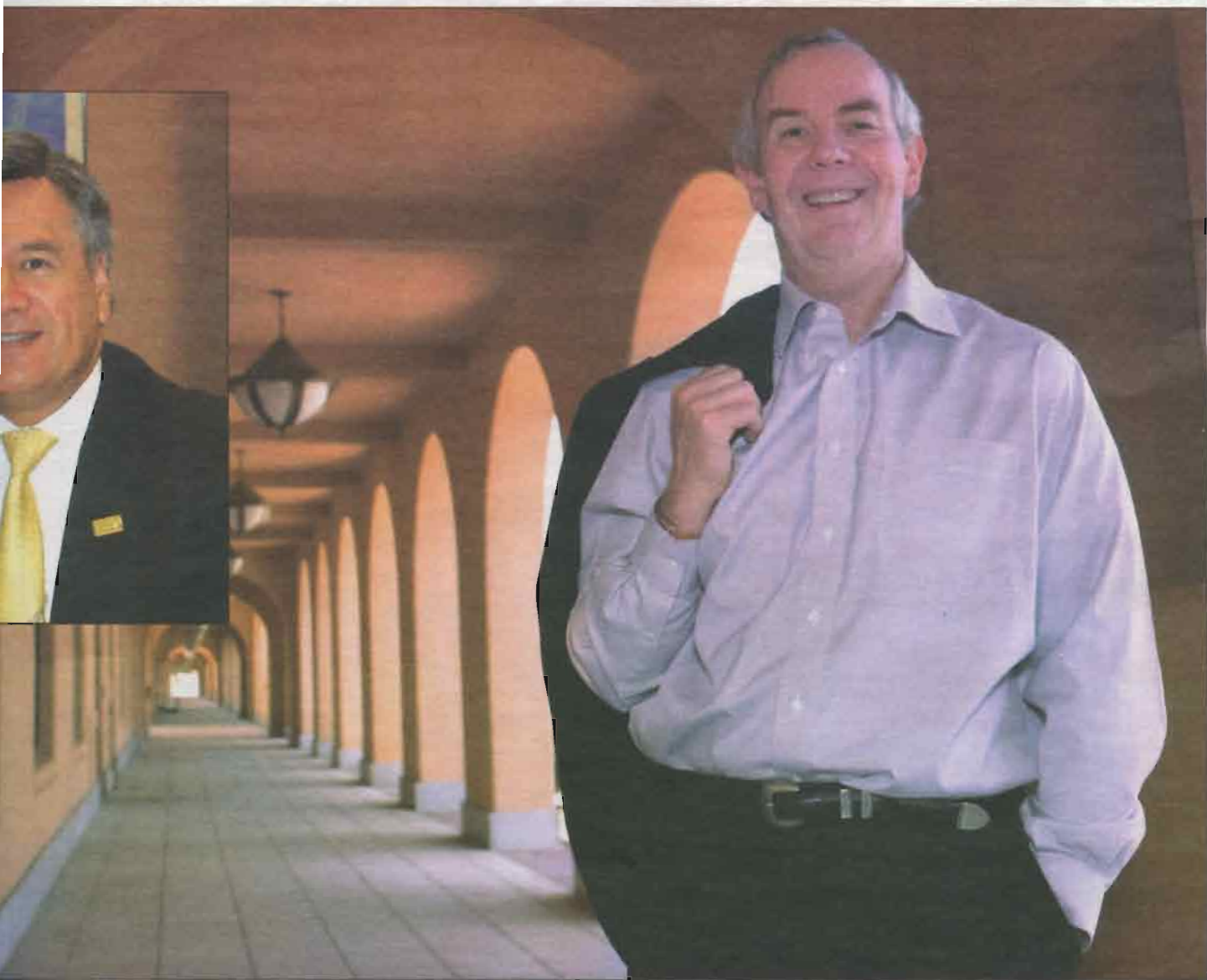


# FINANCIAL SERVICES



Stephen Whalen

## Risk-Averse Lenders Take Their Credit Options More Seriously

Both Large and Small Institutions Scrutinize Borrowers' Applications

**BY MIKE ALLEN**

The credit crunch is real.

Burned by an escalating rise in foreclosures mainly in subprime mortgages that reset to higher interest rates, many banks, savings

The local SBA district reported 651 loans in its 7(a) program used for working capital, for the nine-month period that ends June 30. The total gross loan amount was \$164.8 million. That compares to 1,039 loans for a total gross of \$145.2 million for the like period of the prior fiscal year.

For another type of SBA loan used to purchase property called 504 loans, the local district reported 148 loans for \$98 million for the nine months ending June 30. That compares to 181 loans totaling \$111.5 million the SBA guaranteed for the same period a year earlier.

# Accion Micro-Loans Can Be Major Boost to Startups Without Collateral

## Nonprofit's Credit Helped Launch Cleaning Service That Grew to \$455K

BY MIKE ALLEN

Despite running a house-cleaning business with increasing revenues and clients for more than two years, Christine McDannell couldn't get a business loan from a bank.



Christine McDannell

"I must have gone to five or six different banks and they all declined me," said the owner of **Cleanology**, a San Diego-based business that the 27-year-old launched in late 2003.

"It didn't have anything to do with my credit history. They just don't want to touch a small loan. It's not worth the time and effort for a bigger bank."

Fortunately, a friend told McDannell about Accion San Diego, a nonprofit that

specializes in providing micro-loans from \$300 to \$35,000 to low- and moderate-income entrepreneurs.

In May 2006, McDannell obtained a \$6,000 loan to redo the business' rudimentary Web site, which helped her better market the service. Cleanology continued growing, and later that same year, she obtained a loan guaranteed by the Small Business Administration for \$25,000.

With that sum, she paid off the three-year term loan from Accion that carried a 14 percent interest rate, and used the rest to pay for a new van, supplies and marketing.

The following year, she obtained a \$15,000 loan from Accion at a 10 percent interest rate for a company car.

### Loan For Acquisition

By 2007, Cleanology was growing so fast that McDannell decided to buy out another San Diego house-cleaning service, but needed help. She applied and was approved for another loan guaranteed by the SBA, this one for \$50,000, to finance the acquisition.

"I know that (getting and paying off the Accion loans) helped me get those other

SBA loans, and to get my business to the next level," McDannell said.

Elizabeth Makee, director of operations for Accion, said McDannell's story is similar to the experience of other small, and mostly new, businesses when attempting to find credit from traditional lenders.

"Many of the clients that we see have absolutely no credit history," she said.

Most banks require that a business be operating at least two years, and they aren't usually interested in making loans for less than \$100,000, she said.

When it comes to collateral, many of Accion's clients don't have much, certainly not a house to put up.

To satisfy this key part of the lending arrangement and help ensure the loan is repaid, Accion accepts a lien on the borrower's vehicle or on the assets of the business, Makee said.

Annual interest rates are higher than those charged by banks, and range from 12 percent to 18 percent, but by paying down the loan or paying the balance off early, borrowers qualify for lower rates for additional loans.

Through June 30, Accion has made 70

loans for nearly \$794,000. The average loan size is \$10,000. Last year, for the same six-month period, the organization did 78 loans for a total sum of about \$742,000, or an average of about \$9,500.

"We're seeing an increase in the number of startup businesses, particularly those in the retail and restaurant industries," Makee said.

### Banks Fund Accion

While banks routinely reject some small startup businesses, they are the funding providers to Accion. The lenders do it because it helps them maintain higher ratings with bank regulators regarding their community reinvestment activities. They also may benefit one day if the Accion borrowers grow large enough to qualify for a traditional loan, Makee said.

That is exactly the case with Cleanology, which generated \$455,000 in revenue last year, and is on track to break \$500,000 this year.

"Running a company in the beginning is very difficult and stressful without having a loan," McDannell said. "Accion's loan made all the difference to our business. It's amazing."

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underwriting continues to rear its head in the form of increasing delinquencies and foreclosed mortgages.

"Our underwriting is tighter than it was a year ago," said George Haligowski, chief executive at **Imperial Capital Bancorp Inc.** of La Jolla, among the area's largest commercial banks with \$4.1 billion in assets.

For example, Imperial Capital now

requires borrowers for land development loans to increase the amount of cash in transactions to 25 percent, up from 20 percent. It also curtailed construction lending, where the bank has experienced a surge in delinquent loans, Haligowski said.

"We're pretty much maxed out of that part of our portfolio," he said.

Many smaller lenders have been hurt by quantum jumps in the secondary market where commercial banks generally sell loans that they aren't retaining in their portfolios.

In recent months, the usual buyers — much larger banks — are dealing with increased problem credit issues and are cutting back on the purchase of these loans, Chilcott said.

"The secondary market has pulled back and tightened up, and small banks that need to sell those loans for liquidity purposes are being constrained," he said.

Utah-based Zions Bancorp, one of the region's biggest buyers of SBA loans, has been far more selective in what it purchases, Chilcott said.

California Bank & Trust, the area's largest bank with more than \$10 billion in assets and a subsidiary of Zions, said it is doing more lending this year than it did in 2007, but many lending decisions are based on the type of loan sought.

"It depends on what you're borrowing the money for," said Tory Nixon, division president for San Diego, overseeing CB&T's 33 area offices.

Loans on office buildings may not get a serious look, but loans for commercial

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and industrial businesses that show strong financials will merit serious consideration, Nixon said.

CB&T made about \$1.1 billion in new loans for the second quarter. The bank also reported net income of \$25 million in the quarter, and \$47.4 million for the first six months of 2008.

Nathan Rogge, chief executive at **First Business Bank** based in University Towne Center, confirmed it's more difficult to sell the loans his bank doesn't intend on keeping. That's especially true of commercial real estate loans where the property's use cannot easily be converted, and carry higher market risks, Rogge said.

Unlike many competitors, First Business Bank is expanding its sales force and is seeking to make more loans. Formerly called Ramona National Bank, it got into a bit of trouble three years ago with regulators, causing investors to boost capital by \$18 million in 2006. That capital is now giving the bank a strong base on which to grow its loan portfolio.

## Scooping Up Discards

**Embarcadero Bank**, based in downtown San Diego and which opened in late 2006, has been seeing more loan opportunities as more local and national banks pull in their reins, said President Maria Kunac.

"In many instances, they're throwing the baby out with the bath water, and we're trying to catch the babies," said Kunac.



Maria Kunac

The small bank has seen a big uptick in

the number of transactions, most of which the bank passed on, she said.

While the bank rejected some questionable loan opportunities, Kunac said it continues to consider potential customers, who have been pushed away by larger banks.

But not all of the larger lenders are pulling back. Union Bank of California, based in San Francisco and with about \$58 billion in assets, reported increased lending in most categories for the first quarter, said Joe Benoit, the San Diego market president.

"In San Diego we're still seeing strong demand," Benoit said.

Bob McGill, chief executive and chairman of **Neighborhood National Bank**, said his bank is being "very selective" about the new loans it's making. "We're probably tighter (in underwriting) than we were one or two years ago," he said.

And yet, NNB's loan originations were up 17 percent in the first quarter over the first quarter of last year, he said.

The economic turmoil has even thrown longtime bankers like McGill. "It's a very difficult, strange period of time we're in now," he said. "I've been in banking for about 40 years and have never seen anything quite like this."

But others, including San Diego State University finance professor Tony Cherin, said problems the industry is facing today are nowhere near the extent of the Depression or even the savings and loan crisis that ran from the late 1980s to early 1990s.

The banking system remains in solid shape, and lenders are all looking for good borrowers. That's their business, and to stay in business, that's what they have to do, he said.

"If we don't lend any money, we won't earn any money."