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Tough times for the loan ranger

Recovery Act helps existing business loans hold steady

By Nikki Kallio, January, 2010



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Telling the story of what's happened with the small business loan climate in Wisconsin during the past year is like talking about a near miss on the road – it's not as bad as it could have been. But the question is: How bad is it? The answer seems to be: It depends.

Though the number of Small Business Administration loans has held virtually steady from 2008 to 2009 – dropping by only 1.4 percent – that figure doesn't reflect the anecdotal evidence that small business owners have had a hard time getting started this year.

"A lot of the banks I've talked to say they're not lending money to startups, period, and that's unfortunate," says Kent Nelson, president of Appleton's QuickStart Inc. "They're trying to take care of the customers they do have and strengthen their portfolio."

QuickStart helps small business owners to get started and maintain their success, helping with things like business plans and financial education. QuickStart had just 25 percent of the volume of startup business this past year compared to 2008, though it has also seen its earlier clients doing well, seeking loans for expansion and equipment purchases. The company also does SBA loan packaging.

Nelson says there are two big factors making getting small business loans a challenge: Larger banks seem to have pulled back from lending, and prospective business owners don't have the same access to capital as they used to. Traditionally, small business owners must come up with a down payment of 20 or 30 percent on their loan. Lots of small business owners have relied – sometimes completely – upon home equity credit, Nelson says.

"In the past, everyone thought real estate was a great piece of collateral to have," Nelson says.

But as market values dropped, so did the available home equity credit. That's why Green Bay's Urban Hope Entrepreneur Center, known as E-Hub, instead teaches business owners innovative methods of financing, such as trade credit, which is a sort of partnership in profits with vendors and suppliers, as well as bringing friends and relatives and outside small investors into the financing, says Mark Burwell, executive director.

And that's helping some of the folks E-Hub works with to be successful in obtaining loans. Burwell says a lot of E-Hub business owners are growing, though he hears horror stories from business owners elsewhere.

"I'm really confused sometimes at people not being able to get money," Burwell says.

But Burwell, who is on the board of the Wisconsin Business Development Finance Corporation, sees things from the lenders' perspective as well. He says commercial lenders are being cautious about offering loans to businesses outside of certain industry niches, which they've always done, though they're probably being more cautious now considering the climate. Hospitality, retail and the auto industry might be among those considered risky.

"Banks have to be prudent," Burwell says. "You have to be working with a bank that understands your industry."

SBA figures show that some area banks have decreased the number and amount of loans from 2008 to 2009. Associated Bank in Green Bay, for example, issued 400 SBA loans in 2008 worth about \$30 million. In 2009, that number fell to 317, though the loan amount was still over \$25 million. Other banks showed a greater decline. However, some banks held steady, such as American National Bank-Fox Cities in Appleton, which issued 17 SBA loans in both 2008 and 2009, and the loans increased in dollar amount from about \$3 million to \$3.3 million.

When President Obama spoke to the Brookings Institution in Washington D.C. on Dec. 8, he proposed waiving fees

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and increasing the guarantees for Small Business Administration-backed loans, using remaining funds from TARP (Troubled Asset Relief Program) to aid lending to small businesses. That may help, based on the impact of last February's Recovery and Reinvestment Act. The program boosted federal guarantees to 90 percent and eliminated some fees.

In fact, it appears that the Recovery Act is what kept small business loans from completely tanking this past year. SBA figures show loans were down 35 percent in January but made a dramatic improvement after the act was signed, says Eric Ness, district director of the Small Business Administration.

"To recover and make up all that ground was the big story," Ness says.

From March to December of 2009 the weekly dollar volume of loans in the state increased by 188 percent, from about \$4 million per week to over \$11 million, according to the SBA.

Statewide, there were 1,961 SBA loans worth more than \$417 million in 2009. In 2008, there were more loans (1,992) but the dollar amount was actually less, about \$412 million.

Figures for specific counties tell various stories. Brown County SBA loans stayed fairly steady, both in number of loans and amount: The county went from 105 SBA loans in 2008 to 98 in 2009, about \$31 million in loans to about \$27 million. Outagamie County business owners saw significantly fewer loans, also starting with 105 SBA loans in 2008 but dropping to 81 in 2009. However, Outagamie County's dollar amount remained fairly steady, from about \$21 million in loans to about \$17 million.

Winnebago County's climate seems sunnier. The number of SBA loans modestly increased from 70 in 2008 to 77 in 2009, though the dollar amount doubled from about \$12 million to almost \$24 million.

Burwell says other states have seen a greater drop because Wisconsin has been more conservative in lending anyway. Burwell says it all comes down to business owners being able to show that they're strong and viable enough.

"It's not from luck," Burwell says.

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