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BANKING

Lenders have money but they're picky

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South Florida banks say they have plenty of money available for loans, but attorneys for some area businesses say their clients are being turned away by lenders. And some businesses are dumping their banks in favor of what they see as more stable institutions.

"There is a perception issue with the credit crunch, but there is money to lend," said Scott Jenkins, senior vice president of the Florida Bankers Association, which has been on a media blitz to assure the public that lending has not been frozen. "A lot of our banks were well capitalized before the crisis in order to have money to lend when a rainy day did happen. We have money to lend. We need people to walk in the door and ask for loans."

The Federal Reserve recently said it was creating a special fund to shore up the commercial paper market — short-term loans the nation's largest corporations and municipalities take out to finance daily needs. But the Fed move won't be much help to the small and mid-sized businesses that are the engine of South Florida's economy as they search for money to buy inventory and make payroll. And with credit markets frozen, some are reporting a tough time finding money for crucial day-to-day operations.

"I represent a number of different companies that are in conversations with their banks right now looking for just that very thing — the short-term loan," said Kevin Gordon, senior managing director of Berenfeld Capital Markets in Coral Gables. "Frankly, a lot of

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companies are looking to replace their lending facilities altogether, and you're seeing a lot of activity."

Gordon said traditionally, if a bank stopped lending to a business, there were several others willing to pick up the client.

"Not any more," Gordon said. "The stringent level of due diligence and the amount of clients the larger banks are taking on is down to a trickle. So when companies are being asked to leave their financing relationships and asked to go seek lending elsewhere, at the next bank the lights aren't on. People are moving down the food chain of lenders."

Gordon said so far the worst of the credit crunch is centered on the real estate industry or supporting companies "one degree away" for the real estate business. "Will it spread? Absolutely. Everybody has contracted in some way. You are seeing it."

While banks are cutting off lenders, Gordon said he's seeing plenty of activity in the opposite direction.

"I'm getting calls from healthy companies worried that their financial institution is not going to be here in the same form, and [asking], 'Can you help me get out?'" he said. "They're worried about another Lehman and all of a sudden their line gets locked up. If I get four calls a day, it's three saying my lender has asked me to hit the road and one being proactive and saying I want to change lenders."

On Sept. 15, Lehman Bros., the fourth-largest securities firm, filed the largest bankruptcy ever.

The FBA's Jenkins said it appears a lot of companies who might get a loan are holding out and waiting for the economy to get better, not realizing they can actually get a loan now.

"You've got to be a little more diligent," Gordon said. "You've got to have your act together. It was a buyer's market and now it's a lender's market. If you think you're going to throw this cigar box of financials in there and it will all ferret itself out in the due diligence, good luck. You're not going to get your deal done, because there are way more deals than there are lenders."

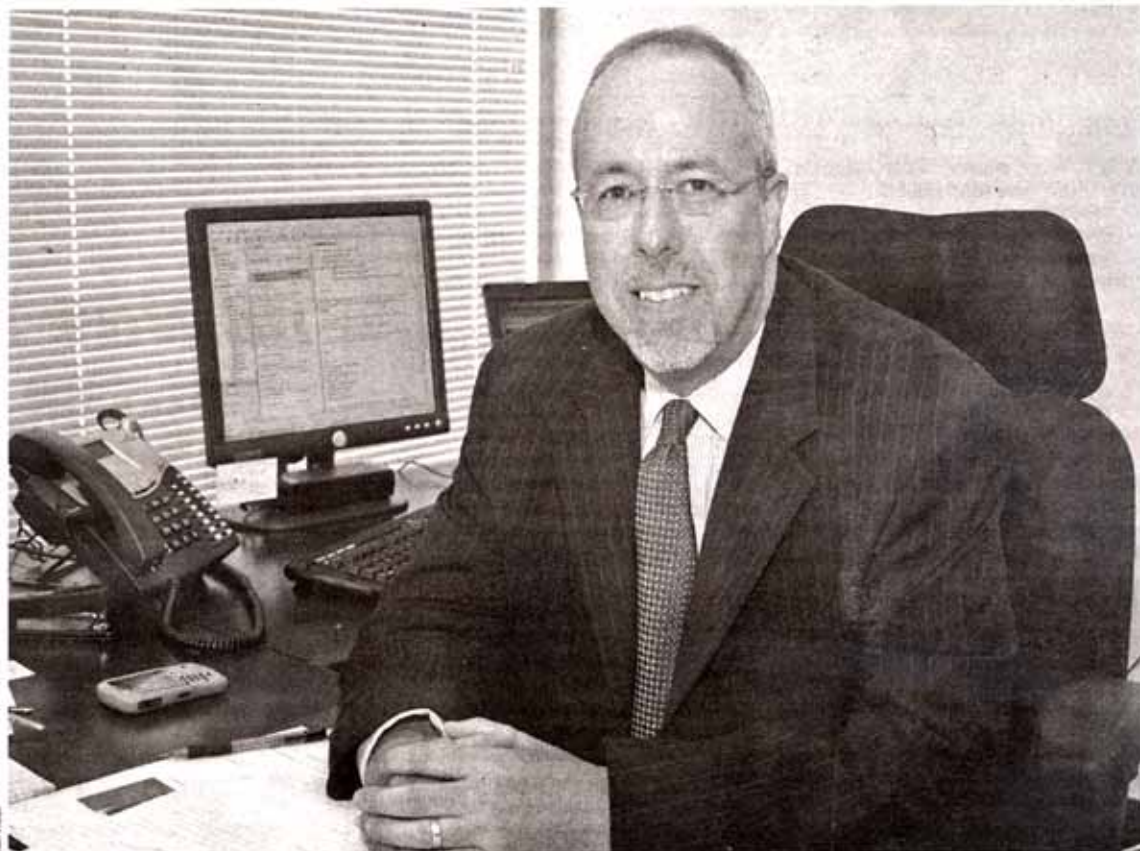
Attorney Stuart Ames, who heads the commercial and asset-based finance practice at Stearns Weaver Miller Weissler Alhadeff & Sitterson, said that while banks are not lending at anywhere near the rate they were a year ago, there is plenty of related work keeping his firm occupied.

"What we are seeing is restructuring of a lot of existing loans and a fair amount of workouts of loans that are either in default or in danger of going into default," Ames said. "That's what's keeping us busy."

Banks want to know things aren't going to get a lot worse, Ames said.

"No one thought it was going to go as low as it did," Ames said. "I can see where banks could lend to a company that has very good assets, good fundamentals, good management and is not dependent, for example, on the price of fuel — the things that are really unknown at the moment."

How many of those companies are



Kevin Gordon of Berenfeld Capital Markets said there are way more deals than lenders now.

out there is hard to quantify, Ames said, "because we just haven't seen a great deal of that kind of new loan activity in the last six months."

Public sector woes

Robert Brighton, who heads the securities law practice group for Ruden McCloskey, said in South Florida municipal issuers are the entities most affected by the commercial paper crisis.

The \$2.66 trillion market for state and city bonds has been virtually frozen since Lehman declared bankruptcy.

States, local governments and nonprofits have sold \$26 billion in commercial paper since Jan. 1, 2000, according to Thomson Reuters data. Among the hardest hit states have been California, which has about \$1.5 billion in debt outstanding, and Massachusetts, which on Sept. 29 failed to complete the sale of \$100 million in commercial paper, according to Bloomberg News. Earlier this month, Massachusetts postponed a \$750 million offering for the second time in two weeks.

More than \$12 billion in municipal bond and note sales have been delayed since the Lehman bankruptcy filing, according to data compiled by Bloomberg.

"The municipal governments are having tax shortfalls, which means they need to access the credit markets to obtain credit for short-term needs, which they hope to

make up either by adjusting their budgets or raising tax revenues," Brighton said. "But in the short run, they still need the money, and they need to dip into the markets."

Although Florida is not experiencing these difficulties to the same extent as states like California or Massachusetts, he said the question is whether municipalities will be able to get in line with the corporate entities when the Fed enters the commercial paper market.

Brighton said the markets are actually in the second round of the commercial paper crunch.

"Round 1 was a year ago when people first became aware of the subprime mortgage issue," Brighton said. "Those lending institutions have been big participants in the commercial paper market. They were having capital problems of their own, and they stopped lending. There was a flight to quality, only the highest-quality issuers could get their paper sold and the interest rates shot through the roof."

Brighton said that, in many cases, the credit crunch is affecting every borrower with a good track record. It is the bank preserving its capital.

"They have capital requirements," he said. "As perverse as it may sound, if you stop lending you can preserve your capital."

For borrowers, "They don't have a lot of choices, to be honest," Brighton said.

"One possibility would be long-term debt. Or capping lines of credit to the max, out of concern lenders are going to pull their lines. That sucks capital out of the banks, which means banks start pulling lines of other customers. One problem causes another."

Other options include cutting back on spending or seeking vendor financing.

"They end up having to buy less or get better terms from the people who sell them that inventory," Brighton said. "Try to negotiate based on the reality that if they don't negotiate better deals with them, they're not going to be able to buy from them."

Other businesses that can't access the short-term credit markets are going to have to develop their own programs from their own resources, Brighton said. "The ones that don't have sufficient resources are not going to be able to compete."

The credit crunch could ultimately affect how businesses borrow in the short-term, or even the long term.

"We are a borrowing society," Gordon said. "The idea of paying cash is a foreign concept. Borrowing is a drug. People are going to have to wean themselves off of it professionally and personally because it's not going to be as available as it has been." ■

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