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Credit squeeze hits local businesses
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Getting money to run businesses or finance projects in New Jersey has become more difficult, just like the rest of the country, as turmoil in the financial markets continues to tighten the availability of credit.

Some recently launched businesses have had trouble getting credit, and troubles roiling the nation's biggest banks in recent weeks have led some companies to turn to community banks for lines of credit.

And getting money there isn't easy. Local banks are tightening lending standards, asking for more money up front and quicker payback timelines, and are only willing to finance smaller portions of projects as liquidity — the lifeblood of businesses and commerce — becomes scarcer around the world.

But even as the Federal Reserve said Monday it will inject \$630 billion into the global financial system during the worst banking crisis since the Great Depression, New Jersey bank regulators report no significant impacts on state-chartered banks.

"While it is somewhat too early to tell, we are monitoring the situation closely," said Paul Penna, a spokesman for the state Department of Banking and Insurance.

State regulators may not know the extent of impacts, if any, until state-chartered banks submit required reports on their financial health at the month's end. Based on information submitted in August, Penna said, "State chartered banks remain well-capitalized."

While state banking regulators were reluctant to comment extensively Monday, Penna said regulators were not aware of any state-charted banks having trouble borrowing from other banks.

Banks lending to other banks is essential for the financial system to function, and financial institutions' reluctance to do so in other corners of the economy has caused alarm.

"We haven't seen the large banks cut off the community banks, but you just get

concerned as we move forward, as the markets continue to tighten, it could potentially have an impact," said John McWeeney Jr., president and chief executive officer of the New Jersey Bankers Association. He added that local banks primarily rely on deposits for their liquidity, as well as the Federal Home Loan Bank and larger banks.

Jim Silkensen, president of the New Jersey League of Community Bankers, said most of his organization's members are reporting increases in loan volume.

"They do have funds to lend," he said. "But if they reach a point where the markets aren't supplying new money, if you can't get new deposits coming in, or if it's very difficult to borrow elsewhere, then they're going to have to limit the amount of lending."

Borrowers have turned to community banks for lines of credit to shore up their working capital, which funds day-to-day operations and cover costs while revenue flows in.

When employees of Jersey City-based Provident Bank solicit potential borrowers, "we are hearing stories about credit lines being curtailed or people not being able to achieve" credit requirements, said Paul M. Pantozzi, the bank's chairman and CEO.

Pantozzi estimates his bank's commercial lending is up 20 percent in the first nine months over the same period last year. "We are out there lending," he said, adding that the market turmoil hasn't deterred them.

Still, for recent start-ups, getting financing has been a particular challenge.

"The consensus of opinion is that credit right now doesn't exist," said Vincent D'Elia, director of the Small Business Development Centers' Bergen Community College chapter in Paramus. "I think start-ups are out of the picture right now as far as lenders go."

Community-based organizations and credit unions such as Paragon Federal in Montvale remain willing to lend to some businesses, D'Elia said. But the core requirements apply more than ever, he said. Among them: collateral, a solid business plan that identifies an exploitable market and a credit score of at least 700.

"If you want to get buy-in, you better have all the cards on the table," D'Elia said.

Government-backed loans to small businesses in New Jersey have dropped by one-third this fiscal year, which ends today, said Jim Kocsi, district director at the U.S. Small Business Administration's office in the state.

While lenders have pulled back, business owners also seem reluctant to even try to ask for more capital until the financial storm passes, he said.

"The overall economic news of the last couple months has even more businesses spooked about the economy and where it's headed and where it's going end," Kocsi said. "I feel that many of them are just waiting for some kind of signal or a sign that things are going to turn around."

The construction industry is feeling pinched, too.

Home builder Mike Karvellas of Grace Michael Builders Inc. in Allendale says getting financing to build is tougher than a year ago. Banks want bigger deposits, bigger monthly payment ratios and are holding to payback deadlines.

Karvellas said the 20 percent to 25 percent deposits banks required has jumped to 40 percent. Banks also want builders to be able to pay as much as 25 percent of the loan each month, compared with 10 percent previously.

Additionally, banks want the loans paid off in six months to a year, compared with three years, and banks no longer let the builders estimate when homes might sell and then pay the loan back, he said.

For some businesspeople, the credit crisis has caused only uncertainty.

August Sodora, president of Swift Electrical Supply Co., a Teterboro company with 100 employees that supplies builders and renovators, said his business has had no trouble getting credit from its lender, TD Banknorth, which assured Swift that it has little exposure to subprime mortgages.

And, although the residential construction market has been slow for more than a year, commercial builders are still buying Swift's products.

"What we see more than anything else is fear of the unknown," Sodora said.

"It's very hard to plan. We're setting goals for salespeople, but it's hard to have any feel for how things will be next year."

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