Cash to lend

An expanded small business loan program is designed to stimulate the economy. But it may not be that simple.

By Annie Johnson | BRBJ

Hand out money, create incentives, and the backbone of American business will thrive.

Or so was the apparent intent of the president and Congress in signing a new law aimed at promoting small business lending: increase federal loan guarantees and toss some $30 billion at community banks to woo small firms into loans and out of crisis.

But in the Roanoke region, banks and small business advocates are saying it's not that simple.

"Banks can have as much money as they need to lend, but if the business is not seeing customers, what's the point of lending?" asked Raman Kumar, a professor of finance at the Pamplin College of Business at Virginia Tech.

The Small Business Jobs Act was signed by President Obama in late September and extended certain recovery loans available for small businesses trying to rebuild out of the recession. The law temporarily increased to 90 percent the loan guarantees offered by the Small Business Administration for banks looking to lend to small firms. Additionally, the law made available $30 billion for community banks that increase their small business lending over their 2009 levels and extends a series of tax cuts for small firms and their investors.

The new law also takes care of a backlog of 1,939 loans nationwide totaling $970 million that were approved but not financed under the Recovery Act, which was signed in February. That law doled out nearly $9 billion before the cash ran out. In its first week, the most recent law was responsible for financing those loans, two of which were in the Roanoke region.

By Nov. 1, about 10 loans in the greater Roanoke region also had been approved under the new law, according to the Small Business Administration.

And while those numbers indicate some loan activity in the area, a combination of poor credit scores, belt-tightening by bankers and lack of interest from small business owners mean the influx of federal money might not have an immediate impact on the area or its hundreds of small businesses.

Wayne Flippen, director of the Roanoke Regional Small Business Development Center, said finding banks willing to work with customers who have poor credit scores is a roadblock.

"Finding the financial institution that will work with the small business owner and accept the less-than-perfect credit score and collateral is an issue," Flippen said. "[The law] will help the larger small business that has a strong balance sheet and cash. It will not help the startups or businesses that have been scarred by the recession, until banks open their lending policies."
David Shanks, director of the Radford University Small Business Development Center and the regional director for the six small business centers in Western Virginia, underscored that tighter regulations are forcing banks to be more careful about who they lend money to.

"When I talk to bankers, they're saying, yes, there are some great programs out there, but the controller of currency and the people that regulate banks are saying ... they want to keep the lid on it," Shanks said.

According to an October study by the Federal Reserve Bank of New York, 59 percent of the more than 400 small business respondents applied for credit during the first half of 2010 compared with estimates of 40 percent from surveys conducted before the recession.

Only half of the 59 percent received a loan.

**Bankers' opinions vary**

That doesn't mean banks don't have the cash on hand to help. Just ask Ellis Gutshall or Greg Feldmann, presidents of two Southwest Virginia community banks.

"I think we are like a lot of community banks right now. We are flush with deposits, flush with cash because loan demand has been off now for two years," said Gutshall, president and CEO of Roanoke-based Valley Bank. "Our borrowers are trying to get out of debt, rightly so."

That's why neither of the bankers plans to take advantage of the $30 billion the law sets aside for community banks that lend to small businesses at a greater rate than in 2009.

Gutshall said he worried that money could be "TARP-like" and that taking it would mean attached strings. Valley Bank took about $30 million under the Troubled Assets Relief Program. In return for having it, banks had to give the government stock with a dividend.

Added Feldmann, president of Christiansburg-based StellarOne Bank, "Our own liquidly is sufficient to meet demand in terms of small business lending."

Leon Moore, CEO of Bank of Floyd, said he'll consider taking advantage of that money but wants to weigh the potential benefits first.

"A lot of the bankers are really, at this point, afraid to loan because of the regulatory guidelines that are out there -- and, of course, a lot of the customers right now will not qualify," he said.

Whether community banks take advantage of other provisions in the law, such as higher loan guarantees, will be dependent on a number of factors, added Pat Satterfield, president and CEO of the Virginia Association of Community Banks.

"I think it would depend on the amount of paperwork that's involved and the level of expertise that's needed to comply with all the strings that may be attached," she said.

Moore said the increased loan guarantees have sparked an interest in Floyd to increase SBA lending. He said the bank has about $7 million in SBA loans currently on its books.

Kumar, the Tech professor, said that demand for goods and services will play a vital role in whether banks will...
"If the consumer demand for whatever these small businesses are producing and selling ... picks up, the banks will certainly be willing to give them the loans," he said.

Feldmann added that while he believes the law was passed with good intentions, the new incentives won't change how things are done at his institution.

StellarOne was, after all, the top Virginia SBA lender in its size category in 2010 with $4.9 million, according to the SBA, and has steadily increased its total SBA loans.

But overall, the loan rankings across the state paint a more telling picture about small business lending.

For the past three years, BB&T has been the top SBA lender in the state, but, at the same time, its overall loan amounts have steadily declined, according to data from the SBA.

In 2008, the bank handed out more than $30 million in SBA loans in Virginia. In 2009, that fell to $17 million and in 2010 to $16 million.

Charles Robbins, Roanoke-based regional vice president of BB&T, said those declining amounts are a direct result of decreased loan demand.

If that demand increases, there are components of the new law that larger SBA lenders might find advantageous.

First, it dramatically increases the size of businesses that are eligible for both SBA 7(a), the administration's primary loan program, and 504 loans, which provide long-term, fixed-rate financing for expansion or modernization. Under the new law, a business that is worth less than $15 million and that had profits of less than $5 million in each of the past two years is eligible for an SBA loan. Previously, size qualifications were determined by industry standards.

Further, the law permanently increases loan limits to $5 million, from $2 million.

Robbins has seen an increase in credit activity as a result of some of the changes but only after a prolonged decrease in requests for loans.

"You can lay out all the programs in the world, but if we remain in an economic lull at best ... then I don't see much happening," he said.

Still, Robbins remains optimistic that the economy will begin to recover and banks will take advantage of the incentives offered under the new law.

"We make money by extending credit. We want things to start percolating," he said.

In an e-mail to small business clients, Wells Fargo outlined in bold typeface how the law would increase its lending to smaller firms, specifically due to provisions that let larger businesses apply, increase loan guarantees and waive SBA fees.

"If you have a client today that has a SBA loan and needs additional financing, they may now qualify where last
week they did not," the company said in the e-mail, which was sent to Flippen.

**Small companies struggle**

Regardless of the influx of federal money, incentives and bank deposits, many small businesses just can't afford to take out more loans, according to Ned Honts, senior vice president at Bank of Botetourt.

According to the October Federal Reserve study, 69 percent of those interviewed reported declines in sales and revenues over the past two years.

"There is a point where a business becomes overleveraged and they lose their ability to continue to borrow money," he said. "We're seeing more businesses get closer to that point."

As an alternative, some small companies are looking to local SBA microlenders for help. Programs in Lynchburg and Roanoke are aimed at helping small firms get money they may not otherwise be able to secure.

Microlenders face less regulatory scrutiny than typical financing institutions, and requirements for clients are slightly less stringent.

Under the new law, those lenders are now allowed to increase to $50,000 from $35,000 the one-time sums they can dole out.

Curtis Thompson, director of financial services for Total Action Against Poverty in Roanoke, said that in fiscal 2009, the organization gave out 14 loans -- nearly double the number handed out in fiscal 2008. TAP conducts the Business Seed Capital program through the SBA.

"We're seeing a lot of established businesses coming to us," he said. "They can't get credit from the bank. We're the last resort, honestly."

Thompson said that while the law makes microlending more attractive to existing businesses that have suffered in the recession, smaller businesses probably can't afford to take out a $50,000 loan.

"If you're in debt, it's probably not a good idea," he said.

The Lynchburg program, which is run through the Lynchburg Business Development Center, also has seen an influx of loan inquiries since the law was passed.

"We're seeing companies whose balance sheets are weak and three years ago could have walked into any bank and gotten a loan," said Catherine McFaden, executive director of the center.

Small firms that banks or microlenders do deem eligible need to act fast. The higher loan guarantees and the SBA fee waiver will only be good through December.

In the meantime, companies and banks hoping to take advantage of the permanent changes will need to have quite a bit of patience.

"It's had a small impact," Kumar said of the law. "But the impact would really kick in if the economy took off."