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Bernanke Urges Small-Business Lending

Federal Reserve Chairman **Ben Bernanke** urged banks and regulators Monday to seek out ways to ensure that small businesses get the credit they need to create jobs.

"Making credit accessible to sound small businesses is crucial to our economic recovery and so should be front and center among our current policy challenges," Bernanke said in prepared remarks to the Fed's forum on restoring credit to small businesses.

Declaring small businesses as "central" to tackling unemployment, the Fed chief said not enough is being done to ensure that financially sound companies can obtain loans.

Fed officials have become increasingly worried about the stubbornly high unemployment. The jobless rate edged down to 9.5% in June from 9.7% the previous month. But the economy shed jobs for the first time this year, with nonfarm payrolls falling 125,000 last month.



Reuters

Fed Chairman Ben Bernanke

"The formation and growth of small businesses depends critically on access to credit," Bernanke said in the text of his remarks. "Unfortunately, those businesses report that credit conditions remain very difficult."

The forum is the culmination of a fact-finding mission the Fed launched in February to identify how to improve credit access for small firms, which account for about 60% of job creation.

Fed officials have hosted more than 40 meetings around the country with small businesses, bankers and community leaders to identify obstacles that have contributed to a continued contraction in lending.

Bernanke cited data showing that outstanding loans to small businesses have declined to less than \$670 billion in the first quarter of 2010 from about \$710 billion in the second quarter of 2008.

While major banks eased loan conditions for big firms during the first quarter, lending standards remained tight among the local banks that small businesses rely on, according to the quarterly Fed survey. Similarly, a survey by the **National Federation of Independent Business** found that the proportion of firms reporting tighter credit conditions over the past three months remained "extremely elevated," Bernanke said.

Some lenders participating in the meetings viewed the current lending standards a return to more normal conditions following a period of lax standards. But Bernanke said "it seems clear" that some creditworthy borrowers are having trouble getting credit, even when strong cash flow is compensating for a loss in collateral.

"The challenge ahead for lenders will be to determine how to assess the credit quality of businesses in an uncertain and difficult economic environment," he said.

Lending to creditworthy borrowers is in their interest, Bernanke said, since "that's how they earn their profits."

Meanwhile, he said regulators should continue to work with lenders to help improve credit availability to sound small firms.

The Fed has been encouraging banks to ensure that credit-worthy small businesses can get the credit they need. Reacting to complaints that its own bank examiners are contributing to overly tight standards, the central bank is also conducting training programs with examiners to drive home the message that encouraging loans to small businesses that can repay is positive for the banking system.

Still, Bernanke cautioned against "one-size-fits-all solutions," saying that the meetings confirmed that each small business has a unique combination of local economic conditions and relationships with creditors and customers.

He didn't make any comments on the outlook for monetary policy.

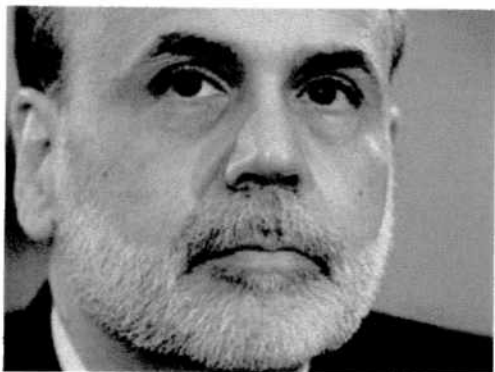
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WASHINGTON, July 12, 2010

Bernanke: Small Businesses Denied Credit

Federal Reserve Chairman Steps Up Pressure on Banks to Lend More to Smaller Firms



Federal Reserve Chairman Ben Bernanke testifies on Capitol Hill in Washington, Wednesday, June 9, 2010. (AP Photo/J. Scott Applewhite)

(AP) Big companies are building up cash and are expected to report strong earnings starting this week. Not so for small businesses that can't get loans - or hire freely until they do.

The gap helps explain why the economic rebound isn't stronger and could even stall. Federal Reserve Chairman Ben Bernanke stepped up pressure Monday on banks to break the logjam and lend more to smaller firms, which employ at least half of American workers.



Small business owners are relying on personal credit cards or raiding retirement accounts to stay afloat, the Fed chairman said.

Bernanke and other regulators have urged banks for months to lend more to smaller companies. Lawmakers have complained that small businesses that want loans are having trouble getting them. Banks have countered by saying demand remains weak.

The Fed does have authority to create programs to increase lending, such as providing low-cost loans to banks. But economic conditions would probably have to weaken considerably before the Fed would propose such a move. One such program set up during the 2008 financial crisis was recently closed.

The Fed chief's latest comments came as legislative efforts to spur small-business lending have languished, and as the recovery has lost momentum. Bernanke spoke at a Fed conference held to explore ways to loosen lending to small companies.

"Making credit accessible to sound small businesses is crucial to our economic recovery,"
Bernanke said. "More must be done."

Some small business leaders say they would hire more if only they had easier access to loans. One of them is Marilyn Landis of Basic Business Concepts Inc. of Pittsburgh, which compiles financial documents for other small businesses.

Landis says she would like to hire one or two more people for her 10-person firm and wants to expand into New England. Yet even though she says she's never missed a payment, Landis says her line of credit was cut about 18 months ago.

She relies on credit cards to pay for everything from supplies to payrolls. Without additional credit, she says, "It is impossible to expand, and I can't hire."

Nearly one-third of small business borrowers report difficulty arranging credit, the National Federation of Independent Businesses says.

By contrast, big businesses, which start reporting their second-quarter earnings this week, have enjoyed easier access to loans and low interest rates.

Analysts expect companies in the Standard & Poor's 500 to report a 42 percent jump in profit by one measure, S&P says. For the current quarter, which ends Sept. 30, they expect a 31 percent rise.

The big companies also benefit from something available to fairly few small businesses: plenty of cash.

In March, cash at S&P 500 companies hit a record \$837 billion - about a year and a half's worth of profits. And S&P senior analyst Howard Silverblatt says he expects cash to rise to a new record for the April-to-June quarter when figures are released later this summer.

Yet even as the economy has improved, lending to small businesses has declined. It's dropped from around \$710 billion in the second quarter 2008 to less than \$670 billion in the first quarter of this year.



The Fed and other regulators have urged banks to step up lending to creditworthy small businesses. Despite the push, such lending is still tight.

The impact on the economy is severe because small businesses tend to drive job growth during recoveries. They employ roughly half of all Americans and account for about 60 percent of job creation, Bernanke said.

And newer small businesses - those less than two years old - are especially vital. Over the past 20 years, these startups accounted for roughly a quarter of all job creation, even though they employed less than 10 percent of the work force, he added.

The Obama administration in early May sent Congress a proposal to create a \$30 billion program to unfreeze credit for small businesses. The fund would provide money to small and medium-sized banks to encourage them to lend to small businesses. The legislation has yet to pass the Senate.

Bernanke said it's hard to tell whether the problem is banks refusing to lend to small businesses or a lack of demand from those companies. Each company faces different economic conditions and complex relationships with customers, suppliers and creditors, Bernanke said.

Some lenders say they have restored more traditional standards after a period of lax lending that contributed to the financial crisis.

Several big banks say they're already lending more to small businesses. Bank of America lent \$19.4 billion to small and medium-sized businesses in the first three months of 2010, an increase of nearly \$3 billion from last year. JPMorgan Chase and Citigroup have pledged to lend more, too.

Combined, though, the dollar amounts are relatively tiny compared with how much banks would lend in a healthy economy, said Robert DeYoung, a finance professor at the University of Kansas.

"These numbers would be dwarfed by the increase in lending after the economy starts recovering, and the economy hasn't really started to recover," DeYoung said.

Banks will be able to increase lending significantly, DeYoung said, only after businesses feel confident enough to take on more debt. Prodding banks to lend before then raises the risk that they'll make bad loans, he said.

"I wish I could conclude this wrap-up with a list of the three or four things we could do to immediately unlock small business lending," Fed Governor Elizabeth Duke said at the

conference. "But the problems are numerous and complex, and they will require creativity and persistence to solve."

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Bloomberg

Small Business Can't Get Loans From Bailed-Out Banks in U.S.



By Bob Ivry - Sep 16, 2010

Chip Besse figured he could hire a dozen people once he got a \$1.1 million small-business loan.

Wells Fargo & Co. turned him down.

U.S. taxpayers helped the San Francisco-based bank weather the 2008 financial crisis with a \$25 billion loan and \$9.5 billion of debt guarantees. By July 2009, when Besse wanted to buy and expand a Colorado snowmobile-rental business, Wells Fargo wasn't sharing the wealth, he said.

Besse, 29, had little success with 16 other lenders in 2008 and 2009. His list included New York-based JPMorgan Chase & Co., which agreed to provide less than 70 percent of what he wanted, and Charlotte, North Carolina-based Bank of America Corp., which Besse said kept him hopeful for a month before rejecting his application.

"I was furious," he said. "A lot of bankers are trying to justify their jobs and they waste everyone's time."

Besse, a Philadelphia native, was a partner in a London private equity firm with a credit score of 769 out of 850 and \$185,000 in a checking account. His search for a loan shows how difficult it is for small companies, which the Small Business Administration says created 64 percent of net new jobs over the past 15 years, to get credit -- even from banks that accepted billions in taxpayer-funded bailouts.

Trading, Not Lending

The U.S. government helped Wells Fargo, JPMorgan Chase and Bank of America back to health with \$189.3 billion in loans under the Troubled Asset Relief Program and debt guarantees through the Federal Deposit Insurance Corp. The rest of the country: not so much. That's in part because of policies the Federal Reserve has instituted to help banks, said Peter Morici, an economist and professor at the Smith School of Business at the University of Maryland in College Park.

“We’ve created a system that encourages bankers to trade, not lend,” Morici said.

A record 41 percent of small business owners say they can’t get adequate financing, up from 22 percent two years ago, according to a July report by the National Small Business Association, a 150,000-member advocacy group founded in 1937 that has surveyed entrepreneurs since 1992. New small-business loans fell 33 percent last year from 2008 to \$191.6 billion, the lowest total since 2000, according to the Federal Financial Institutions Examination Council.



Outstanding loans declined 16 percent as of June 30 compared with 2009, based on the council’s data. Tighter credit makes it tougher for entrepreneurs such as Besse to hire some of the 14.9 million Americans who are out of work.

No Data

Spokespeople for the three big banks that Besse approached said they didn’t track their small-business lending until last year, the middle of the longest economic downturn since the 1930s. It’s therefore impossible to gauge their recent volume against their performance before the credit contraction began.

JPMorgan Chase increased new small-business loans 36 percent to \$4.5 billion in the first half of 2010 over the same period last year. Bank of America lent \$8.2 billion, a 1 percent increase, the company said.

Wells Fargo lent \$6.6 billion; it has no comparable number for 2009, according to Marc L. Bernstein, head of the bank’s Business Direct and Small Business Segment. Banks define small businesses as those with annual revenue of less than \$20 million.

Little Demand

The three banks said they’re lending as much as they safely can in an environment with few creditworthy small businesses and soft demand.

“The last thing we want the banking system to be is excessively liberal in its lending standards,” said Bert Ely, a banking industry analyst in Alexandria, Virginia.

Entrepreneurs and their advocates counter that lending guidelines have become so strict that many business owners have given up trying to get credit.

“If the government had used the same lending criteria on the big banks that the big banks are using on us, the banks never would have gotten the TARP money,” said Carl Calhoun, who tapped \$400,000 in home equity to finance his St. Petersburg, Florida-based mattress company,

Commercial Bedding Co., after he couldn't find a lender.

The credit crunch for small businesses has drawn the attention of President Barack Obama and Fed Chairman Ben S. Bernanke, who have both called for more lending.

With the U.S. unemployment rate stuck at more than 9.5 percent for the past year, the U.S. Senate today passed legislation that would provide \$30 billion in loans to banks with less than \$10 billion in assets. The bill, which now must go to the House for a final vote, includes incentives for the banks to extend credit to small businesses, along with tax breaks for eligible companies.

'Still Struggling'

"At a time when small business owners are still struggling to make payroll and they're still holding off hiring, we put together a plan that would give them some tax relief and make it easier for them to take out loans," Obama said yesterday.

While they won't disclose their investing strategies, JPMorgan Chase and Bank of America were among four banks that reported a "perfect quarter" in the first three months of this year. That means they made money trading every day. Wells Fargo wouldn't reveal how its trading desk fared.

The Fed's low-interest-rate policy makes it easy for banks to lend to the U.S. government rather than small businesses, said David Rosenberg, chief economist and strategist for Toronto-based Gluskin Sheff & Associates Inc., which manages \$5.4 billion.

Safe Yields

Banks, which can borrow at the overnight rate of about 0.20 percent, can get safe yields of more than 2.5 percent buying 10- year Treasury bonds and other almost risk-free U.S. obligations, Rosenberg said.

Banks held a record \$1.597 trillion of Treasury and government agency securities on Sept. 1, according to the Fed, 44 percent more than at the start of the recession in December 2007. The 10-year Treasury yield was 2.72 percent yesterday.

"The biggest risk in buying Treasuries is that interest rates will rise, and the Fed has repeatedly said short-term rates would remain close to zero as far as the eye can see," Rosenberg said.

Lowering interest rates has been part of the Fed's effort to facilitate small-business lending, said David W. Skidmore, a spokesman for the central bank in Washington.

Strengthening Banks

“Easier monetary policy encourages banks to lend to small businesses and other borrowers since the rates banks receive on alternative investments are lower,” Skidmore said. “And we have focused on strengthening the nation’s banks so that they can resume normal lending as quickly as possible.”

The Term Asset-Backed Securities Loan Facility, a Fed lending program established in November 2008, helped finance more than 850,000 small business loans, he said.

One option the central bank has to spur lending is cutting the 0.25 percent interest it pays banks on reserve accounts it holds for them, Bernanke said on Aug. 27. The central bank’s emergency lending and asset purchases since September 2008 have swelled those accounts to more than \$1 trillion, according to Fed data, a more than 20-fold jump since the bankruptcy of Lehman Brothers Holdings Inc.

Senior loan officers at big banks reported loosening credit guidelines for small businesses this year for the first time since 2006, according to a July survey by the Fed. Still, small business owners complain that banks have reduced credit lines and increased interest charges.

‘Zero, Zippo’

“Bailing out Wall Street has done zero, zippo, nothing to help small business and create jobs,” said Dale R. Kluga, 50, president of Cobra Capital LLC, a finance company in Darien, Illinois, that funds about \$40 million worth of equipment for small businesses.

Besse said he was eager to run his own outfit, so he left Clearbrook Capital Partners LLP when he found Grand Adventures LLC in Winter Park, Colorado. The company rents snowmobiles and arranges tours.

“It was a lifestyle decision,” he said. “I was thinking, how can I not work so much and have fun? Something where I can watch my kids grow up and be a part of the community.”

Since he had an account with Bank of America, he said he applied there first for a loan.

Jefferson George, a Bank of America spokesman -- like all representatives of banks Besse applied to -- declined to comment on Besse’s case specifically.

Bear Stearns

Besse approached Bank of America in June 2008, as financial institutions were tightening credit in the wake of the near- failure of Bear Stearns Cos. Since then, Bank of America’s lending to

businesses with less than \$20 million in annual revenue has fallen, according to regulatory filings. It had \$15.9 billion in such loans outstanding at the end of June, down 12 percent from the same date last year and 20 percent from two years ago.

Though Bank of America said in a July 27 press release that it had loaned \$45.4 billion in the first half of 2010 to small and mid-size businesses, about 80 percent of the loans went to companies with more than \$20 million in sales.

"There's very weak demand from the smallest businesses," said Kathie Sowa, Bank of America's small-business credit executive, who is based in Sacramento, California.

Demand only appears to have slackened because entrepreneurs are frustrated with lenders and have given up asking for money, said Galen Gondolfi, a senior loan counselor at Justine Petersen, a nonprofit microlender in St. Louis.

"I can tell you straight out: Small businesses are not getting the financing they need," Gondolfi said. "We are experiencing unabated demand."

Incomplete Statistics

Statistics on lending to small business aren't always complete. Data collected by the Small Business Administration include only loans backed by the agency. The Federal Financial Institutions Examination Council, established in 1979 and consisting of the Fed, the FDIC and other bank regulators, tallies outstanding loans with original amounts of \$1 million or less.

Loans backed by the SBA so far this year are down 14 percent compared with roughly the same period in 2007, according to the agency's data. They increased 47 percent to \$12.3 billion over last year, when the U.S. economy was contracting. SBA loans went to less than 1 percent of small businesses in 2009, according to data compiled by Bloomberg.

Besse took his quest for a loan to Wells Fargo in June 2008. After the bank's underwriters said they wanted him to have experience in the snowmobile business, he went to work for the company he wanted to buy, he said.

In July 2009, Wells Fargo turned him down.

Went Snowmobiling

"I had a relationship with them," Besse said. "They came out to Winter Park in January and went snowmobiling. They promised so many things and didn't deliver anything."

Wells Fargo's Bernstein said the bank made \$13 billion in new small-business loans last year,

followed by \$6.6 billion in the first half of 2010.

"We do everything we can to say yes," Bernstein said in an interview. He declined to discuss Besse's individual case.

Besse said a loan officer from JPMorgan Chase "moved faster than anyone else and operated the most honorably" and ended up offering a loan for \$750,000 -- less than Besse needed.

The bank was looking to pare back risk, Besse said the loan officer told him.

Banks need cash cushions to insulate themselves against losses from the property bubble that they haven't yet written off, said Christopher Whalen, co-founder of Torrance, California-based Institutional Risk Analytics.

Buybacks Possible

Such losses equal about one-third of the amount they've already written off as unrecoverable, Whalen said. For Bank of America, JPMorgan Chase and Wells Fargo, the total amount would be about \$50 billion, he said, based on the banks' regulatory filings.

Bank of America and JPMorgan Chase may be on the hook for as much as \$78 billion in home loans they sold to buyers during the housing boom such as government-controlled Fannie Mae and Freddie Mac, according to an Aug. 17 report by Washington-based Compass Point Research & Trading LLC. Mortgage buyers can demand reimbursement for loans that violate underwriting guidelines or involve fraud.

Jerry Dubrowski, a spokesman for Bank of America, said credit quality is improving and he wouldn't forecast charge-offs. Thomas Kelly, a JPMorgan Chase spokesman, said the bank is ready and willing and will continue to lend. Wells Fargo's credit losses peaked in the third quarter of 2009 and the bank expects them to continue to decline, Chief Financial Officer Howard I. Atkins said Sept. 13.

Banks Under Pressure

Besse finally got an \$850,000 loan from Collegiate Peaks Bank of Salida, Colorado. Collegiate Peaks, with four branches and \$164 million in assets, borrowed \$2 million in TARP funds, about .002 percent of the \$95 billion in TARP money that went to Bank of America, JPMorgan Chase and Wells Fargo.

Banks with less than \$10 billion in assets make 60 percent of the country's small-business loans, according to the Independent Community Bankers of America. They're under pressure to

make fewer loans now, said Bob Hahn, chief executive officer of Community Valley Bank in El Centro, California, where the jobless rate is 30.3 percent, the highest in the U.S.

Small banks are failing at a rate of one every two days, according to FDIC data, and they're facing greater regulatory scrutiny because of that, Hahn said.

"We're being told to raise more capital or shrink assets," said Hahn, whose bank has two branches and \$60 million in assets. "What's the primary asset of a community bank? Loans. That's where the pressure is coming from."

'Financially Savvy'

Besse's snowmobile business got credit in part because it had sufficient cash flow and the snowmobiles could be sold off in the event of missed payments, said Kim Palmer, the SBA lending manager at Collegiate Peaks.

"Chip is very financially savvy and has accomplished a great deal for someone his age and we saw this as a way to establish a relationship with someone like that," Palmer said.

Besse hired 12 new employees by adding a guided back- country skiing business he called Powder Addiction.

Shawn Edmondson, 36, a husband and father of two boys, 9 and 7, was a carpenter in the area when work "slowed way down" because customers couldn't get loans to renovate their homes, he said. He estimated that his 2008 income was \$15,000.

Besse hired him last year as a ski guide. Edmondson said he earned about \$200 in salary and tips every day on the slopes, surpassing his full-year 2008 pay in the six-month ski season.

"We don't make a lot, but this is income that keeps us afloat," Edmondson said. "We can pay our mortgage and stay on top of things."

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