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Small businesses still find big banks to be reluctant lenders

Despite ads by Bank of America and others touting their records of helping small businesses, some merchants say their loan applications are routinely rejected. They have more success with small banks and non-bank lenders.

By Alana Semuels

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The TV commercials are heartwarming — Richard and Gloria Pink, sitting in their busy hot-dog stand on La Brea Avenue, remember how Bank of America gave Richard's parents the loan that helped them build their wiener business more than 50 years ago.

In the ad, Bank of America says it helps small businesses grow by giving them loans, which is especially important here in California, in an economy that can't seem to catch a break.

The ad is one of many by the country's biggest banks touting their lending records in recent months, but the reality has proved much different for business owners such as Paul Boettcher, who co-owns five Los Angeles-area restaurants, including Busby's East and West, the Sagebrush Cantina and Ye Olde King's Head.

Boettcher said that in the last few years he has applied for loans from dozens of banks he's done business with in the past in hopes of opening three more restaurants. With real estate values depressed, he said it's a great time to buy closed restaurants on the cheap. Real estate has plummeted in value, so he can buy up bankrupt places for cheap and turn them around.

But the big banks didn't look twice at his loan documents before turning him down, said Boettcher, who has never managed a restaurant that failed.

"The smaller banks are the only ones who will even entertain the idea," said Boettcher, a slim man with Clark Kent-style glasses and a graying soul patch.

Economists have put forth many reasons the nation's economy isn't creating many jobs. They say that businesses aren't hiring because there's not enough consumer demand, because jobs have been outsourced, because regulations or "uncertainty" are killing businesses' interest in expanding.

But business owners such as Boettcher say they're not hiring for another reason: They can't get the money to expand. The very same banks that had loose lending practices before the recession are now too hesitant to lend.

"Banks are more comfortable making loans to large corporations, but many are flush with cash and may not need to borrow," said **Bernard Baumohl, chief global economist of the Economic Outlook Group**. "Small businesses are the ones having the most difficulty."

That doesn't bode well for the growth of an economy in which private-sector employers play an increasingly important role as governments continue to slash payrolls. Small businesses, those with fewer than 500 people, employ half of all private-sector employees.

Loans to small businesses totaled \$607 billion in the three months that ended June 30, down from \$609 billion the preceding three months, according to data from the Small Business Administration. In Los Angeles, banks have made 2,477 loans to small businesses so far this year; in all of 2007, they made 6,194 loans.

"There's still not an incentive for banks to lend," said banking analyst Nancy Bush, a contributing editor to SNL Financial. "You can have very good financials, and they are still very reticent."

Some banks say they are being more cautious than they were four years ago, and with good reason. Then, they say, the economy was booming, and new businesses didn't have trouble making money and repaying loans. Now, many small businesses are on shaky footing. Some have gone deeply into debt.

"We are obviously trying to approve every applicant we can," said Marc Bernstein, executive vice president of Wells Fargo's Small Business Segment. "But is it harder to get a loan than it was four or five years ago? Of course, and that's the way it should be."

Wells Fargo lent \$3.3 billion to small businesses in the third quarter, up 0.6% from the same period last year.

It's fallen on smaller banks and alternative lenders to fill the gap. Approval of small-business financing requests by small banks and non-bank lenders grew to its highest level of the year in October, according to a survey of 1,000 loan applications on Biz2Credit.com, a small-business loan broker in New York. Loan approvals increased to 46.3%, from 45.1% the month before. The approval rate from big banks: 9.3%, down from 12.8% in January.

Glenoaks Imaging Professionals in Glendale eventually turned to a small bank after getting turned down for a loan 19 times, said Ashley Shakhbandaryan, director of operations.

"It's a horrible process," said Shakhbandaryan, who was seeking a \$150,000 loan to buy

an MRI machine.

Ed Czajka, chief financial officer of Preferred Bank in Los Angeles, said that small banks like his are willing to consider loans for relatively small amounts of money — something bigger banks might not want to spend time on.

"A lot of these smaller loans fall below the radar screen of a lot of large banks. They don't want to deal with a credit of that size," he said. "But our loan pipeline is pretty healthy right now, and we are finding a lot of good transactions out there."

It is Czajka's bank that is now considering giving Paul Boettcher the loan he's sought for so long. Boettcher is relieved that money and a new business may finally be on the horizon. But he knows that these days, nothing is certain until there's money in the bank.

After all, the same bank turned him down last year, he said.

"You never know," he said. "They haven't signed anything yet."