch, of PricewaterhouseCoopers, said business owners who were relying on short-term debt — like revolving credit lines or credit card balances — should try to convert it into long-term debt, like a small-business loan. “Companies that converted to a long-term debt structure a year ago are much less dependent on the credit markets, which are very volatile today,” Mr. Esch said.

But the number of new loans backed by the federal [Small Business Administration](#) has dropped sharply over the last year.

For example, the number of loans backed by a major federal loan-guarantee program fell 30 percent over the last 12 months. The average size of the small-business agency loans went up, though, because most of the shortfall had come from smaller loans.

Bank loan officers — not the government — make lending decisions for all Small Business Administration-backed loans, so the federal agency does not have data on whether tighter lending standards or a decline in applications led to this trend. But Eric Zarnikow, the associate administrator for the office of capital access at the Small Business Administration, said it was probably a little of both.

“When we talk to loan officers, we are consistently hearing that demand is down,” Mr. Zarnikow said. “They are saying that small-business owners are less willing to take on additional debt, and the borrowers who do come to us are less creditworthy.”

Still, there is little doubt that some who might have qualified for small-business loans a year or two ago — when lending standards were much more relaxed — are finding it tougher today.

For example, Mr. Treciak, who owns the credit card processing company in Ohio, said his small-business loan applications had been turned down about eight times during the last two years.

Jennifer Behar, who owns Jennifer's Homemade, a bakery in Miami, said she too was finding it hard to get her first traditional small-business loan. Ms. Behar, who describes herself as a "self-taught baker," sells her chocolate biscotti and rosemary flatbread in fashionable grocery stores like Dean & DeLuca and [Whole Foods Market](#), and on jennifershomemade.com.

Ms. Behar started her business in 2005 with a home equity loan and a small-business credit card from [American Express](#). She qualified for a bank credit line of \$50,000 in 2006. After her revenues doubled in 2007, she asked her bank to double her credit line to \$100,000, which it did in April. But Ms. Behar said she had been turned down by several banks for a loan to help finance her company's growth.

If owners can't get the credit they need for their businesses, they might consider giving up some equity. Mr. Treciak and Ms. Behar said they were considering selling a stake in their companies to investors or venture capitalists — an option both said they probably would not have considered had they received business loans.

Ms. Behar has asked the Global Entrepreneurship Center at Florida International University for advice. "They are helping me figure out how much money I really need, and how much I am willing to give up," she said "Certainly I want to control the business and run it the way I want to."

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