

In tight loan market, small banks step forward

■ The latest credit crunch will make it even harder for small businesses to secure loans. But some small banks hope to fill the void left by big lenders.

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Even before the latest tumult on Wall Street, small businesses were suffering from the effects of the subprime mortgage crisis and sagging economy.

Banks reined in lending. Some entrepreneurs put off expansions and others delayed new business openings.

Now, fallout from the bankruptcy of Lehman Brothers, coupled with Bank of America's purchase of Merrill Lynch and the paralysis gripping international credit markets will make it more difficult for small businesses to access needed capital, according to several experts.

"This only exacerbates the problem," said Francisco "Pancho" Marrero, South Florida district director for the Small Business Administration. "Banks become more cautious, and lending regulations become more intense."

The SBA, which guarantees bank loans to small firms that have trouble accessing bank funds, reported it had backed 460 loans worth a total of \$168 million in South Florida from June through August. That's a decrease of 66 percent in volume and 38 percent in dollar terms compared to the same period last year.

"It's getting worse," said Marrero. "The economic crisis is affecting small business

lending, and the real estate debacle has given cause for banks to be more cautious."

Now, some smaller community banks want to pick up the slack.

The bar is already set high for these borrowers. "For entrepreneurs and small business owners, there's already a lot of uncertainty and very high difficulty in raising capital," said Marc Junkunc, an assistant professor of management at the University of Miami. "For start-up companies, it's only going to get harder."

A NEW FOCUS

Now, instead of looking at a company's profitability, Junkunc said banks will likely base their evaluations of potential borrowers more on their assets. "Commercial banks are going to want to lend to asset-rich companies that have machinery and buildings," said Junkunc. "Normally you could borrow on your cash flow, but that's risky because you're borrowing on future cash flow."

"It's a double whammy," he said. "There's less capital available, and for the capital that is available, it's going to go to the lower risk borrower."

Marrero agreed. "The universe to make loans available is shrinking," he said. "Throw in the exorbitant cost of fuel, insurance, healthcare, and you



DAVID GELLES/MIAMI HERALD STAFF

NEW LOANS: Luis Vanegas is vice president for commercial lending at First National Bank of South Miami, which started offering SBA-backed loans six months ago.

have a perfect storm."

Yet some community banks and micro-lenders sense opportunity and are still providing loans despite the market's recent woes.

On Friday, a group of lenders lunched at the Westin Cypress Creek in Fort Lauderdale and heard from John Dunn, SBA assistant district director. "The bigger banks have backed away, so the smaller banks are increasing their lending," he said.

One example is First National Bank of South Miami, a community bank with two branches. "We've seen a lot of people coming from other banks after getting rejected," said Luis Vanegas, vice presi-

TYPES OF SBA LOANS

- **Basic 7(a) Loan Program** - The agency's bread and butter program, 7(a) loans are issued to entrepreneurs seeking growth capital. Many use this program to open a franchise, buy a business or acquire assets such as machinery or vehicles.
- **CDC/504 Program** - This program provides long-term, fixed-rate financing for major assets, such as land and buildings. The program cannot be used for working capital, consolidating or repaying debt, or refinancing.
- **Find out more** at sba.gov

dent for commercial lending. "There's a big opportunity for us to get good customers and give good loans."

First National Bank of South Miami started offering SBA-backed loans six months ago. So far, the community bank has issued three loans worth \$2.6 million. Vanegas said five more loans, worth another \$7 million, are in the works. "We're going to fill the void," he said. "Someone needs to do it."

Partners for Self Employment, a nonprofit lender, has been issuing an increased number of loans to entrepreneurs who can't find loans at large banks and low-income individuals. "Business is really booming for us," said program director Maria Coto.

HELP AT LAST

Architect Sebastian Eilert, who wanted a \$35,000 loan to move his practice out of his house and into an office, had his loan applications turned down by Bank of America and American Express. "It was

challenging to find a loan," he said. But after eight months, Eilert secured a loan through Partners for Self Employment with a 12 percent interest rate.

"It seems pretty steep," said Eilert. "But compared to 21 percent on a credit card, it's not so bad."

Unlike the large commercial banks, many community banks were not exposed to toxic subprime mortgages, and as a result still have liquidity.

"We haven't been affected by the market," said Ulises Alonso, chief financial officer of Floridian Community Bank. "We have no exposure to subprime."

Since April, Floridian has issued 20 new loans, expanding its loan portfolio by 10 percent to \$76.7 million.

"These are definitely difficult times for the small business community, but they will still be the engine that drives us out of this malaise," said Marrero. "But it won't be tomorrow. I don't see any short-term solution for this crisis."