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Small business needs a break from banks, regulators

As a small business owner who is friends with a lot of other small business owners, I get tired of hearing all the news stories about how small business lending will get a shot in the arm from President Obama's programs or any other source in the foreseeable future. Because the system doesn't need a shot in the arm - it needs a kick in the pants.

Ron Sturgeon

Yesterday I listened to a speaker from one of the large banks talk about how many loans the bank was making, how it was doing its share to get the country moving again. That's nice, but it's also irrelevant. Forget the big banks; they were never the backbone of small business lending. Something is clearly amiss with the community banks, banks with less than \$1 billion (and sometimes as little as \$75 million) in assets.

These banks are simply not making business loans unless they are absolutely gold plated. Period. This isn't because they don't want to make loans; it's because they're being criticized by examiners, and, basically, their hands have been slapped so hard that they aren't willing to take any risks at all.

I have a great credit score and great relationships with banks. I've had the same home for 10 years; stable employment (I work for myself, and I've had the same employer for two decades); and I have founded, run and sold several companies. In other words, I've been damn successful but didn't go to college, which makes me mainstream America material. I also saw the savings and loan meltdown of the 1980s and I've seen the prime rate hit 20 percent, so I've got a few scars.

I can speak with some authority on this issue, having talked to various leaders I work with. God forbid I would need to borrow money on, for instance, real estate that is debt-free, or with a substantial amount of equity. If it's

worth \$1 million, and you want to borrow \$100,000 on it, or take any money out, you're out of luck. The regulators have made it clear to banks that they will be criticized for any loan where the borrower takes out any cash, regardless of the underlying fundamentals. That's nonsensical. And don't even try to use the property as collateral on a business loan.

I understand the real estate market is depressed, and that property values are uncertain, and that tenants are moving out. I understand that speculative property or non-income-producing property is an issue, and I understand that it's a problem when the borrower's ability to repay appears in doubt.

My bankers will tell you that I understand the requirements and underwriting issues as well as they do, which is unusual. I'm not sure how anyone who has less knowledge would even stand a chance when it comes to getting a loan.

Here's a case in point. Regulators are encouraging banks to re-amortize real estate loans, lowering the payments so the borrower can hold on until things recover. That makes perfect sense. But then the regulators want the bank to put up more capital for that loan. That doesn't make any sense at all, because banks aren't going to do that. They'll just call in the note, foreclose, and/or tell the borrower to bring more cash or move the loan to another bank. Really? Where is that "other" bank?

Recently a commercial broker told me that he hadn't closed a deal in four months because the sellers weren't willing to discount enough, and the buyers weren't willing to pay enough, and in most cases it didn't matter because there was no money available anyway. It doesn't matter how cheaply you can buy an asset if there is no lending source, because most of the buyer pool evaporates. The solution is simple: The regulators need to relax -

not on every loan, but use some common sense! There's no reason the system has to come to a screeching halt.

We've had underwriting standards for years; let's make them stricter, because everyone agrees that the money flowed too freely for the past few years. But let's also remember that allowing solid borrowers to use sound cash flows and good collateral to get loans will help them grow or sustain their businesses, and will also allow them to buy depressed assets from others, which will lift the values of those assets that currently have literally no market.

What's wrong with freeing up capital? What would be wrong with a loan made on a conservative basis to a solid borrower with a proven cash flow and a good credit history? Why wouldn't the regulators encourage that loan, to get money back on the street?

I haven't made it through the financial crisis unscathed, but I haven't been slaughtered either. But I feel for all the entrepreneurs in American whose small businesses have been crippled by the lack of credit. They don't understand why their debt-free building isn't worth anything as collateral on a loan, or why their receivables, which are still in good shape, are no good either. That's nonsensical and, frankly, sad.

Here's the simple truth from one of the "little guys" in a small business who sees the misery here in the street, and just can't relate to our government's plan to put more money in the system. There is plenty of money out there; someone just needs to stop sitting on it, and that won't happen until the regulators tell them it's okay to lend sensibly again. ■

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