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# Small business owners deal with tighter credit

Denver Business Journal - by [Renee McGaw](#) Denver Business Journal

Tom's Diner owner Tom Messina needed money to improve his business. Like millions of other business owners caught in a global credit crunch and slowing economy, he was hampered by a high flexible-rate mortgage, and unable to easily borrow the money he needed through traditional channels.

His banker steered him toward Colorado Lending Source, a nonprofit economic development corporation that helps small business owners access capital, primarily on owner-occupied commercial real estate and capital equipment acquisition projects.

Using federal New Markets Tax Credit financing from Colorado Lending Source and the nonprofit Community Reinvestment Fund in Minneapolis, Messina was able to restructure his old mortgage and obtain a fixed-rate, more manageable one.

He's using the savings to spruce up Tom's Diner, a 40-year-old Denver eatery on East Colfax Avenue. Improvements include structural and roof repairs, plumbing improvements, new carpeting and tables.

"The main thing was to get away from that fluctuating [interest] rate," Messina said.

Increasingly, experts are recommending that businesses take additional steps to shore up their banking relationships, and possibly consider new loan options.

"I think there's been more of a shift from people being more on the offense to being more on the defense, in terms of dealing with the economic challenges that are out there," said John Hughes, a partner at the accounting and business consulting firm **Clifton Gunderson LLP**, and current chairman of the board of the **South Metro Denver Chamber of Commerce**.

One-third of U.S. banks tightened their lending standards in late 2007 for commercial and industrial loans to small businesses, according to a Federal Reserve survey of senior loan officers in January. About 80 percent of U.S. banks said they had tightened standards for commercial real estate loans.

However, in a February survey by the **National Federation of Independent Business**, 35 percent of business owners said all their borrowing needs were being met, and only 4 percent said they were having trouble getting the financing they needed.

"For businesses that have an existing relationship with a bank, the most important thing is to keep that strong communication with the banker," Hughes said. "They should provide financial statements, ideally budgets and forecasts, and then do everything they can to meet the budgets and the forecasts. I think the bankers right now are just looking to develop that confidence that the business owners are proactively managing their businesses."

It's been an unusual cycle, according to Chris Chavez, spokesman for the Colorado district office of the **U.S. Small Business Administration**, which lends money to small business owners. Typically, demand for SBA loans increases when the economy slows down, but that hasn't happened this time. Instead, the number of loans made through the SBA's main loan guarantee program has declined.

"I've been here for almost 20 years, and this is the first time I've really seen our loan programs decrease when the economy is slowing," Chavez said. "Typically, our programs are countercyclical, and as the economy begins to slow, lenders tend to use our programs more because they can mitigate risk factors by using our loan guarantee program."

The SBA hasn't changed its lending policies, Chavez said. He speculated that rising gas prices and other economic factors may be making business owners reluctant to borrow for expansion. It's possible, also, that individual banks that make SBA loans have tightened their policies, he said.

"We're trying to be as aggressive as possible to make sure we get money to the small businesses that need it. Now's not the time to pull back; now's the time to help the small business community," Chavez said.

Mike O'Donnell, executive director of 18-year-old Colorado Lending Source, hopes businesses will turn to CLS in time of need.

"Our role is not to compete with the banks, but to complement what the banks do in an environment where access to capital is becoming harder and harder for businesses," O'Donnell said. "We offer something else to think about, another option to consider that in some cases might make more sense for them than some other options that are out there."



Kathleen Lavine | Business Journal

Thomas Messina, owner, stands in Tom's Diner on the corner of Colfax Avenue and Pearl Street.

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Because of the credit crunch, many banks have slowed decision-making, even on guaranteed loans. CLS currently has 60 loans awaiting bank approval, O'Donnell said.

"This is the largest number we've ever had in a holding pattern, where a borrower has come to us and said 'this is what we want to do' and we've taken it through our internal process but the bank hasn't yet been able to finalize their approval," O'Donnell said.

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