



Capital Markets for Small and Medium Businesses Remain Tight

by Dusty Pritchett

Bank Financing - As many of our clients can attest, the credit markets for small and medium businesses remain very tight. Even though the economy is beginning to show signs of improvement, most experts unfortunately do not predict an improvement in credit availability in the near term. As the economy has contracted and revenue and cash flow has deteriorated, banks credit policies have become more stringent and available credit more expensive.

The Troubled Asset Relief Program (“TARP”) has primarily benefited the larger banks which generally lend to larger companies. Small community banks that tend to serve small and medium businesses have not had the same access to the TARP relief program. One of the leading lenders to small business, CIT Group, is undergoing a major restructuring. Most experts predict that the tight credit markets for small and medium businesses will continue well into 2010 and many call for programs to provide incentives for lenders to issue credit to small businesses.

On October 21, President Obama announced an additional round of capital injections into community banks that can make the case they’ll use the money for small business lending. The plan would make community banks with less than \$1 billion in assets eligible for lower-cost capital if they submit a small business lending plan and document their lending in quarterly reports, according to a White House fact sheet.

If approved by regulators, these banks would pay the government an initial 3 percent dividend, instead of the previous 5 percent rate.

He also announced that he will increase the caps for loans backed by the Small Business Administration from \$2 million to \$5 million and as much as \$5.5 million for manufacturing companies. Hopefully, this program will provide additional credit for small businesses in the near future. See full article at

<http://www.bloomberg.com/apps/news?pid=20601110&sid=agO1SlFNJsZA>

Credit Cards – Many small companies use credit cards as an extension of bank financing to provide needed capital to fund their businesses. The outlook isn’t any better. Interest rates and fees are increasing and credit lines are being reduced. Meredith Whitney, the former Oppenheimer financial analyst who is largely credited with predicting much of the banking sector carnage ahead of her peers, recently predicted more gloom for small businesses in an opinion column of the Wall Street Journal website.

“I believe that we are only in the early stages of the second half of this credit cycle,” Whitney wrote. “I expect another \$1.5 trillion of credit-card lines to be removed from the system by the end of 2010.”

The morale to the story is to not expect any significant easing of credit any time soon!



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Venture Capital - On October 20, The National Venture Capital Association and PricewaterhouseCoopers released their MoneyTree Report for Q3 2009. \$4.8 billion was invested in Q3 continuing a modest upward trend from Q1 2009's low of \$3.3 billion but still well below the \$7.2 billion that was invested Q3 2008. At least the tread is moving in the right direction.

Closer to home, the Southeast region saw 33 deals totaling \$213 million in Q3 2009. This compares to 55 deals totaling \$293 million in Q3 2008. Download this report at:

http://www.nvca.org/index.php?option=com_content&view=article&id=219&Itemid=486

Mergers and Acquisitions - According to Thompson Reuters, reported U.S. M & A transactions through October 19, 2009 totaled 5,805 deals with a total value of \$509 billion compared to 7,738 deals worth \$845 billion for the same period last year. Deal flow has increased over the past two quarters in concert with the stock market recovery. Health care and technology are two industry segments that continue to show robust M & A activity with health care M & A at an all time high both as a percentage of the number of deals and the dollar value of the transactions, according to data provider Dealogic.