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CIT = more bad news for small business

By: [Jon Cook](#)



Just when it looked like President Obama was making some headway with small business, along comes the CIT bankruptcy train to derail everything.

Last Thursday, on Obama's urging, the House of Representatives overwhelmingly passed new legislation that authorized more than \$40 billion for loans backed by the Small Business Administration. It was the relief U.S. small businesses had been hoping for. But just 72 hours later the good news was tempered when CIT Group Inc. - the SBA's top

lender - [filed for bankruptcy protection](#). Now all that new federal money may be loaded onto a train missing its locomotive.

CIT's failing could leave as many as a million small and medium-sized businesses looking elsewhere for credit in a marketplace where few banks are lending. According to the National Small Business Association, CIT lent \$65 million in SBA-backed loans for the first six months of 2009; just 1 percent of all SBA loans issued. That figure was down dramatically over 2008, when CIT comprised 6 percent of the SBA total.

At a time when loan defaults by SMEs are rising and Equifax is reporting that small business bankruptcies are up [44 percent over last year](#), the CIT news is akin to a perfect storm for small business.

"It's great that the stock market is coming back, but if you're unemployed or you're running a small business, the turnaround has not happened," said Drew White, CFO for Sageworks Inc., which monitors the financial data of privately-held companies across 1,600 industries. Sageworks's latest study found that since 2003 the debt-to-equity ratio decreased in the private sector, which might normally be a good thing, but according to White is likely the result of companies paying down debt and shrinking inventories due to slower sales and tightened credit in the recession. "It looks like there's sort of a benchmark or a normal way that these businesses operate and they need a fair amount of borrowing capacity to do that and that has been restricted and constrained."

Unlike Equifax, Sageworks only crunches the numbers for companies currently being audited, so White conceded the numbers are likely worse than their latest report shows. He also doesn't anticipate a turnaround over the next couple quarters, unless the jobless rate improves and consumer confidence rebounds.

"Even if they (retailers) had a lot of access to credit, I don't know if they'd be making a lot of big bets and say let's go stock up with a bunch of inventory, because there's certainly no evidence people are flocking back to buy things," said White, who added the efforts by the government to stimulate lending are great, but it's not a panacea. "In the long run the fundamentals of the economy have to come back: people have to be employed, people have to feel better and people have to start investing and buying. We don't see much evidence of that."

The good news - if there is any - is that the impact of a CIT bankruptcy on SBA loans may have less of an effect now than it would have prior to the downturn. According to SBA data, CIT's loan volume has decreased dramatically since 2007, falling from 1,589 loans to just 142 loans for 2009. In dollar terms, that's a drop of \$873 million to just \$105 million. CIT's decreased lending over the current recession has been mostly offset by the 15 percent increase in SBA loan volumes since Obama's Recovery Act committed more funds to boost SBA lending programs.