

Bankers Say It's Hard to Loan to Asset-Poor Small Businesses

February 25, 2011--Speaking at the Federal Reserve Bank of Boston on Friday, three bankers who specialize in small business agreed that it is proving difficult to finance strapped small businesses as they come out of the recession.

- Bob Mahoney, president and CEO of **Belmont Savings Bank**, said, "As is the case in every recession, a lot of small businesses were beat up in 2008, 2009. Now they have the problem of growth. Their assets are depleted, working capital is depleted and they have orders and inventory requirements."
- Before the recession, **Metro Credit Union** declined approximately 40% of small business loan applications. Now, the declines are about 70%, according to Tom Nadeau, Senior Vice President of Lending.
- Dave Bennett, vice president and director of business banking at **Middlesex Savings Bank** said that small businesses are conservative. "Until that mindset changes, we won't see the demand side pick up too much," said Bennett.

The three bankers said that credit scores had increased and were more stable now, compared to 18 months ago. They commented that the typical small business borrower shows stress first in his or her personal finances.

About 40 representatives of banks and credit unions attended the Small Business Lending Forum for Community Banks, Thrifts and Credit Unions, February 25, 2011. Aside from a banker from \$136 billion **RBS Citizens**, all the participants represented institutions with assets less than \$1 billion.

Representatives from the **Small Business Administration, US Department of Treasury** and **Massachusetts Growth Capital Corporation** spoke.

Bennett, Mahoney and Nadeau struck similar themes, with all three commenting that clear strategy, explicit structure and board buy-in are crucial to succeeding in small business banking.

"The profits are in the deposits. Lending is critical but an unfortunate necessity in deposit gathering," Mahoney said. Mahoney described 10 ways to ruin a small-business banking program, including having unrealistic expectations: "If you design this business right, you won't make money for two years— but thereafter this will be one of the most profitable things you do," he said.

SBA helps create 1 million jobs

Jeanne Hult, New England Regional Administrator of the Small Business Administration, said that in 2010 the private sector created a million jobs, and many of those were created by small businesses.

- The SBA had its highest one-week volume in its history in December (\$2 billion in loans as the guarantee fee waiver was about to expire).

144 Mass banks did SBA deals in 2010

Bob Nelson, District Director for Massachusetts, Small Business Administration, reported that the SBA is eager to help tech and life sciences businesses.

- In Massachusetts, SBA loans for fy2011 are up 105% over 2010, which were up 79% over the preceding year.

- Loans to minority entrepreneurs were disproportionately affected in the economic downturn. They fell from 18% of all SBA borrowers in 2007 to 11% 2011 YTD.
- Higher loan limits are starting to make a difference. Nelson described a \$4 million loan closed through Rockland Trust last week.
- Loans for international trade declined significantly.
- 2010 was an excellent year for microlenders. The SBA did 36 deals in Massachusetts and hopes to do more. Accion USA has applied to be a Massachusetts microlender.

Two major SBA events this spring

- Start Up America, sometime in May, which will include representation from the White House.
- Small Business Jobs Act listening tour, April 1 at the SBA office.

Treasury Small Business Loan Fund expects first transaction in March

Jason Tepperman, Director of the US Department of Treasury Small Business Loan Fund said the \$30 billion capital initiative for community banks and community development financial institutions expects to start funding in March 2011. Tepperman mentioned factors that make the SBLF attractive:

- No executive compensation constraints.
- Treasury does not receive warrants.
- No obligation to participate after the application is approved.
- Banks may exit at any time, no prepayment or redemption fees.
- Forms are structured to take advantage of existing information in call reports and regulatory filings.
- Applications, at treasury.gov, should take just a few hours to complete.
- Application forms for mutual institutions will be available soon.

Massachusetts Growth Capital Corporation also keen on microlending

The Massachusetts Growth Capital Corporation (MGCC) results from the combination of the Community Development Finance Corporation and the Economic Stabilization Trust. MGCC needs to show that job growth results from its financing activities.

Of interest to the Boston Fed, MGCC has a pilot second-look program in Springfield. Officers will visit three banks and spend the day, reviewing loans to see how it might be possible to make them bankable.

Going forward, MGCC wants to find ways to finance companies with intellectual property but without hard assets. MGCC wants to partner with other agencies, for example, Mass Development, to finance larger deals than its typical \$1 million maximum loan.