



Tuesday, October 07, 2008 8:56:09 AM EST

New User? Register | Sign In



Home Online Edition Print Edition Events Marketplace Contact Us

Sign-up for eNews Alerts!

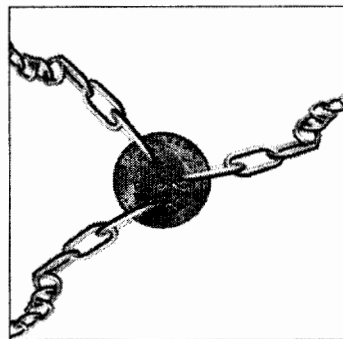
- News By Industry
- Supplements
- Submit News
- Quick Links

As credit tightens and loans dry up, small businesses may find themselves LOCKED OUT

Lenders making flight to quality

By Shankar P.

10/6/2008



Small and midsize businesses may find it harder and costlier to get loans as banks get more selective about how much — and whom — they should do business with, say bankers, consultants and other experts.

As confidence among banks yo-yoed last week, alongside the failure of the federal bailout plan to buy troubled mortgage portfolios, community banks in New Jersey seemed set on “shrinking back balance sheets and raising liquidity,” according to **Michael F. Downes**, executive vice president and chief lending officer at **Unity Bank** in Clinton.

“There is a bias toward slowing down loan growth,” Downes says. Applicants with marginal credit might require larger deposits, but Unity will continue lending money to businesses that “are well capitalized and have the ability to sustain in the current economy.”

Don Musso, president of **FinPro Inc.**, a bank consultation firm in the Liberty Corner section of Bernards, says he is advising clients to tighten their loan-to-value ratios by requiring borrowers to make higher down payments “and avoiding anything with excessive risk.” Musso says banks are now extra cautious with both lending and their investment portfolios.

“All the normal rules are out the window,” and banks in the state will apply “very strict, case-by-case underwriting” criteria for loan applications, Musso says. FinPro’s clients include about 70 banks and other financial institutions in New Jersey.

Still, Musso sees openings for small banks as the bigger among them contract. “As the big banks are reducing the size of their balance sheets, small community banks could become the engine of growth,” he says.

For small-business owners, “it will be tougher and more expensive, even after a government bailout,” says **Roger Cominsky**, a Buffalo, N.Y.-based partner in the financial institutions and lending practice areas at law firm **Hiscock & Barclay**.

“Interest rates ratchet up in a crisis and they trickle down slowly; the interim period is when businesses should be prepared to pay higher interest rates.”

Small-business borrowers “are going to have to make higher down payments, and the days of unsecured, unverifiable loans are gone,” Cominsky says. **Sun National Bank** of Vineland, for instance, has decided it will not pursue unsecured small-business loans, according to a spokesman.

Small businesses will find their banks not just tightening credit and underwriting standards, but also doing “more field visits and more off-site visits,” Cominsky says.

Banks will value hard assets that bring secure collateral, backing businesses in consumer commodities “that people cannot do without,” he says. Firms that supply “the Wal-Marts and the entertainment industry — movies and cheap distractions, not tourism — are seen as recession-proof.”

In the case of banks that fail, like **Washington Mutual**, or sold, such as **Wachovia**, borrowers face other risks, says **Khanh Vuong**, vice president and head of the banking group at **A.M. Best Co.**, a financial institution credit rating agency in Oldwick. “Letters of credit, financing or swaps may get pulled,” unless a borrower’s contract offers protection

Search Archives Enter search terms here...

advertisement

MORE FROM NJBIZ

PEOPLE WHO READ THIS...

Also read these stories.

Related Articles

- Climate Remains Challenging for Life and Annuity Cos., Says A.M. Best 10/6/2008
 - Kelsey Group Acquired 10/6/2008
 - State Considers Changes to Business Taxes 10/6/2008
 - Insurance Services Offices Invests in Atlanta Co. 10/3/2008
 - Loans Target Farmers in Disaster Areas 9/29/2008
- MORE

Most Read Articles

1. Foreign-Trade Zones Offer Product Savings
 2. Public Transit Factors into Site Selection
 3. Atlantic City’s New Bet
 4. Businesses Owe New Jersey About \$170M
 5. N.J. Lures Companies
- MORE

Most Recent Articles

- French Manufacturer to Acquire Fairfield-Based Electrophysics 10/6/2008
 - Kelsey Group Acquired 10/6/2008
 - Climate Remains Challenging for Life and Annuity Cos., Says A.M. Best 10/6/2008
 - Name Change for R.A.B. Food Group 10/6/2008
 - BUSINESS: Wall Street tumbles amid global sell-off 10/6/2008
- MORE

An Exciting New NJBIZ Publication



PUS DATE

11/17

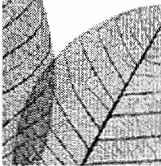
SALES CLOSE

10/15

MATERIALS DUE

10/17

In Partnership with US Green Building Council, NJ Chapter



advertisement

Advertising

- Media Kit
 - Print Ad Info
 - Web Ad Info
 - Event Sponsorships
 - Production Info
- #### Customer Service
- Register
 - Contact Us
 - Change of Address
 - Print Subscriptions
 - Print Renewals
 - Free Trial
 - Gift Subscriptions
 - Help & FAQ

advertisement

J.H. COHN ^{LLP}
Accountants
and
Consultants
since 1919

advertisement

Challenge your
checking!

advertisement

Greater
access.

WATCH THE STORY

Horizon

The Horizon Foundation for New Jersey

in the event of an acquisition, he says.

New Jersey's banking regulator examines and monitors state-chartered banks on a monthly basis, says **Paul Penna**, a spokesman at the state Department of Banking and Insurance. If the department's division of banking "notes significant changes, they ask banks to take corrective action."

Small businesses would seem particularly vulnerable to a credit choke, says **James Hughes**, dean of the Edward Bloustein School of Planning and Public Policy at Rutgers University. "Many small businesses rely on working capital loans and short-term finance to smooth out their revenue streams," he says. "They may have to lay off people if they depend on borrowing to cover short-term operating costs." He expects few businesses will be able to borrow money for expansions or to replace equipment.

James Kocsi, who heads the state operations of the federal Small Business Administration, says he first noticed banks losing enthusiasm for lending to his constituency in the early summer of 2007, as the subprime mortgage crisis began expanding. He says the SBA's partner banks approved 2,140 loans in the 11 months through August 2008 — one-third fewer than the number in the previous 11-month period.

SBA-approved loans come with federal guarantees of between 50 and 85 percent, which, in normal conditions, should encourage banks to lend, Kocsi says. He attributes the dip in banks' SBA lending to "a combination of banks raising standards and small-business owners getting more cautious" with their projects.

Four months ago, the 81-year-old **Investors Savings Bank**, in the Short Hills section of Millburn, began taking an interest in small-business lending, but it has since slowed, says **Domenick Cama**, its chief operating officer. The bank made less than \$2 million in small-business loans in the last two months of its financial year ending June 2008, according to the latest available data. That compares with the bank's total assets of \$6.4 billion as of June.

NEXT ▶

Print this page | Email to a friend

[Return To Top](#)

ONLINE: [Home](#) | [NJBIZ Daily](#) | [Sign-up for eNews Alerts](#) | [Business Supplements](#) | [Press Releases](#) | [Submit News](#) | [Advertise Online](#) |

PRINT EDITION: [This Week's Content](#) | [Subscribe](#) | [Renewals](#) | [Submit News](#) | [Advertise in Print Edition](#) |

ABOUT NJBIZ: [About NJBIZ](#) | [NJBIZ Staff](#) | [Directions](#) | [FAQ](#) | [Privacy Policy](#) | [Contact Us](#)

NJBIZ LINKS & RESOURCES: [New Jersey Real Estate](#) | [New Jersey Education](#) | [New Jersey Government](#) | [NJ Real Estate](#) | [Trenton NJ Real Estate](#)



© 2008 Journal Publications Inc. All information on this site are copyright of Journal Publications Inc. All images are the sole property of Journal Publications Inc. and no rights are granted for any use without the express written consent of Journal Publications Inc.

