

Area lenders tighten screws on small businesses

BY MARK CALVEY

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Small business owners are face higher costs and stiffer requirements for borrowing as bankers cope with regulatory pressures to strengthen their operations.

Banks are being pushed to boost loan-loss reserves to 2 percent of total loans, with expectations that figure will climb to 3 percent. Bankers say that money set aside for anticipated loan losses raises the cost of borrowing and reduces the amount of capital available to lend.

"My bankers are having hard conversations with our small business borrowers," said Brian Garrett, CEO at Community Bank of the Bay in Oakland. He offers an example of a \$1 million line of credit to a small business owner that went unused last year. Renewing that line this year will require the bank to set aside \$20,000.

Borel Private Bank & Trust in San Mateo said it's become more adamant that a small business borrower move all his banking business over to the bank. Long a strategy of community bankers,



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the expectation is more explicit with today's credit crunch.

"I've noticed a tightening of lending policies," said Dan Beatty, an attorney in Redwood City. He recently moved a line of credit, certificate of deposit and business checking account to Borel from a major bank when his banker also switched to Borel.

Beatty says he had little trouble getting a \$50,000 line of credit that he uses to even out cash flow, but getting a mortgage refinanced as a self-employed individual is another matter. Beatty is working with his Borel banker

to pull together the documentation he'll need to apply for a mortgage refinancing.

Beatty has been among the fortunate in getting the line of credit. The National Federation of Independent Business says that only half of small businesses requesting credit last year got most of the money they needed. That's down from 90 percent during the historic credit bubble.

That decline was also apparent in the lending portfolios of big banks last year, when small business loans fell 9 percent from 2008 while overall loans fell 4.1 percent, according to a congressional report.

To counter that trend, San Francisco-based Bank of the West and Chase are among the banks that say they've adopted second reviews on rejected small business loan applications to ensure there isn't a way to offer financing.

Chase also said it's hiring more small business bankers.

Wells Fargo CEO John Stumpf says his bank's challenge in doing more lending is finding qualified borrowers.

"We have a ton of liquidity," Stumpf told a Commonwealth Club of California gathering in San Francisco last month. Not that the bank isn't lending actively. A Wells spokesman said last month that

the bank has "provided \$711 billion in loans and lines of credit to help get the economy going again."

But getting that money comes with more requirements than many business borrowers encountered during the credit bubble.

Stumpf told of one potential Bay Area borrower who recently complained to him that the San Francisco bank wanted a personal guarantee on his business loan when Washington Mutual did not.

"Is Washington Mutual still around?" Stumpf said he asked the customer. The Seattle bank failed in September 2008 and was bought by J.P. Morgan Chase.

Jim Herbert, chairman of San Francisco-

based First Republic Bank, said requiring business owners to personally guarantee loans was routine at his bank for years. He credited such requirements for First Republic's low loan losses, which are running below the bank's traditional levels.

The Great Recession and anemic recovery is slamming small business profitability, further hurting their ability to borrow.

Some say that's spurring more small business owners to cut costs and hold onto cash. Market Rates Insight, a research firm in San Anselmo, said that despite rates earned on bank money market accounts falling in the first half of the year, balances ballooned by \$380 billion, or 11.6 percent, while balances

for certificates of deposit of up to one year dropped \$128 billion. That may reflect expectations of higher interest rates ahead as well as depositors, including small business owners, wanting easy access to their cash.

"These findings indicate that consumers are reluctant to lock their money, and prefer to have cash readily available even if it means lower interest rates" said Dan Geller, executive vice president at Market Rates Insight. "Fear of inflation combined with uncertainty about the prospects of meaningful economic recovery is causing some consumers to sit on their cash."

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