

Bailout not seen helping Main St, Wall St credit

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By Nick Carey

CHICAGO (Reuters) - The U.S. government's \$700 billion bailout for the banking sector may stave off a market meltdown, but firms from Main Street to Wall Street should not expect easy access to credit any time soon.

"One question is how long it will take the banks to restore health to their balance sheets, raise capital and start lending money again," said Bernard Baumohl, chief global economist at the Economic Outlook Group. "That could take a year and credit conditions may start to improve in the second half of 2009."

After years of easy access to loans in the U.S. property boom, the credit crunch that began in August 2007 has hurt corporations and entrepreneurs alike as banks tightened lending. Combined with weak U.S. consumer spending, this year ahas not been good for a host of companies.

"Many companies are suffering from a loss of liquidity, loss of sales because of the weak economy and the consumer, plus a loss of profits," said George Cloutier, chief executive of Orlando, Florida-based small business consultant American Management Services Inc. "We talk to up to 500 small businesses a week and the great majority say things are tightening up."

With hundreds of billions of dollars in debt set to mature this year and next, larger companies will have to pay more to borrow money, as there will be fewer banks to borrow it from.

Speaking at the Reuters 2008 Restructuring Summit, Andrew Feltus, senior portfolio manager of an \$8 billion high-yield fund at Pioneer Investments in Boston, said the remaining banks will dominate the market, which is "good for them, not good for the borrowers and not good for the overall economy."

It is already harder to get a loan. According to a quarterly U.S. Federal Reserve survey of senior loan officers in July, 58 percent of respondents said they had tightened lending standards to large and medium-sized businesses, up from 55 percent in April. Sixty-five percent said they had tightened standards for small firms, up from 52 percent.

According to bankruptcy data and management company AACER, in the eight months to August there were just over 40,000 U.S. commercial bankruptcy filings, compared with 43,000 for all of 2007 and 30,000 for all of 2006.

"The rest of 2008 will remain robust for bankruptcies, as will 2009," said AACER president Mike Bickford. "The generally poor availability of credit has definitely begun to have an impact on commercial borrowers."

'HAPPY FACE'

Those hoping that the U.S. government's \$700 billion bailout allow a swift injection of cash into the corporate sector to reverse that trend will likely have to wait.

"Those who believe that we've managed, in one day, to switch from a deflationary to an inflationary backdrop because of additional government debt creation are not taking into account the offsetting credit contraction in the private sector," Merrill Lynch's chief North American economist David Rosenberg wrote in a note for clients. "The Fed and Treasury are merely cushioning the massive deflationary forces in the financial system."

About \$173 billion of outstanding financial debt is set to mature this year, followed by \$500 billion in 2009, according to Morgan Stanley data. Those maturing bonds mean banks already suffering the worst credit conditions since the Great Depression will have to sell bonds at a steep price to roll over borrowings and raise fresh capital.

The extra yield, known as the spread, that investors demand to hold risky high-yield bonds over U.S. Treasuries, for example, widened to a record 983 basis points on September 18, a sign of rising risk for those securities.

Many small firms will find it hard to even get loans, which is bad news as they form the backbone of the U.S. job market. According to U.S. Census Bureau data, in 2002 the United States had 112 million paid employees. Some 56.4 million of them worked at firms with fewer than 500 employees.

Dan Lovejoy runs PC911, a small firm that sells and services computers and computer networks on Kealahou, Hawaii. Largely a one-man show, in years past Lovejoy earns around \$75,000, but tourism here has suffered because of the weak economy and so far this year he has made \$25,000.

He said friends at a local bank warned him not to even try getting a loan in the current market, while his customers have reported getting a similar response from banks.

"My customers used to be able to pay me by credit card, but they've maxed all out their cards," Lovejoy said.

"People here put on a happy face, but when you talk to them you find out they're behind on rent and barely hanging on. The next few months will be make or break for a number of companies around here."

In a survey released on Monday, but compiled in August, the U.S. National Small Business Association said 67 percent of respondents said their business had been affected by the credit crunch, up from 55 percent in February.

NSBA head Todd McCracken said the survey was particularly troubling because, unlike the February poll, it only included NSBA members "who tend to be larger and well established."

"We had expected they would have less severe problems than we saw in February," he said.

"But instead they face more difficulty getting credit. And there's no sign of a turnaround. It's rather alarming."

(Additional reporting by Walden Siew; Editing by Andre Grenon) © Thomson Reuters 2008.