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# NAVIGATING THE CREDIT CRUNCH

**State businesses struggle to get the loans they need to expand and grow their companies | BY LISA M. SCHMELZ**

When a recent state law significantly upped the ante on electronic recycling mandates, Dale Helgeson thought the time was right to start a niche company that disposes of our outdated gadgets and gizmos in a way that keeps Mother Earth smiling. This month, DP Electronic Recycling celebrates one year in business. So what would this firm, with a 40,000-square-foot, state-of-the-art facility in an industrial park in Elkhorn, like for its birthday? A line of credit for working capital would be nice.

But that's a tall order in these tough recessionary times. For firms like DP Electronic Recycling, the state of lending can best be summed up as a state of frustration. Indeed, the current lending landscape has many CEOs seeing red more often than green. Helgeson says his company, which is owned by 12 partners, each with varying shares, is debt-free and owns all of its equipment outright. Seeking a \$50,000 micro business loan, a fraction Helgeson says of his firm's wholly owned assets, he's been shot down twice by two local banks.

"The banks have been extremely hard to get money out of, and my company has zero debt, but does not show enough profits to allow them to give us a loan," he says. "But if I was making profits, I wouldn't need a loan."

Even proven brands like Culver's, headquartered in Sauk City, are finding it hard to link new owners with financing. Craig Culver is the cofounder and CEO of the 27-year-old restaurant chain, best known for frozen custard and butter burgers. As the recession drags on, Culver says new franchisees have found big banks to be less than welcoming.

"The major banks just clammed up, and they're still not really anxious to finance a lot of projects," says Culver. "We're working mostly with small banks. They're the eager ones and, in my opinion, are the ones that are moving America forward."

## Credit to Remain Tight

Helgeson and Culver's dilemma with banks has long-been the lament of small-to medium-sized business owners. They need loans because they aren't yet profitable enough, but have trouble securing loans for that very reason. There's nothing new in that circle. What is new in the wake of the global credit crisis is that banks — stung by huge losses and under heavy federal oversight — are imposing some of the strictest lending standards the nation has seen in the last 50 years. Juxtapose the credit crunch we're in today with the easy money available five years ago and it's enough to make you feel as though you've been on a roller coaster — only at the end of the ride, you still may not have the loan you need to expand and grow your company.

U.S. Rep. Ron Kind, D-La Crosse, says the credit crunch is real. Throughout the state, he's met with angry business owners who want to be a part of jump-starting the nation's economy, but can't get the loans they need to do so. "I'm hearing all these same reports, all these same voices . . . I fear the pendulum has swung a little too far to the other side in regard to credit standards for lending," says Kind.

Tom Liebe, vice president of government affairs for the Wisconsin Credit Union League, says economic recovery — at least in business lending — could gain some speed if credit unions were allowed a larger share of the business loan market. Federal law limits credit union business loans to 12.25 percent of a credit union's total assets. Credit union officials like Liebe would prefer to see that increased to 25 percent, which according to the Credit Union National Association could free up to another \$25 billion to juice the economy via business loans.

"The real losers today are Main Street businesses, not because credit unions can't make the loans, but because Congress established that cap in 1990. Credit unions have money to lend, and our commercial lending has increased each of the last three years. But Wisconsin credit unions are turning small businesses away when they'd otherwise make the loan because of that arbitrary cap."



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**CRAIG CULVER, CEO, CULVER'S RESTAURANT**

## SBA Loans Off the Charts

While the business credit market is predicted to remain tight for the foreseeable future, Eric Ness, district director for the Wisconsin office of the U.S. Small Business Administration says his agency is shattering loan records. The SBA doesn't make direct loans, but insures qualifying bank loans against default.

"I can tell you our loan volume is off the charts high, historically," says Ness. "Last year, we broke the half-billion mark for the first time."

Month-to-month SBA loan approvals may rise and fall, but overall, U.S. SBA activity continues to surge in Wisconsin. From Oct. 1, 2010, through June 3, 2011,















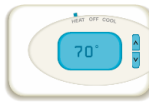



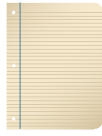




Ness reports the agency issued just over \$617 million in federally guaranteed loans. Of that total, he adds, the SBA provided \$99 million dollars in what it terms "express products," which can act as a line of credit. In the year prior, Ness adds, the SBA backed \$436 million in small business loans in Wisconsin.

While some business owners have to jump through more hoops than a career circus poodle to get a loan, Keith Morgan, president and majority owner of Neurotech in Elm Grove, has bankers knocking on his door. Morgan's company conducts in-home EEG testing for people with epilepsy. The six-year-old firm, Morgan says, has experienced about a 10 to 20 percent growth rate annually, though he declined

# BINGO!

## We've got it!

Play Office Bingo. Make copies of this Office Bingo Sheet for co-workers. Use paperclips for your game pieces.

 Loud sigher	 Cube stalker	 Day   time confusion	 Coffee spotter	 Stinky lunch
 Unsolicited bathroom talk	 Office whistler	 Heavy walker	 Loud talker	 Disinfectant snob
 Squeaky clean	 Fridge cleaning	<b>DO MORE. START HERE.</b> 	 Always busy co-worker	 Awkward silence
 Random body pain	 Temperature issues	 Yawning epidemic	 Cologne overload	 Fifth appendage
 PC load paper	 8" heels or flip flops	 Color challenged	 Play by play of weekend	 Lunch leftovers

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to provide sales figures. A conservative small businessman, he says he took on nearly \$200,000 in debt when he opened his doors but was able to pay it off quickly since he took a smaller than normal salary for himself. Since paying off his initial start-up loan, he's shied away from taking on any new debt until now.

"We're about to take out a loan," says Morgan of upcoming expansion plans for Neurotech. "My banker has been encouraging me to do it. I'm always looking to continue to grow my business, but I've done that by putting profits back into it. But now, it makes sense to borrow."

Unlike many small businesses in this struggling economy, Morgan didn't have to obtain SBA approval to get a loan. From the onset, Neurotech has showed the combination of growth and profits that puts bankers at ease.

Helgeson, on the other hand, has been told that he likely won't get funding unless he obtains SBA approval. So this summer, he's revising his business plan to bring it into alignment with SBA standards. And if he doesn't get that \$50,000 loan, which he says he'll use to market his company, will it mean an end to DP Electronic Recycling? "It'll help sustain us until we can land some larger contracts, which I think we're close to doing. But I don't know that it's going to make or break us. We're still above water. We have no debt. But I think with the (loan), it opens up options for us to do more marketing. Marketing is so expensive."

Rep. Kind doesn't think the solution to the credit crunch rests entirely with traditional sources of finance like banks, credit unions or the SBA. Though he would like to see an easing of business lending standards, he also wants Wisconsin to follow the venture capital lead of its Midwestern neighbors.

"I feel for too long we've been operating in a vacuum when it comes to venture capital money," Kind says. "Venture capital already exists in Chicago and the Twin Cities and we need to create a vibrant venture capital network here, too." 

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