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CASCADE

INSIDE:

CDFI Business Lending Grows During Recession

By Keith L. Rolland, Community Development Advisor

The current economic situation has changed financing prospects for small businesses around the country. To better understand how community development financial institutions (CDFIs) are responding to the need of small businesses for financing, we asked the executive directors of seven CDFI business lenders about their recent experience in loan demand, lending policies, and loan performance.*

To summarize, the CDFIs are receiving more inquiries and applications, including some from established businesses approaching CDFIs for the first time. The CDFIs are making more loans, and the average loan size increased from 2008 to 2009 at most of these institutions.

The CDFIs are experiencing a rise in delinquencies and are therefore increasing loan monitoring, working closely with existing borrowers and making loan modifications when necessary. They are also more carefully scrutinizing loan requests from start-ups. In addition, regarding their own funding, the CDFIs are concerned that past levels of bank support may not be maintained.

Application Demand

The Cooperative Business Assistance Corporation (CBAC), based in Camden, N.J., reported that it received 102 completed applications in the eight-month period that ended February 27, 2009, nearly equal to the number it received in the full year that ended June 30, 2008. CBAC's portfolio increased 7.5 percent during the eight months.

Michael Diemer, CBAC's executive director, said: "Our financing has risen as conventional financing has fallen and owners

...continued on page 11

Swisco Inc., a window manufacturer in Camden, N.J., obtained a loan from the Cooperative Business Assistance Corporation. Shown are David Pallas, owner (left), and his brother Paul.

* Comments are organized in order of the three CDFIs with a large business loan dollar volume in the past three years (Cooperative Business Assistance Corporation, Community First Fund, and The Progress Fund), followed by four microlenders (Community Capital Works Inc., Economic Opportunities Fund, First State Community Loan Fund, and Rising Tide Community Loan Fund).

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Message from the Community Affairs Officer

Late last year, as the subprime mortgage crisis unfolded, the credit crunch expanded, and the economic downtown continued, we began getting requests to address the concerns of small business. Although we were then focused on the residential turmoil, we planned this issue of *Cascade* to respond to that need. It will be no surprise to learn that what we confirmed is that there is a problem, but there are also some interesting solutions.

Marty Smith reviews a study prepared for the National Federation for Independent Business Research Foundation. The business owners surveyed expressed their concerns about the recession's impact on their operations and their subsequent inability to get bank financing. Clearly some are worried that they may not survive the recession.

Additionally, a more direct indication of changing credit standards and lending volumes can be found in the Fed's quarterly Senior Loan Officer Opinion Survey. The survey (available at www.federalreserve.gov) clearly indicates that banks have reduced lending and tightened underwriting in response to the economic downturn.

But as the banks have tightened their underwriting criteria, other entities are stepping into the breach. Caren Franzini, CEO of the New Jersey Economic Development Authority (NJEDA), has written an article on three NJEDA programs created to reduce risks to banks while also addressing the needs of business borrowers. She also discusses how the federal government's economic stimulus efforts detailed in the American Recovery and Reinvestment Act (ARRA) complement and expand efforts by the NJEDA to support manufacturing in the state. Nationally, the ARRA also enables the U.S. Small Business Administration to expand its support of small businesses by eliminating fees and increasing guarantees, as David Dickson reports.

For local community development financial institutions (CDFIs), the credit crunch has had both positive and negative effects, as you will see in Keith Rolland's story about the challenges for CDFIs as they experience changes in loan demand, lending policies, and loan performance. The seven CDFIs interviewed have seen an increased number of loan requests from borrowers with better credit profiles, but some also report increasing loan loss reserves for existing customers. Meanwhile, we have heard separately that other CDFIs have reported that investors have pulled back and are not investing in the CDFIs at the level they may have in previous years.

We also have articles from Delaware, the rural northern and central parts of Pennsylvania, and Small Business Development Centers in this Federal Reserve District.

Please take the time to read these articles. These are tough times, but there are solutions.

Dede Myers

Recovery Act Gives SBA Tools to Boost Small Businesses

By David C. Dickson, District Director, Philadelphia District Office, U.S. Small Business Administration

The Obama administration has taken steps to alleviate the small business credit crunch by offering new incentives to small business borrowers and lenders through the American Recovery and Reinvestment Act (ARRA) and by actions of the Department of the Treasury.

With tax incentives and steps to encourage lending, the ARRA recognizes that assisting small businesses is an important step toward getting our economy moving again. The bill's primary goals for the U.S. Small Business Administration (SBA) are jump-starting job creation, restarting lending, and promoting investment in small businesses.

The ARRA provides entrepreneurs and lenders with financial relief during the current economic crisis that will help encourage borrowing and lending to all small businesses, including start-ups.

For small businesses, the act temporarily eliminates SBA-guaranteed 7(a) and 504 loan fees and offers tax credits. For lenders, it temporarily eliminates 504 loan fees. The fee eliminations are retroactive to February 17. The SBA is developing a mechanism for refunding fees paid on loans since then.

The act also supports guarantees of up to 90 percent on most types of 7(a) loans to qualified small businesses. The temporary loan fee eliminations and 90 percent guarantee provisions will apply to approximately $8.7 billion in 7(a) loans and $3.6 billion in 504 loans. The SBA estimates that this will cover lending in both programs through the calendar year of 2009.

In addition, the Treasury Department will commit up to $15 billion in funds from the Troubled Asset Relief Program (TARP) to help unfreeze small business lending. This will particularly benefit community banks, credit unions, and other small lenders. The Treasury will purchase existing and new SBA-backed loans made by banks, freeing up more capital so these banks can restart their lending to local small businesses.

The act provides the SBA with $730 million, including $375 million to cover the costs of temporarily eliminating loan fees and raising guarantee limits on some loans, $255 million for a new loan program to help viable small businesses with immediate economic hardship make payments on existing loans, and additional funding for SBA-backed microlenders.

The ARRA also authorizes the SBA to use its 504 program to refinance existing loans for fixed assets as part of a business expansion project; to use its guarantee authority to establish a secondary market for bank loans made under the 504 loan program; and to make loans to broker-dealers who buy SBA-backed loans from lenders and pool them for sale to investors.

Also under the act, small businesses that need surety bonds to compete for construction and service contracts can qualify for SBA-backed surety bonds of up to $5 million, more than double the previous maximum of $2 million.

Another element of the ARRA that is already in place is the SBA's microloan program. These nonprofit, community-based lenders make loans of up to $35,000 to small businesses and start-ups. Because this program is already operating, a borrower can go to a microlender today and apply for a loan.* The act funds $50 million in new loans by these lenders, plus $24 million to help pay for the technical assistance and training they provide to loan applicants.

We have already seen significant interest in a new program, America's Recovery Capital (ARC) Loan Program, by both lenders and small businesses. Once in place, this temporary new program will offer deferred-payment loans of up to $35,000 to viable small businesses that need help making payments on an existing, qualifying loan for up to six months. These loans will be 100 percent guaranteed by the SBA. Repayment would not have to begin until 12 months after the loan is fully disbursed, giving small businesses time to refocus their business plans in order to succeed in the long run.

The ARRA helps SBA-licensed investment companies by raising the level of SBA funding they can receive to make venture capital investments in small businesses. It also raises the percentage of their investments that must be made in smaller businesses from 20 percent to 25 percent.

For further details, visit www.sba.gov. David C. Dickson can be reached at david.dickson@sba.gov. In New Jersey, contact James A. Kocsi at james.kocsi@sba.gov. In Delaware, contact Jayne E. Armstrong at jayne.armstrong@sba.gov.

* For a list of SBA microloan providers, go to www.sba.gov/services/financialassistance/sbaloantopics/microloans/index.html.

New State and Federal Resources Help New Jersey Businesses Face Challenges of National Recession

By Caren S. Franzini, Chief Executive Officer, New Jersey Economic Development Authority

New Jersey businesses now have additional resources to help them face the financial challenges of the national recession.

Two state programs established under Gov. Jon S. Corzine's Economic Assistance and Recovery Plan have made $170 million in new funding available to encourage capital investment and job creation and retention. The governor's comprehensive plan to stimulate New Jersey's economy, create jobs, combat hunger, provide home energy assistance, and take steps to prevent home foreclosures was announced in October.

The Main Street Program

Some businesses that are looking to expand, or just survive, in the current economic climate have found it more difficult to obtain adequate credit from their banks. One new initiative, the Main Street Business Assistance Program, offers state support to encourage bank lending to small and mid-size businesses and nonprofit organizations in New Jersey through loan participation and credit enhancement. The program is designed specifically to help banks provide funding to creditworthy companies so they can weather the economic downturn, continue their growth, and remain competitive in New Jersey.

Developed in partnership with the state's banking community and the New Jersey departments of Banking and Insurance and Treasury, the Main Street program has been funded by a $50 million state appropriation and is being administered by the New Jersey Economic Development Authority (EDA). The investment will potentially leverage more than $200 million in bank funding for businesses and nonprofit organizations in New Jersey.

The Main Street program has two components: a loan participation and guarantee product for bank financing and a line of credit guarantee offered for the first time through the EDA's 14 preferred lender-partners.

The Main Street program has two components: a loan participation and guarantee product for bank financing, and a line of credit guarantee offered for the first time through the EDA's 14 preferred lender-partners.

For term loans secured by fixed assets like buildings and equipment, the EDA will provide a maximum participation of 25 percent up to $1 million in a bank loan and a maximum bank loan guarantee of 50 percent up to $2 million. For working capital loans, the EDA will provide up to 25 percent of a bank loan, not to exceed $750,000, and a maximum guarantee of 50 percent up to $1.5 million. The interest rate on EDA loan participations is fixed at 5 percent for a maximum of five years. Borrowers also can use the Main Street program to refinance higher-interest debt. The line of credit guarantee, which can be

McKella 280 Inc., a Pennsauken-based business providing graphic design, digital imaging, printing, and fulfillment services, closed a $1.2 million line of credit with Susquehanna Bank that includes a $250,000 guarantee provided through the EDA's Main Street Business Assistance Program. McKella also closed a $2 million loan with Susquehanna Bank that includes $500,000 from the EDA and a $375,000 guarantee of the bank's portion of the loan under the EDA's Statewide Loan Pool for Business program. The company provides 98 jobs.

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Mark Giunta, co-owner of Abbruzzi and Giunta's Italian Market in Mount Laurel, N.J., is expanding the market with a loan from Cornerstone Bank that includes a participation from the NJEDA's Main Street program.

used for fixed assets or working capital, is set at a maximum of 50 percent of the bank amount up to $250,000. The aggregate EDA exposure cannot exceed $2 million, or 50 percent, of the total transaction.

A specialty food market and catering service in Mount Laurel was the first business to finalize funding under the program earlier this year. Abbruzzi and Giunta's Italian Market and Catering closed a $1,546,000 loan with Cornerstone Bank that includes $211,000 from the EDA. The loan will be used to consolidate existing financing and expand the market's catering business.

InvestNJ

More than 1,000 applications have been submitted for another new EDA-managed program called InvestNJ. This $120 million state-funded program offers a $3,000 grant to New Jersey businesses for each new job created and retained for one year, not to exceed $500,000 per grantee. It also authorizes the payment of grants equal to 7 percent of a business's qualifying capital investment of at least $5,000 made prior to January 1, 2011, with a maximum of $1 million per grantee.

Applications received show that companies plan to create nearly 24,000 new jobs and make capital investments totaling close to $100 million in their projects.

Because the allocation for this grant program has been exhausted, new applicants are currently being placed on a waiting list and will be considered on a first-come, first-served basis if earlier applicants do not meet program qualifications.

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Dave Wiggins is completing the purchase of A-1 Millwork, a manufacturer of doors, staircases, and premium moldings in Waterford, N.J., with a direct loan from the EDA. The 35-year-old company has 13 employees.

Federal Economic Stimulus Complements State Plan

The recently enacted federal American Recovery and Reinvestment Act is an excellent complement to Governor Corzine's state plan. One of its components expands uses for tax-exempt bond financing, which can help generate business growth and community investment in New Jersey.

For many years, the EDA has been the conduit bond issuer for federally authorized tax-exempt bond financing available to manufacturers and other qualified borrowers. Many tax-exempt bonds are purchased directly by banks and other financial institutions. Since 2006, for example, the EDA has provided nearly $180 million to 50 manufacturers, supporting the creation of 1,200 new jobs and over $260 million in total capital investment.

This new two-year federal initiative expands the definition of manufacturing to include the creation or production of intangible property, such as a patent, copyright, formula, process, design, pattern, format, or other similar item, thus opening this low-cost, long-term financing to companies within the technology and pharmaceutical industries. Prior to the act, only facilities involved in the manufacturing of tangible property were eligible.

To learn more about these initiatives, visit www.njeda.com or call 1-866-534-7789.

Established Businesses Seek Help from SBDCs

By Keith L. Rolland, Community Development Advisor

During the past year small business development centers (SBDCs) have seen a significant increase in demand for their services from well-established businesses looking for ways to survive the recession.

SBDCs are university- or college-based regional centers that provide one-on-one counseling by consultants and students as well as seminars to new and established businesses.

Christian Conroy, state director of Pennsylvania's 18 SBDCs, said that many of the centers' services have shifted to helping established businesses find new markets in order to increase sales, develop new sources of financing, reduce energy and raw material costs, and improve business practices. "Many business owners have a lot of anxiety about the future and are very hesitant to take on new debt," Conroy said.

However, he said there is new interest in starting businesses on the part of laid-off executives who "have a lot of experience, networks, and assets."

He noted that SBDC budgets are being cut by state agencies at the same time as the demand for their services has increased. SBDCs are funded by the U.S. Small Business Administration, state agencies, and businesses, including financial institutions.

Brenda B. Hopper, state director of New Jersey's 11 regional SBDCs, said the increase in clients ranges from 20 percent to 38 percent, depending on the center.

Giles Wickham (shown in photo) and Marcia Readinger, both from Selinsgrove, Pa., received assistance in developing a business plan and financial statement from the Bucknell University Small Business Development Center for a new farm that grows and sells organic produce to restaurants, health food stores, and farmers' markets.

Gary Rago, director of the Rutgers SBDC in Camden, N.J., said the big difference in SBDC clients has been an increase in well-run, profitable, established businesses that are now struggling in the recession. "They've talked to their suppliers, renegotiated with lenders when possible, tried to trim expenses, and are looking for other strategies to survive now that their revenues have fallen," he said.

Clinton Tymes, state director of Delaware's three SBDCs, said an increased counseling demand of about 20 percent is coming largely from businesses that have existed for 15 to 50 years, including builders, restaurants, service businesses, and day care centers.

Business owners are asking the SBDCs for assistance in bidding on government contracts that are identified in the federal stimulus legislation. Tymes said there's been a threefold increase in the number of businesses seeking assistance from the Delaware SBDCs' Procurement Technical Assistance Program.

Business owners are asking the SBDCs for assistance in bidding on government contracts that are identified in the federal stimulus legislation.

Two other business-support programs affiliated with the SBA, the Service Corps of Retired Executives (SCORE) and Women's Business Centers (WBCs), are also experiencing strong demand. Mark Maguire, chairman of SCORE's Philadelphia chapter, said its 13 retired business executives counsel an average of 15 to 20 people a week.

E-Magnify, a WBC at Seton Hill University in Greensburg, Pa., served 1004 clients in 2008, 30 percent more than its targeted goal.

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Credit Unions Pursue Small Business Loans

By Keith L. Rolland, Community Development Advisor

During the current recession, credit unions are making inroads in small business lending, while banks are tightening underwriting criteria for such loans.

Molly Snody, director of business advisory services for the Pennsylvania Credit Union Association (PCUA), said the small business market "has been largely underserved" during bank consolidation in recent years. This year, business owners who are credit union members have increasingly been seeking financing from these institutions, she said.

The owners of this restaurant in Ewing, N.J., received an equipment loan from the Credit Union of New Jersey, which is one of four member-investors in East Coast Business Lenders.

Snody provides training to credit unions that want to enter business lending and is developing working relationships with the U.S. Small Business Administration, small business development centers, and Commonwealth of Pennsylvania officials. Prior to joining PCUA in 2002, she worked in commercial lending for 11 years as a credit and loan review officer and as a loan operations manager for Community Banks, N.A. (now part of Susquehanna Bank).

Credit unions that want to begin lending to businesses may either develop specialized staff or outsource underwriting, servicing, and other functions. "We tell credit unions that it's in their best interest to train their staffs or hire experienced personnel," Snody said, "since the credit unions are responsible for the lending decisions."

In another model, credit unions may develop expertise in business lending from a credit union service organization such as East Coast Business Lenders (ECBL), which provides financial analysis and underwriting, loan documentation, servicing and monitoring, and education and training. ECBL was capitalized in 2006 by the Philadelphia Federal Credit Union (FCU), the Credit Union of New Jersey in Ewing, N.J., First Financial FCU in Wall, N.J., and the New Jersey Credit Union League. It works with other credit unions on a fee-for-service basis.

Kathie A. Stone, ECBL's CEO and a 25-year veteran of small business and community lending at financial institutions in the Delaware Valley, said extensive time and counseling are often required to meet the financial needs of small business owners, and that spending the extra time is consistent with the credit unions' mission as not-for-profit cooperatives.

Credit unions can only lend to their members, who are defined in their charters.[1] Credit unions have traditionally had products targeted to consumers. So business lending is a new growth area, although some credit unions have been making business loans since their inception.

The Credit Union National Association (CUNA), a trade association, said that nearly 2,200 credit unions (27 percent of the nation's 8,000 credit unions) reported outstanding business loans at the end of 2008. Outstanding balances in business loans from credit unions totaled $33 billion at the end of 2008.[2]

CUNA economist Michael Schenk said that larger credit unions are more likely to make business loans; over half (53 percent) of the 3,500 credit unions with more than $20 million in assets reported outstanding business loans at the end of 2008. Only 7 percent of the nation's 4,500 smaller credit unions reported outstanding business loans at year-end.

Business owners who are credit union members have increasingly been seeking financing from these institutions.

...continued on page 15

[1] An exception is loan syndication.

[2] At the end of 2008, 85 Pennsylvania credit unions had $438 million in outstanding business loans, 29 New Jersey credit unions had $212 million in business loans, and three Delaware credit unions had $1.8 million in outstanding business loans. The average size of business loans in 2008 was $212,752 nationally, $212,068 in New Jersey, $151,508 in Delaware, and $146,761 in Pennsylvania. These data are from CUNA.

SPOTLIGHT ON RESEARCH

Small Businesses' Access to Credit

The current economic morass is having a profound impact on all sectors of our economy. Some policy prescriptions for assisting the economic recovery have already been implemented, while others are under review. Whereas early efforts were concentrated primarily on the problems plaguing the financial system and "Wall Street," attention is also being focused on the difficulties experienced on "Main Street." One group that will be counted on to aid in the recovery is small businesses. Small business owners and entrepreneurs are credited with a significant portion of the net job creation that occurs in the U.S. However, their ability to provide jobs and help spur an economic recovery will be affected by their ability to obtain loans. The tightening of credit markets is thought to impede the efforts of small businesses. A report by William J. Dennis Jr. addresses this concern.[1] What follows is a summary of his report.

Background

The author points out that an unfortunate series of events – the collapse of several high-profile financial entities, a precipitous drop in real estate values, and the onset of a severe recession – has resulted in depressed demand for credit by small business owners. During a recession, a decrease in demand for credit is understandable, because it is likely that fewer opportunities for productive investments exist and poorer sales tend to weaken balance sheets – both of which affect the decision to seek additional capital. But the author also notes that the declining value of real estate has had an unappreciated effect on small business owners. Many of these owners have real estate investments, and the loss in value adversely affects their balance sheets, which in turn makes borrowing more tenuous.

However, according to the author, small business owners are not as "concerned about causes and complications as they are about impacts." Thus, he observes that the "impact of a weak economy, falling real estate values, and tighter credit markets leaves them deeply concerned, to a point where many believe the survival of their enterprises are threatened."

Data and Methodology

The author's report is based on survey data collected for the National Federation of Independent Business Research Foundation by the Gallup Organization. A sample of 751 small employers from the files of Dun and Bradstreet were interviewed between October 22, 2008, and November 17, 2008.[2] Since a majority (60 percent) of businesses in the U.S. employ from one to four people, a sampling strategy was used to ensure that an adequate number of businesses with more than 10 employees were interviewed.

Marvin M. Smith, Ph.D.,
Community Development Research Advisor

The Nation's Finance Problem

A slight majority (53 percent) of the small employers interviewed believe that the nation's financial difficulties substantially affect their businesses. The degree of the effect varies, with 34 percent considering it significant, while 19 percent consider the impact to be a little less severe, regarding it as considerable. "Another 33 percent judge the impact as milder, while 13 percent do not think they have been affected."

[1] William J. Dennis, Jr., "Access to Credit," National Federation of Independent Business' National Small Business Poll, 8:7 (2008).

[2] In this report, a "small employer" is defined as "a business owner employing no fewer than one individual in addition to the owner(s) and no more than 249."

On a more disconcerting note, the survey revealed that 26 percent of the small employers who said they were adversely affected by the nation's financial problems consider the impact "a threat to their firm's survival, with another 16 percent assessing conditions as severe enough to depress prospects for the foreseeable future." The author hastens to point out that the 26 percent figure might be misleading, since about 10 percent of small employers go out of business in a given year regardless of broader economic circumstances. But he also notes that there remains a sizable difference between 26 percent and 10 percent, which reflects the extent of the concern with the current economic fallout. Moreover, this concern is widespread and not confined to firms of any specific demographic group.

Impact on Small Businesses

The small employers revealed that the economic situation has affected their businesses in several ways. Forty-five percent cited slowing or lost sales as the primary problem. Other impacts include the unpredictability of business conditions (23 percent), falling real estate values (9 percent), the inability to obtain credit (9 percent), followed by the cost and terms of credit (5 percent). Yet 4 percent indicated no difficulties stemming from the current economic circumstances. When survey participants were asked to predict the most serious long-term outcome of current conditions, the most frequent response was a long period of slow or no growth.[3]

Borrowing Sources

The author points out that "small business owners have somewhat over one trillion dollars outstanding in debt from financial institutions." The owners report various sources for their borrowing.

Vendor Financing. The survey shows that, since September 1, 2008, very few small employers (6 percent) used a vendor to finance a business vehicle or equipment, even though this was the most accessible form of credit examined; 22 percent who tried were unsuccessful. The author suggests that the "limited demand results from the shortage of business investment opportunities that are typical during an economic downturn."

Loans from Financial Institutions. The author reports that fewer than half (44 percent) of the small employers have one or more business loans from financial institutions – not including lending from lines of credit or credit cards. But only 5 percent had their lender demand changes in the loan terms. However, of the 13 percent of owners who sought a loan in the period since September 1, 52 percent were rejected.

Lines of Credit. Although lines of credit are an important source of financing, only 9 percent of small businesses had applied for a new line since September 1, 2008. But employers did report changes to existing credit lines. The most common changes were an interest rate increase (27 percent) and a reduction in the line amount (18 percent).[4]

Access to Credit

The author observed that roughly half of the small employers who applied for the preceding types of credit were successful. He used regression analysis to identify key factors associated with obtaining (or not) the credit small employers desire. The five most prevalent variables and their association ("more likely" or "less likely") with the businesses acquiring additional credit are:

- Growth in sales over the last two years (more likely)
- The more "upside-down" properties held (less likely)[5]
- The fewer number of mortgages used to finance the business (more likely)
- Firms with a positive self-evaluation of comparative business performance (more likely)
- The more years of operation (more likely)

Closing Comments

The author points out that the overriding problem for small business is the poor economy compounded by the fall in real estate values. The latter is significant, since 96 percent of small employers own their personal residence, and the data show that the major credit issue is the "direct and indirect use of personal residences to procure business assets and its consequences when business conditions deteriorate and real estate values fall." The author suggests that any prospective loans to small business should be heavily subsidized to help those most in need.

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[3] A majority (59 percent) of the small employers reported their opposition to the federal bail-out bill. However, "the survey did not determine if their response is preference for an alternative strategy, belief the shock of substantial portions of the financial system failing would have a salutary effect, or just plain venting."

[4] The impact of the changes was mixed: "Thirty-two (32) percent of small employers experiencing them report the changes had no impact, while 24 percent suggest they were more irritating than harmful." Only 11 percent of those affected indicate they were very harmful.

[5] An "upside-down" property is one where the size of the mortgage is greater than the market value.

LDDs Offer a Window on Rural Pennsylvania

Two of seven local development districts (LDDs) in Pennsylvania offer some insight into the financing needs of businesses in the state's rural regions. LDDs, which were formed by the Appalachian Regional Commission over 40 years ago, implement economic development initiatives and form responses to regional issues.

The two districts are the Susquehanna Economic Development Association-Council of Governments (SEDA-COG), which serves 11 counties in central Pennsylvania, and the Northwest Pennsylvania Regional Planning and Development Commission, which serves an eight-county region. They operate revolving loan funds capitalized by federal, state, and regional programs for small businesses and economic development.

Both LDDs say that in 2008 the number of applications and loans was below normal for the small business sector, although the volume was substantial in the agricultural sector. Both districts are seeing an increase in companies looking for working capital loans, refinancing, and smaller projects of $10,000 to $135,000.

James L. McClure, director of finance for SEDA-COG, said that in March 2009 he began to see increased interest from businesses in loans. He said that LDDs have programs devoted to traditional requests for asset financing and limited working capital needs, but "we have little to offer for line of credit financing, debt refinancing, and overnight operating capital needs. This is especially difficult to address when our funds require bank matching funds and the banks are refraining from lending in these areas."

The Northwest Pennsylvania Regional Planning and Development Commission made a loan to supplement Mary Fyock's funds and enable her to open Bronco's Barbeque in Titusville, Pa. A former business owner, she started the restaurant with a western motif after returning from the western U.S.

SEDA-COG closed 26 loans totaling $4,036,051 since January 2008. Its delinquency rate was 4.2 percent in March 2009. McClure said that "credit quality seems to be diminished mostly by the lack of sales and profits in 2008."

Meanwhile, Daryl Coyne, manager of the Northwest Commission's loan programs, reports substantial application demand and an increase in referrals from banks. The commission closed 49 loans totaling $5,832,876 since January 2008, and its delinquency rate is 4 percent. Coyne said credit quality in applications and loans has not declined.

Coyne said the commission's biggest challenge was limited capital for its revolving loan fund and observed: "The banks have a renewed interest in economic development programs in which they assist in financing a project. If a company is taking on the risk of an expansion in this economy, the banks seem more willing to finance a portion of the project and rely on our revolving loan fund to augment the financing as long as we take a subordinate lien position.

"Our typical loan in the past was a manufacturer interested in purchasing equipment or financing real estate. Now we are getting requests for working capital financing. Some are legitimate requests for working capital for an expansion, but some are asking for funds to meet payroll – or just to keep the business afloat."

Coyne said the commission had five requests for interest-only payments in February and March because the borrowers' backlogged orders were cancelled and their revenues declined drastically. "We ask our borrowers to make the same request to their bank so that we can mirror the bank's approach to the situation. If the bank approves the request, we are more likely to approve it."

For information, contact James L. McClure at jmcclure@seda-cog.org; www.seda-cog.org; and Daryl Coyne at darylc@nwcommission.org; www.nwcommission.org. For information on LDDs, go to www.paldd.org.

State of Delaware and Banks Assist Businesses

The State of Delaware and Delaware's financial institutions have joined together in a two-year initiative to assist the state's small businesses. The program, which became operational on May 1, 2009, is called Small Business LIFT (Limited Investment for Financial Traction).

Gary Smith, director of capital resources for the Delaware Economic Development Office, said that Delaware has 10,776 small businesses that employ approximately 117,000 individuals. "These businesses," he explained, "are the backbone of Delaware's economy, and their vitality is critical to turning around Delaware's economy in this recession. The program provides breathing room for participating businesses to allow them to weather the recession and come out of it in a stronger financial position. It provides working capital support and improves their cash flow."

The program, which applies to existing small business loans of $250,000 and under, is expected to assist 350 businesses, Smith said. The state will provide them with no-interest loans for a term of seven years, with the first two years requiring no payments. The proceeds of the small business loan will be used to pay the interest portion of the borrower's bank loan. The State of Delaware loan will require the small business owner to provide a personal guarantee.

The State of Delaware will make the no-interest loans if the bank lenders agree to modify the loan during the two-year period so as to defer principal payments and avoid charging interest of more than prime plus 1.75 percent, Smith said.

Participating businesses must be organized in Delaware, have been in operation for at least three years, and have three to 50 employees. Banks organized in Delaware are eligible to participate.

Eligible loans are primarily lines of credit, but loans for equipment and recently expired lines of credit also qualify, Smith said. "The goal of the program is that participating businesses will maintain employment, but this is not a requirement," he said.

The state developed the program after discussions with five banks and the Small Business Administration, which is determining if loans it has guaranteed will qualify, Smith said.

The program, which ends on June 30, 2011, has $5 million in funding from the State of Delaware.

For information, contact Gary Smith at (302) 672-6817 or gary.smith@state.de.us; http://dedo.delaware.gov/.

CDFIs Increase Business Lending

continued from page 1

are unable to fund their businesses through financing on their homes. Banks are referring customers to us because they need additional outside subordinate capital in the deal to get their loan committee's approval. Otherwise they can't make the loan because the business is a start-up or the loan is too small. Banks are also referring businesses as part of workout strategies."

Community First Fund (CFF) reported that the number and dollar amount of its small business lending increased 20 percent and 30 percent, respectively, from July 1, 2008, to December 31, 2008. CFF's marketing and business development contributed to an increase of loans in its pipeline, including many applications for working capital.

Dan Betancourt, CFF's president and CEO, added: "CFF is seeing an increase in the number of referrals from banks. Some referrals are bank commitments that were not fulfilled. The difference is that banks would have financed many of these transactions in the past."

The Progress Fund (TPF)

Community First Fund made a working capital and equipment loan enabling Maria Martin to purchase a second truck for her catering business. Martin prepares breakfast and lunch meals that are delivered on weekdays by six employees to businesses in Dauphin County, Pa.

reported an increase in inquiries during the second half of 2008. David Kahley, TPF's president and CEO, said, "It seemed that businesses were shopping around, while at the same time they seemed cautious about taking on more debt in the current economy." TPF projected 20 percent less loan activity in calendar year 2009 due to economic conditions, and it was on track with that estimate as of the first quarter of the year.

Among microlenders, Community Capital Works (CCW) said its applications more than doubled, rising from five in July-September 2008 to 11 in January-March 2009. Leslie Benoliel, executive director of the Philadelphia Development Partnership, which established CCW, said: "More applicants are coming to us with better business savvy, more industry experience, and higher credit scores (for example, in the 600s and 700s)."

Also, the Economic Opportunities Fund (EOF), launched by the Women's Opportunities Resource Center (WORC), has seen a substantial increase in the number of inquiries and loan applications, including some from businesses that didn't seek its services in the past.

First State Community Loan Fund (FSCLF) had an increase in applications and inquiries in 2008, which it attributed to the tightening of the credit markets and its own increased marketing efforts. In 2008, it made 14 business loans totaling $1,226,467 – the largest annual volume of business loans since the fund's inception.

At Rising Tide Community Loan Fund (RTCLF), launched by the Community Action Committee of the Lehigh Valley, inquiries rose 220 percent from October 2008 to March 2009 compared to the same period a year earlier. The amount of the average loan application rose from $14,272 in 2007 to $22,285 in 2008, and rose to $24,442 in 2009. Its approval rate rose 33 percent in 2008.

Christopher Hudock, RTCLF's manager, said: "We are now seeing businesses that would have previously qualified for bank loans as well as a higher proportion of businesses with a longer business history. These new applicants generally have better credit quality and more collateral to offer than our traditional borrowers." RTCLF has received many more referrals from banks with which it has established relationships.

Challenges

Diemer said that many business owners have been referred to CBAC by their bankers, but a substantial number of the referrals are in such poor financial condition and with a poor prognosis for recovery that it cannot help them. It is approaching the SBA, USDA Rural Development, and financial institutions for additional loan funds.

CDFI LOANS CLOSED

	FISCAL YEAR[a] 2007		FISCAL YEAR 2008		FISCAL YEAR 2009 (PARTIAL YEAR)		DELINQUENCY RATE[b]
CDFI	Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount	Percent
Cooperative Business Assistance Corp. (CBAC)	72	$2,284,500	62	$2,710,635	70	$3,290,535	3.12
Community First Fund (CFF)	79	$2,982,931	71	$2,971,514	57	$3,662,701	7.00
The Progress Fund (TPF)[c]	44	$4,576,609	33	$2,969,938	4	$623,750	2.53
Community Capital Works Inc. (CCW)	26	$103,600	26	$153,328	23	$88,500	3.07
Economic Opportunities Fund (EOF)	48	$172,900	39	$169,500	22	$102,500	10.85
First State Community Loan Fund (FSCLF)	8	$147,749	14	$1,226,467	2	$55,100	NA
Rising Tide Community Loan Fund (RTCLF)	9	$170,700	12	$260,697	12	$293,300	4.30

Notes: All data are as of March 31, 2009.
NA – Data not available

[a] CBAC, CFF, CCW, and RTCLF use a fiscal year of July 1–June 30. TPF and FSCLF use a calendar year. EOF uses a fiscal year of October 1–September 30.

[b] Delinquency rate: Percentage of loan dollars delinquent by more than 90 days/gross dollar amount of loans outstanding.

[c] The number of loans and dollar amount include off-balance-sheet loans underwritten by The Progress Fund for the Commonwealth of Pennsylvania.

Diemer added: "Most of our small business customers have seen a downturn in demand for their products or services, but they're small and flexible enough to have avoided overstaffing in the past and do not have to cut employees. Also, these companies do not have overcapacity in real estate and equipment. However, as demand continues to drop, some of our fabricating companies will be in trouble. Staffing companies are now seeing a big lack of interest in hiring."

Betancourt said: "CFF's biggest challenge is liquidity. Finding banking investors has become more difficult. We've started to look for investment capital from a wider range of investors, such as churches, social investors, and national banks. In addition, monitoring our delinquencies has become a major priority. We're trying to make sure we prevent delinquencies from becoming defaults."

Kahley said TPF has adequate capital sources and excellent long-term relationships with governmental agencies, institutional investors, and private foundations.

Benoliel said: "CCW's main challenge is having sufficient capital available to meet the demand for new loans." It has a loan fund of $300,000 and recently secured $250,000 in new capital commitments.

Barbara Anne Gardenhire-Mills, director of lending and training at WORC, said: "The primary challenge of the Economic Opportunities Fund is keeping up with the demand for new loans while also paying necessary attention to our existing loan customers. We don't have adequate staff to do both." She added that the CDFI is finding it more difficult to raise capital and operating dollars.

Vandell Hampton, executive director of FSCLF, said many businesses approaching FSCLF "already have bank financing in place and need additional money for growth and expansion, but their first lender is unwilling to provide more financing. It is very difficult for us to provide additional funding because the first lender typically has all the collateral tied up." He noted that "many banks are moving away from the equity equivalent model and are looking for investments providing greater returns."

Eric Keebler (right) makes electric violins and violas to the exacting standards of professional musicians. First State Community Loan Fund approved a $50,000 new equipment loan that enables Keebler and business partner Jason Lunn (left) to produce six instruments a month instead of six a year.

Hudock said: "The major challenge currently faced by the RTCLF is keeping up with increased demand – both in terms of staff time and available loan funds. More loans are being approved and our available loan funds are dwindling. Currently, monthly payments don't come close to meeting the funding demands for new loans. We may now need to borrow additional funds beyond the $1 million in our current loan pool."

Changes in Lending Policies

Diemer said that CBAC is taking a harder look at businesses that depend on discretionary income such as concierge services, limousines, pet care, and restaurants.

Betancourt said: "CFF is now prioritizing its loans based not only on the strength of the application but also in terms of the impact that the small business has in the community. We are requiring a personal investment in the business by borrowers and are scrutinizing very carefully any application for a start-up business. For entrepreneurs looking to purchase the building in which their business is located, we are requiring an appraisal no older than five to six months."

Benoliel said: "At both the staff and loan committee level, CCW is carefully scrutinizing loan applications over $5,000 because of the difficulty of starting or expanding a business in the current economic environment."

In the past six months, the EOF implemented a minimum credit score requirement of 550, based on an analysis of loan performance in relation to credit score ranges, and started filing liens on collateral for loans of $1,000 or more.

FSCLF increased its maximum loan amount from $50,000 to $150,000 in 2008 but from time to time may lend above its maximum thresholds. In 2008, FSCLF provided $300,000 in an SBA 504 project for the purchase and retrofitting of a manufacturing facility in Seaford, Delaware, that created 20 jobs. Hampton added that FSCLF has tightened its credit requirements and noted: "It's become increasingly

CDFI Descriptions

NAME	HEADQUARTERS	STARTED IN	FOCUS	SERVICE AREA	CONTACT
Cooperative Business Assistance Corporation (CBAC)	Camden, N.J.	1987 by city of Camden and six commercial banks	Commercial loans, fixed asset loans, bank loan guarantees for manufacturing, industrial, and other businesses, SBA microloans up to $35,000, SBA 504 project financing.	Camden, Atlantic, Cumberland, Salem, Gloucester, and Cape May counties, N.J. Began lending in Philadelphia in 2009.	Michael Diemer (856) 966-8181 mdiemer@cbaclenders.com www.cbaclenders.com/
Community First Fund (CFF)	Lancaster, Pa.	1992	Microloans up to $25,000; business and community development loans of $35,000 to $500,000; and affordable housing loans.	13-county south-central Pennsylvania region.	Dan Betancourt (717) 393-2351 betancourt@commfirstfund.org www.commfirstfund.org
The Progress Fund (TPF)	Greensburg, Pa.	1997	Loans to tourism-related businesses and farmers for the production of locally grown food products; area loan organization for Pennsylvania's First Industries loans for tourism-related and agricultural projects; SBA 7(a) lender. Helps create tourism destinations.	39 counties in southwestern and northern Pennsylvania, West Virginia, and part of Ohio.	David Kahley (412) 216-9160 dkahley@progressfund.org www.progressfund.org
Community Capital Works Inc. (CCW)	Philadelphia	1998 by Philadelphia Development Partnership	Two microloan programs: a peer step-lending program in which loans of $500 to $5,000 must be approved unanimously by peer group members; and a small business loan program providing individual loans of $500 to $25,000.	Philadelphia, Bucks, Chester, Delaware, and Montgomery counties, Pa.	Leslie Benoliel (215) 545-3100, ext. 223 lbenoliel@pdp-inc.org www.pdp-inc.org/
Economic Opportunities Fund (EOF)	Philadelphia	1999 by Women's Opportunities Resource Center	Credit builder loans of $500 to $1,000; direct loans of $500 to $2,500; credit lines of up to $2,500; small business loans of up to $10,000 (for existing businesses only); and a near equity loan product up to $35,000.	Philadelphia, Bucks, Chester, Delaware, and Montgomery counties, Pa.	Barbara Anne Gardenhire-Mills 215-564-5500 bgardenhiremills@worc-pa.com www.worc-pa.com/
First State Community Loan Fund (FSCLF)	Wilmington, Del.	1993	Business growth loans from $15,000 to $150,000, typically to businesses operating for at least one year, and microloans of $300 to $15,000 to start-ups and early stage businesses. Community development and affordable housing loans up to $500,000.	Delaware	Vandell Hampton Jr. (302) 652-6774 vhampton@firststateloan.org www.firststateloan.org/
Rising Tide Community Loan Fund (RTCLF)	Bethlehem, Pa.	2001 by Community Action Committee of the Lehigh Valley	Microloans and classes in starting businesses for owners whose risk factors make it difficult to obtain funds from traditional lenders. Serves start-up and established businesses.	Lehigh and Northampton counties, Pa.	Christopher Hudock (484) 893-1039 chudock@caclv.org www.therisingtide.org/

more difficult to make loans to start-up and early-stage businesses."

Hudock said that RTCLF has increased its maximum loan amount from $25,000 to $35,000 in response to increased demand for higher levels of funding.

Loan Performance

Diemer said: "CBAC loans booked for one year have no delinquency. Our problems in delinquency stem from older customers who, because of personal problems or in some cases a downturn in revenue, are unable to pay their bills. Our current delinquency has increased this fiscal year, and we have increased our provision for loan losses to up to 8 percent of the portfolio."

Betancourt said that CFF's defaults were 1.4 percent as of June 30, 2008, and estimated that they would be 2 percent to 3 percent for the July 1, 2008, to June 30, 2009 fiscal year.

He added: "We are unfortunately seeing an increase in the number of clients applying for bankruptcy protection. While the number of bankruptcies is still only a small percentage of our total outstanding loan portfolio of small businesses, we saw nearly 10 last year."

Kahley said that the overall portfolio of TPF is doing well and explained: "We've always avoided overleveraging ourselves. We've seen a small up-tick in the number of distressed borrowers. Nowadays, we have two or three problem loans out of 165, instead of one or two as in past years. We've made a handful of loan modifications that seem to be helping those owners."

Kahley highlighted the resilience of the tourism-based sector that TPF focuses on. "When the economy slows," Kahley said, "people still want a vacation, so they decide to stay closer to home and thereby spend less. Overall, the tourism businesses we see are generating roughly the same revenues as in past years."

Benoliel said that CCW's business loans have generally performed well but added: "We are seeing more of our loan payments drift into the up-to-60-day range (from 5.6 percent as of December 31, 2008, to 18.8 percent as of February 28, 2009)." Gardenhire-Mills said that the quality of the EOF's portfolio has deteriorated significantly over the past six months, Hampton said that FSCLF's write-offs increased in 2008, and Hudock reported that RTCLF's delinquencies have risen in recent months.

Note: Opportunity Finance Network, the CDFI trade association, is publishing a quarterly CDFI market conditions report. Go to www.opportunityfinance.net/ and select knowledge sharing.

Credit Unions Pursue Small Business Loans

continued from page 7

The dollar amount of business loans as a percentage of total credit union loan dollars rose from 4.7 percent in 2006 to 5.2 percent in 2007 and climbed to 5.7 percent in 2008, Schenk explained. He said CUNA hears anecdotally that many new borrowers are coming into credit unions because they've been turned down by banks. But he noted that banking institutions held 98.94 percent of outstanding business loan dollars at the end of 2008.

Credit unions in Pennsylvania and New Jersey tend to make small business loans of $1 million or less and loans to businesses that have gross annual revenues of $1 million or less, according to Snody, Stone, and Paul Gentile, president and CEO of the New Jersey Credit Union League.[3]

Stone said that credit unions occasionally receive applications for larger business loans due to a curtailment of loans by commercial banks, and that those opportunities provide credit unions with increased membership, business loans, and prospects for other business and consumer services. She noted that a barrier to expansion of credit union business lending is the business community's limited awareness of the availability of business loans and services from credit unions.

For information, contact Molly Snody at (717) 234-3156, ext. 5209, or molly.snody@pcua.coop; www.pcua.coop; Kathie A. Stone at (609) 538-4061, ext. 2055 or kstone@cunj.org; www.eccuso.com; and Michael Schenk at mschenk@cuna.coop; www.cuna.org/.

[3] According to the PCUA, the Pennsylvania credit unions with the largest business loan portfolios at the end of 2008 were Members 1st FCU, Mechanicsburg ($172.9 million); Citadel FCU, Thorndale ($45.2 million); and Philadelphia FCU ($32.9 million).

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Calendar of Events

Low-Income Housing Tax Credits Seminar
June 23, 2009, Down Town Club, Philadelphia
Sponsored by the Office of the Comptroller of the Currency, the Federal Home Loan Bank of Pittsburgh, and the Federal Reserve Bank of Philadelphia.
For information, contact Ann T. Killian at (412) 288-3483 or ann.killian@fhlb-pgh.com.

Urban Marketplace Conference
June 25, 2009, Union League, Philadelphia
Organized by the Urban Land Institute's Philadelphia District Council, this day-long conference examines investment opportunities and development strategies in urban and suburban markets.
For information, contact Erin Nardini at (215) 446-2988 or erin.nardini@uli.org; http://philadelphia.uli.org.

National Association of Housing Counselors and Agencies' 15th Annual Training Conference
August 16-21, 2009, Philadelphia Marriott Downtown
For information, contact Sandra Moore at smoore@lafayettela.gov or (337) 291-8447; www.n-a-h-c-a.org/.

Fifteenth Annual New Jersey Governor's Conference on Housing and Community Development
September 22-23, 2009, Atlantic City Convention Center.
For information, contact Carmen Santiago at csantiago@njhmfa.state.nj.us.

Institute for Financial Literacy's Annual Conference on Financial Education
October 21-23, Hyatt Regency at Penn's Landing
Conference provides financial educators with professional development and the opportunity to learn about current trends and develop funding strategies.
For information, contact the Institute at (207) 221-3611 or conference@financiallit.org; www.acfeonline.org.

Housing Alliance of Pennsylvania's Homes Within Reach Conference
December 9-11, 2009, Harrisburg, Pa.

SAVE THE DATE! Reinventing Older Communities
May 12-14, 2010, Hyatt Regency Philadelphia at Penn's Landing
Fourth national biennial conference organized by the Federal Reserve Bank of Philadelphia and sponsors examines a broad range of issues confronting older communities, including the impact of the subprime mortgage and credit crisis on homeowners and communities. Valuable for both practitioners and policymakers.
For information, contact Keith Rolland at keith.rolland@phil.frb.org.