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SMALL-BUSINESS LENDING IS SLOW TO RECOVER

By Ruth Simon and Angus Loten
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Brandi Shirey wants to borrow at least $20,000 to expand the birthday-and wedding-cake business she started four years ago after leaving her job as a bookkeeper.

Demand for the cakes, which sell for $150 to $500, overwhelms her home kitchen. She plans to use about $2,000 from her savings to move into a nearby storefront next month. But the 28-year-old Ms. Shirey believes her credit record and financial paperwork have to be bulletproof before she dares approach a bank for a loan. "It's time to grow," she says, but things "aren't what they used to be."

Across the U.S., small-business lending has been stuck in a slow, grinding recovery behind most other types of business and consumer loans. At the end of the first quarter, banks held $585 billion in loans to small businesses, up 1% from last September but still 18% less than the peak of $711 billion in 2008, according to the Federal Deposit Insurance Corp.

The number of loans for $1 million or less held by banks is down about 14% to 23.5 million since 2008. In nearly one-third of all U.S. counties, small-business lending remains below 2005 levels, estimates PayNet Inc., a Skokie, Ill., tracker of loans by banks, corporations and alternative lenders such as finance companies.

In contrast, loans to businesses of all sizes totaled $2.48 trillion as of March 31, up 9% since 2008. Federal Reserve data show that overall loans and leases grew in the second quarter at the highest quarterly rate since the end of the financial crisis, a sign of improvement in the economy. The latest official survey of senior loan officers showed that banks have loosened standards more quickly for medium and large companies than for small ones.

Some analysts are encouraged by recent signs of a lending uptick by small banks, which often focus on small businesses. In July, the total amount of commercial and industrial loans held by small U.S. banks rose 11% from a year earlier, according to Moody's Analytics. July was the fourth straight month with a double-digit percentage increase, Moody's says.

In Carrollton, which has a population of 24,958, and surrounding Carroll County, though, entrepreneurs like Ms. Shirey still are wrestling with the impact of six bank failures since 2007. Those banks held more than half of deposits in the county.

Loan originations in a six-county area that includes Carroll County are 40% below prerecession levels, according to PayNet. Just 13 local businesses got loans backed by the Small Business Administration in the fiscal year that ended last September, down from 25 in fiscal 2007.

"The ripple effects" of the local housing bust and bank failures have "lasted longer than most anybody expected," says William Smith, chairman of the economics department at the University of West Georgia, based in Carrollton. Kathy Yates, area manager of Southern

Co.'s Georgia Power unit, says weeks can go by “without a single installation” of a new electric meter at a home or business.

Carroll County Chamber of Commerce President Daniel Jackson says the local economy has improved and lending policies are “loosening a bit, but we still have to look at alternative funding for our businesses.” The biggest employers in the roughly 500-square-mile county include the University of West Georgia, Tanner Medical Center and Southwire Co., a closely held maker of wire and cable with annual sales of about $5 billion.

Efforts by Carroll County leaders to spur job growth have helped generate an estimated $655 million in capital investments since 2010.

For decades, local business owners chewed over business plans with bank executives at ballgames and local restaurants, building relationships that help win loan approvals.

Following the bank failures and a push by many surviving banks to rein in and simplify their loan underwriting, “relationship lending is gone,” says Todd Anduze, director of the government-funded Small Business Development Center in Carrollton, which advises small firms on financing and business planning. “Now, if you don't fit into their box, you're not getting that loan.”

A study of lending cutbacks during the financial crisis concluded that employment and business formation were depressed in counties with more exposure to banks that cut their small-business lending, according to University of Chicago economist Michael Greenstone, a co-author of the study.

Bank failures hurt local economic activity for years, according to a study by Federal Reserve Bank of New York economist Adam Ashcraft, who examined the impact of some bank closings during the savings-and-loan crisis.

Tano Phommasith, owner of a popular Carrollton restaurant called Little Hawaiian, borrowed $650,000 from First National Bank of Georgia in 2008 to move to a bigger location closer to the main, cobblestone-lined square.

Getting the loan wasn't easy, even though his banker was a regular customer. The loan was secured by Mr. Phommasith's home and his parents' home, then worth about 30% more than the loan amount.

After First National Bank of Georgia failed in 2010, the buyer boosted the interest rate to 8.25% from 7.7%, making the loan unaffordable, Mr. Phommasith says. He now pays 5.5% on a loan from a unit of United Community Banks Inc., of Blairsville, Ga., but keeps looking for a better deal. Bank of America Corp., Wells Fargo & Co. and other large banks have turned him down.

“You would think any banker who came in for lunch and saw how busy we are would want to work with us,” he says. United Community, Bank of America and Wells Fargo say they don't comment on individual customers.