

## U.S. credit crunch hits jobs-rich small businesses

Thu May 22, 2008 12:01pm EDT

By Nick Carey

ST LOUIS (Reuters) - Small businesses in the United States have historically been the backbone of the jobs market, but they too are now feeling squeezed by the credit crunch and tighter lending standards as the U.S. economy weakens.

"The music has stopped," said George Cloutier, chief executive of Orlando, Florida-based American Management Services Inc, which provides consulting and training to small and medium-sized businesses across the eastern half of the United States. "And there are not many chairs to go around."

Cloutier said his customers have complained that it is becoming ever harder to obtain loans. Tighter credit conditions have come as banks scramble to preserve capital amid the U.S. subprime-loan debacle and soaring home foreclosures.

"Banks have chosen to shore up their balance sheets at the expense of small businesses, which account for more than 50 percent of U.S. jobs," Cloutier said. "Unless you have a great credit rating, forget about getting a loan right now."

According to a quarterly U.S. Federal Reserve survey of senior loan officers in April, 52 percent of respondents said they had tightened lending standards for companies with annual sales of less than \$50 million, up from 30 percent in January.

The U.S. Small Business Administration said through April it had issued about 20 percent fewer 7(a) loans than the same period last year. The loans are SBA's most popular, carrying a government guarantee for lenders of up to 85 percent.

"As a reflection on the general economy (the) SBA has seen a decline in its loan guarantee volume both because of a lower demand for capital and because of a tightening of credit standards," SBA spokeswoman Christine Mangi said.

Concerns are rising that more small business owners are tapping high-interest credit cards instead of conventional bank loans. Many entrepreneurs are also stuck with large home equity loans they cannot refinance after property values have fallen.

"We're hearing from a lot of folks that they are paying more for their loans or they are stuck," said Todd McCracken, president of the National Small Business Association (NSBA).

In a May 15 poll of NSBA members, 48 percent of respondents said the credit crunch had hurt them.

Entrepreneurs like Jim Brumley say they have found it harder to gain access to conventional bank loans.

Brumley, 55, wanted a \$30,000 loan to expand his St. Louis pet shop, Exotic ARC, which sells lizards and snakes ranging in price from less than \$10 to thousands of dollars.

"I've owned this shop for 14 years, my credit rating is good and I've never had trouble getting a loan before," Brumley said while showing off some of the more exotic snakes in his tropically hot, humid store. "But the bankers I spoke to said this time round it would be harder to get credit because the banks got burned by a lot of bad loans."

So last October he arranged a loan with a local nonprofit group, Justine Petersen, in two installments of \$15,000.

"Once I proved my credit rating and history, it was pretty straightforward to get a loan," Brumley said.

Galen Gondolfi, a loan counselor at Justine Petersen, said the St Louis-based lender runs an SBA-backed business "microloan" program and has seen a jump in loan applications from small businesses.

"In the last 90 days we've seen the biggest growth from customers at the top our clientele range," he said. "Until recently these were people who did not need to speak to me because they could go elsewhere for a loan."

"But there are fewer options now," Gondolfi added. "Now their home values have fallen and they can't refinance any more."

"So we're not just talking about a business loan. We have to try to fix the mortgage problem too," he said.

The National Association of Realtors said the median sales price of an existing family home in St. Louis was down about 10 percent in the first quarter of 2008 from a year ago.

Tighter credit has also cut new home equity loans, which NSBA's McCracken said means new problems for entrepreneurs.

"For years home equity loans have been the only source of available funding for start-ups because new business owners have no track record with banks," he said.

McCracken said in recent U.S. economic slump, people laid off by downsizing companies were the ones most likely to start up new companies with redundancy money and a home equity loan.

"These entrepreneurs helped the economy recover by creating new jobs," he said. "My main concern is if they can't gain access to credit, we're going to have a slower recovery."

(Editing by Peter Bohan and Maureen Bavdek)

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