



THOMSON REUTERS

Rob Lenihan  
Thomson Reuters

Industry News

Reluctant Banks Hold Up On Loans, and Businesses Feel the Pain

Topic(s): Financial Management, Regulated Industries, Specialized Industries, Debt, Financial Reporting, Cost Management

Summary: The Federal Reserve's latest study of loan officers found an increasing number of banks are rejecting borrowers, regardless of their credit quality.

Dee Smith has been going to the same bank in Charlotte, MI, for years to get loans for his construction business, and he's never had a problem until recently.

Smith bought, remodeled, and sold houses and typically financed 80% of the purchase costs through his local bank.

"I've dealt with them for years," he said. "We had a good relationship."

But that changed last year as the housing market began to sour. Smith, a former business teacher, said when he went to his bank for a loan to refinance 77% of the value of one of his houses, he was turned down.

"I said, 'Why? Is my credit bad? Am I late on my payments?'" Smith said. "They said, 'Our new rule is 75% on loans,' and I could not convince them to go the extra 2%. Other than a tour of duty in the Marine Corps, I've lived in this little town all my life. I know everybody."

Smith, a board member of the National Small Business Association, is not alone.

In a study released August 11, 2008, the Federal Reserve Board's July Senior Loan Officer Opinion Survey on Bank Lending Practices found the number of banks that have tightened their lending standards and terms on all major loan categories over the last three months has increased significantly.

Many of the respondents said they expect their banks to tighten standards in the first half of 2009.

The quarterly survey is based upon responses from 52 domestic banks and 21 U.S. branches and agencies of foreign banks.

The second-quarter survey showed that about 60% of domestic banks, slightly more than in the first quarter, reported having tightened lending standards on commercial and industrial loans to large and middle-market firms.

The Fed said that about 65% of those institutions-up from roughly 50% in the first quarter-also indicated that they had tightened their lending standards on C&I loans to small firms over the same period.

Drew Greenblatt, President of Marlin Steel Wire Products, in Baltimore, MD, felt the crunch when he applied for a \$300,000 loan to purchase a wire-forming robot.

His bank had earlier assured him he could get a loan in three days, so when Greenblatt's company received its two biggest orders in July, he thought he would have no trouble getting the money. But that wasn't the case.

"It was like pulling teeth," he said. "Ultimately we got the paper work for the loan, but it took about 17 days."

Greenblatt said his company is winning business from firms that used to do business with China, which he thought would make him "a slam dunk" for the loan. Yet he said his bank told him "we're making loans to virtually nobody."

"When you're growing at double-digits and getting big orders-that's why God created banks," he said. "It shouldn't be such a challenge for them to get this accomplished."

The Fed said that about 75% of domestic respondents-up from about 60% in the previous survey-indicated that they had tightened their lending standards on prime mortgages.

Of the 32 respondents that originated nontraditional residential mortgage loans, about 85% reported having tightened their lending standards on such loans.

"I think we're an exceptional company," Greenblatt said. "If an exceptional company has to go through this, what about the poor guy who's not doing so well, or the guy breaking even who still to invest in technology to stay sharp?"

Six of the seven respondents that originated subprime mortgage loans-a somewhat higher proportion than in the April survey-indicated that they had tightened their lending standards on those credits over the past three months.

As for the future, the Fed study said that about 55% of domestic and 45% of foreign respondents expect their banks to tighten credit standards on commercial and industrial loans in the second half of this year, and about 45% of domestic and 30% of foreign institutions, on net, anticipated tightening their lending standards on these loans in the first half of next year.

Dee Smith, for one, remains optimistic about the future.

"We're going to get through this," he said. "I've learned that this is a very cyclical business. You've got to be wise in your spending, you have to keep your head up be on the lookout for opportunities and you'll make it."