Tightening credit markets stymie small businesses

By **Daniel Massey**

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Cibao Meat Products' three beat-up delivery trucks spend more time in the garage getting repaired than on the road carting salamis. Vice President Edgar Soto would like to replace them with two new 26-foot refrigerated vehicles, but he knows that now is not the time to look for the $100,000 in financing that his Bronx company would need to buy them.

"With the tight credit situation, we decided not to even attempt to get a loan," he says. "We're just going to have to push those trucks more."

As the credit crisis mounts, operators of small businesses across the city are making similar decisions. Some say they have been turned down for loans as banks tighten lending standards, while others report that their credit lines have been sliced in half. Even those who might qualify for loans are hanging back, anxious to avoid high interest rates or nervous that a continued downturn could harm business.

Problems had been brewing even before the world of banking was turned upside down in recent weeks, according to Michael Pappas, New York regional administrator for the U.S. Small Business Administration.

"It's not just the last three weeks," he says. "We've seen a downward trend in lending activity for many months."

SBA loans are down

SBA-backed loans in the city declined 60% in the first 11 months of fiscal 2008 versus the year-earlier period, falling to 2,343. There were steep drops in all five boroughs through Aug. 31, driven by pullbacks by larger lenders.

Not all banks have curtailed their lending. Smaller banks which don't have the toxic assets on their books that gave birth to the financial crisis continue to extend credit. Manhattan-based Sterling National Bank last week took out an advertisement in *The Wall Street Journal* that asked, "What Credit Crunch?"

"We're not the cheapest bank in the marketplace," says Sterling President John Millman. "But there's now a lot more market opportunity for us."

While consolidation and turmoil at the larger banks has opened doors for smaller ones, the Sterlings of the world can't come close to filling all the gaping holes. Some companies have turned to asset-based lenders, which typically charge at least 3 percentage points more than banks, but have looser standards.

Other businesses are getting creative, including several members of the Caribbean American Chamber of Commerce, which are partnering with companies in places like Guyana and Grenada to take advantage of more lenient lending standards abroad.

But many, including Manhattan film and audio production company New Artist NY Inc., are left hanging out to dry. Owner William Enrico just shelved plans to open a studio in Los Angeles after a bank turned down a request for a $1.5 million loan.

"We had contracts showing what we'd bring in," Mr. Enrico says. "But we had to let that go. It's a missed opportunity, a jagged pill to swallow."

Other small businesses in the area also have postponed plans to grow.

Matthew Goldfine, whose Excel Builders & Renovators just finished a five-unit boutique condominium in Carroll Gardens, Brooklyn, says he's temporarily out of the development business. High-collateral lenders, which can charge interest rates of 15% to 20%, are the only ones willing to finance projects.

Rachel Thebault is also biding her time. The former investment banker had hoped to expand specialty bakery Tribeca Treats to Chicago, Los Angeles and San Francisco, but she didn't like the idea of paying higher-than-usual interest rates to back her plan.

Getting conservative

"Between not being sure how to finance it and the fact that people are less willing to spend money in a down economy, I'm thinking more conservatively about expansion," she says.

Businesses with credit lines are facing the prospect that these sources of funds may no longer be reliable lifelines. Gerry Berkman, owner of a Bronx electroplating company, recently got a letter from his bank notifying him that his line of credit was being cut by 60%.

Existing companies aren't the only ones hurting, according to Steven Gardner, managing director of Franchise Partners International.

Startups are facing hard times because banks want more cash down and higher credit scores to make loans. Mr. Gardner, who advises franchisees, says that three or four of his clients' deals have fallen apart each month over the past year.

"The requirements are more stringent, and clients are just not qualifying for financing," Mr. Gardner says. "The end result is that deals don't happen."