

# Direct from Main Street

SPRING 2011

Maine Small Business Views  
on Credit and Lending



Maine Small Business Coalition • Alliance for a Just Society



---

## Acknowledgments

This report would not have been possible without the invaluable contributions of Sam Blair, Jason Collette, Amy Halsted, Nathan Libby, and Tim McGuire.



---

# Table of Contents

1	Introduction
1	Key Findings
1	Background
4	Methodology
4	Findings
8	Conclusion





---

## Introduction

As the United States continues to experience the worst economic downturn since the Great Depression, small businesses are seeing their sources of credit dry up. Normally an economic engine, they now face severe challenges in their role as job creators and sustainers. Given the key role of small businesses in our economy, their experiences should be of particular concern to policymakers.

This report shares the findings of a survey of Maine small businesses, focusing on their experiences with credit and their reactions to one current proposal to support small business and economic growth: the creation of a state bank. This report contributes to the discussion of such a proposal by sharing the perspectives of Maine's Main Street small businesses.

---

## Key Findings

- Approximately one in three surveyed small business owners (34 percent) reported feeling some tightening of credit. Of these, two-thirds (68 percent) have seen their credit terms deteriorate.
- Sixty-one percent of small business owners experiencing access to credit difficulties report that they have experienced cash flow interruptions as a result.
- A strong majority of respondents (64 percent) believe elected officials have not done enough to support small businesses and economic recovery.
- An even stronger majority (72 percent) would support the creation of a Maine state bank like North Dakota's.

---

## Background

### **The Important Role of Small Businesses in the Economy**

Small businesses represent a key force in the economy of the United States and in Maine. As of September 2009, small businesses employed just over half of the country's private sector workforce. Services and small-scale manufacturing provided by small businesses have become an economic base on which local commerce rests, as small businesses make up 99.7 percent of the employer firms in the U.S.<sup>1</sup> In Maine, more than 65 percent of workers are employed by firms with fewer than 100 employees,<sup>2</sup> and many more Mainers employ themselves in sole proprietorships.

Looking at 2006 pre-recession data, the National Community Reinvestment Coalition (NCRC) found that lending to small businesses increased employment on a county level.<sup>3</sup> Looking at Community Reinvestment Act (CRA) funding, communities where small businesses had increased levels of CRA-based lending correlated with higher levels of employment. By focusing on county-level change, this research illustrates the strong impact of local lending on community employment.

However, small businesses continue to face challenges to spurring the economy. A U.S. Congress Joint Economic Committee (JEC) national study notes that, as we came out of the deepest levels of recession, large establishments increased hiring levels in mid-2009, while small business employment continued to decline into early 2010 and remained stagnant into mid-2010.<sup>4</sup> Because small businesses represent a force for economic activity and employment, in order to promote economic recovery it is vital to understand the challenges they face in the current economic downturn.

## **The Credit Crunch Continues**

Although big banks pledged in 2009 to increase lending to small businesses, few have come close to their goals and many continue to contribute to a climate where 41 percent of business owners feel they cannot get adequate credit.<sup>5</sup> Well into the long climb out of recession, many small businesses have been left to seek alternatives or go without the support of credit for purchasing inventory and supplies, meeting payroll and hiring new employees, paying for marketing and publicity, and taking advantage of opportunities to expand.

When the recession hit, lenders began tightening credit standards and reported continued tightening into 2009.<sup>6</sup> Large banks state they have begun lending again but that limited demand exists from creditworthy small businesses.<sup>7</sup>

However, many small businesses and small business advocates also believe that the banks continue to apply overly strict standards of creditworthiness.<sup>8</sup> Furthermore, the initial tightening of credit appears to be self-reinforcing. According to National Small Business Association (NSBA) president Todd McCracken, “banks lowered existing credit lines of many small business customers, which in turn lowered their credit scores because they were left using a higher percentage of their available credit.”<sup>9</sup>

Finally, the clampdown on credit and deterioration of credit terms may be depressing demand. Some portion of lowered demand is likely attributable to “discouraged borrowers” who would like credit but do not seek it out because they believe they will be denied.<sup>10</sup> Similarly, some small businesses may be holding off from seeking loans or other forms of credit because credit has become more costly for them.<sup>11</sup>

## **High Costs of the Credit Crunch**

Small businesses are paying a high price for the credit crunch. At the same time that banks restricted access to traditional loans, credit card issuers raised interest rates, increasing the costs of credit for small business owners and making that credit less reliable.<sup>12</sup> Many small business owners also have seen their credit card issuers change interest rates from fixed to variable, adding to the instability.<sup>13</sup> Meanwhile, the crash of the housing market has limited home refinancing as a source of credit.<sup>14</sup>

These costs have a ripple effect. Across the country, small business owners have stated that the lack of adequate credit has prevented them from hiring new staff as they had planned, leaving communities without needed jobs.<sup>15</sup> Equally troubling, small businesses have reported that lack of available credit has damaged their ability to buy inventory sufficient to meet demand<sup>16</sup> – suggesting that the credit crunch is interfering with the economic activity necessary for recovery.

## **Recent Federal Legislation to Support Small Businesses and Economic Recovery**

In September 2010, President Barack Obama signed into law H.R. 5297, the Small Business Jobs Act of 2010.<sup>17</sup> Among other things, this new legislation will increase the availability of and funding for Small Business Administration (SBA) loans and provides federal financial support for small business lending by community banks.<sup>18</sup> It also contains tax deductions and other tax-related measures to reduce business expenses. This federal legislation represents a step forward. At the same time, state policymakers are looking at ongoing state solutions that would support the small business sector and economic growth in Maine.





**David White**  
**MDI Imported Cars**  
**Bar Harbor**

My small auto repair shop in coastal Maine diagnoses and repairs imported cars. There are three of us – one apprentice, a 30-year “vet,” and me. The recession has really made times tough, and the banks are just making matters worse. I’m experiencing this firsthand as a business owner.

Recently, Bank of America bought out MBNA, where I had my Rotary credit card. They started charging interest of 23.24 percent. This amount is unfathomable, compounding year after year. At this rate, it could take me 32 years to pay off my \$13,100 debt. I don’t know what you could call this other than usury.

America’s economy has been declining for longer than two years. I blame the big banks. They’re not ethical or fair. They’re not accountable the way I am.

### **The Bank of North Dakota and the Proposal to Create a State Bank**

One such proposal is the creation of a state bank, such as the one now in place in North Dakota. The Bank of North Dakota was created in 1919 in response to tight credit markets that were threatening the viability of the state’s agricultural sector,<sup>19</sup> a situation similar to the credit crunch now experienced by small business.

Looking toward its 100th year, the bank is an important player in that state’s economy, partnering with more than 100 other financial institutions to spur economic activity.<sup>20</sup> During the worst days of the recession, North Dakota was not hit as hard as many other states in terms of unemployment and other consequences of the downturn, prompting considerable interest in the model it presents.<sup>21</sup>

The bank receives deposits from public agencies and uses that money to promote local economic development.<sup>22</sup> Community bankers in North Dakota credit the state bank with assisting local development projects, whereas they have greater difficulty finding support from other lenders.<sup>23</sup>

Key among the bank’s activities is its support for small business lending. It engages in this lending primarily in collaboration with other financial institutions, supporting their loans to small businesses. This participation lending involves either providing funds to increase the size of loans, buying down interest rates, or offering loan guarantees.<sup>24</sup> Compared to similar states, lending has been more robust in North Dakota, with small- and medium-sized banks registering more loans per capita and higher loan-to-asset ratios over the past five years.<sup>25</sup>

By collaborating with other lenders, the Bank of North Dakota supports and helps stabilize the state’s banking market, which has a higher number of bank offices per capita and less market concentration than in comparable states.<sup>26</sup> The Bank of North Dakota’s presence alongside local banks has been described as producing “a ‘crowding in’ effect – keeping [those banks] liquid, lending to local businesses, and fueling economic growth,”<sup>27</sup> at a time when larger institutions are less open to providing credit.

The Bank of North Dakota also plays a role in reinvesting public funds in North Dakota. In addition to funding local economic development, the bank runs a profit and typically directs over 70 percent of its earnings back into the state general fund. It delivered \$30 million in 2009, one of the toughest years on economic record.<sup>28</sup> This contributed to North Dakota being one of only four states to avoid a revenue shortfall in 2010 and the only state to avoid one in the past two years<sup>29</sup> – a time when other state and local governments are slashing funding for schools, clinics, libraries, and other key public functions.<sup>30</sup>

---

## Methodology

In November and December 2010, the Maine Small Business Coalition conducted a survey of 109 small businesspeople and small family farmers around Maine, including the following locations: Auburn, Bangor, Bar Harbor, Bath, Belfast, Biddeford, Blue Hill, Brewer, Brunswick, Buxton, Camden, Deer Isle, East Millinocket, Falmouth, Freeport, Gorham, Greene, Hallowell, Hampden, Hermon, Industry, Jonesboro, Kennebunk, Lisbon, Lyman, Millinocket, Naples, Old Town, Orland, Orono, Owl's Head, Penobscot, Portland, Pres, Raymond, Saco, Sanford, Sebago Lake, South Portland, Southwest Harbor, St. George, Stockton Springs, Thomaston, Waldoboro, and Union.

To identify respondents, surveyors contacted small businesspeople who previously had expressed interest in the Maine Small Business Coalition and its activities.

Survey results are rounded to the nearest percentage point. In some cases, the combined tallies for a particular question may not sum to exactly 100 percent due to this rounding.



**David Gray**  
**LongHill, Inc.**  
**Gray**

My business does electrical process heating, temperature control and sensing, and panel building. We also sell immersion heaters, radiant heaters, and other kinds of heaters. Any time you need heat for something that's done electrically, and that's not comfort heating, we can do it.

In that past, my business had as many as five employees, but now we're down to just two: me and one other. At this point that's just all my business can sustain. I was hoping to expand but wound up having to put off those plans. I wanted to bring my son into the business – make it a real family business – but I had to nix that because of the economic climate.

The clamp-down on credit has really helped make things so uncertain. I have an open line of credit with Wells Fargo. The thing that makes it so hard is that they every week they're changing the terms, and when they send you the notification, you don't have any choice. You just have to take their terms. They've reduced the available credit from \$100,000 to just \$15,000, and to be honest there are times when I wonder if I'm going to make it through or not.

---

## Findings

This survey questioned Main Street small business owners about their experiences with credit and about their perspectives on a proposal to create a state bank.

### Respondent Information

Respondents included small employers (66 percent) and self-employed business owners (44 percent). Forty-two percent of respondents employed one to five employees. Eleven percent were farmers. Other respondents' businesses represented a wide range of Main Street businesses, including retail shops, health services, restaurants, personal and professional services, auto repair shops, and others.

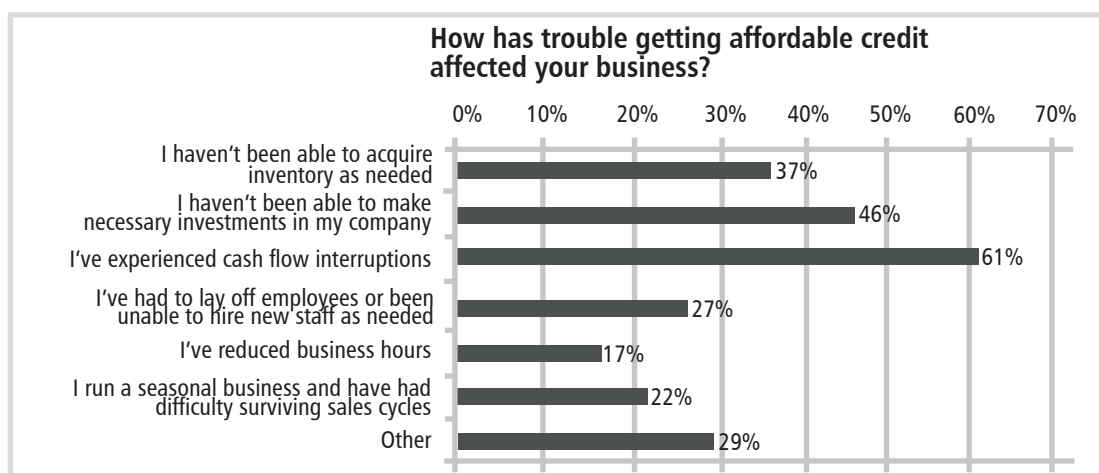
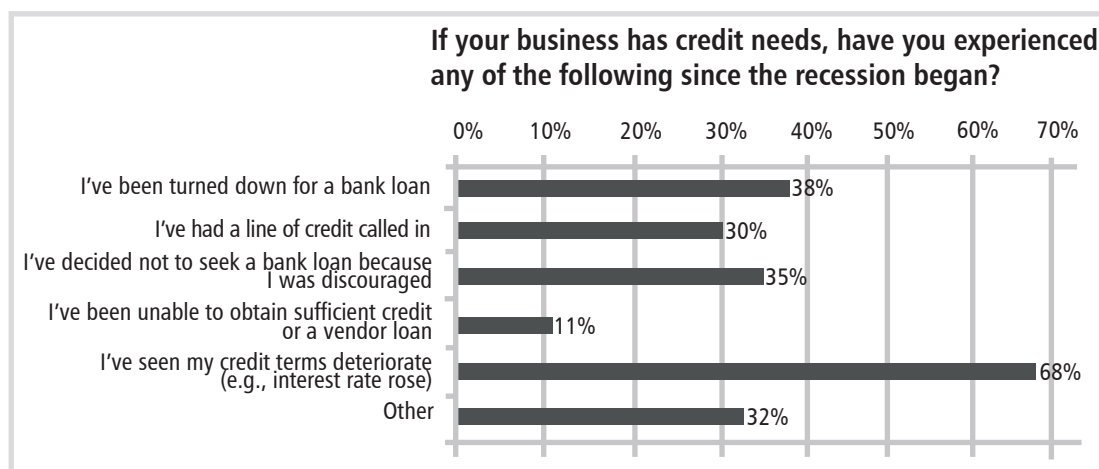
## Experiences with Credit

The survey asked small business owners about their experiences with credit. About one third (34 percent) of surveyed small business owners reported feeling some tightening of credit. Of these, more than half of respondents (68 percent) reported that, since the recession began, they had seen their credit card terms deteriorate. Thirty-eight percent had been turned down for a bank loan, while 35 percent decided not to seek a bank loan due to being discouraged. Almost one third (30 percent) had a line of credit called in, and 11 percent were unable to obtain sufficient trade credit or a vendor loan. Other reported experiences included being rejected for a business credit card, increased fees for credit, avoidance of interest charges, and others.

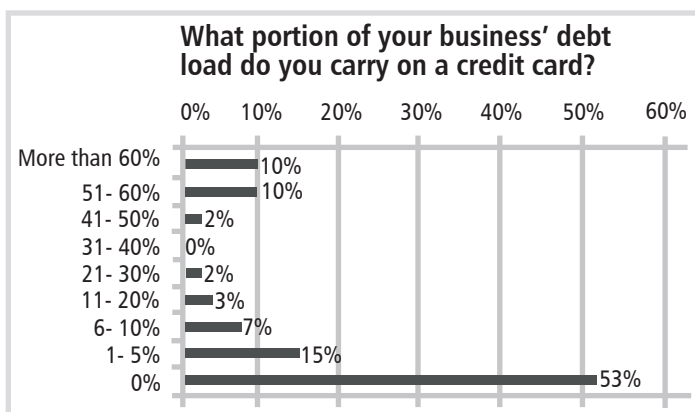
Small business owners reported a variety of effects from the difficulty obtaining credit. Sixty-one

percent have experienced cash flow interruptions, 46 percent have been unable to make necessary investments in their company (such as marketing, equipment or other capital purchases), and 37 percent have been unable to acquire inventory as needed. More than a quarter (27 percent) reported having to lay off employees or being unable to hire new staff as needed, while 22 percent were seasonal businesses that reported difficulty surviving sales cycles. Seventeen percent reduced business hours.

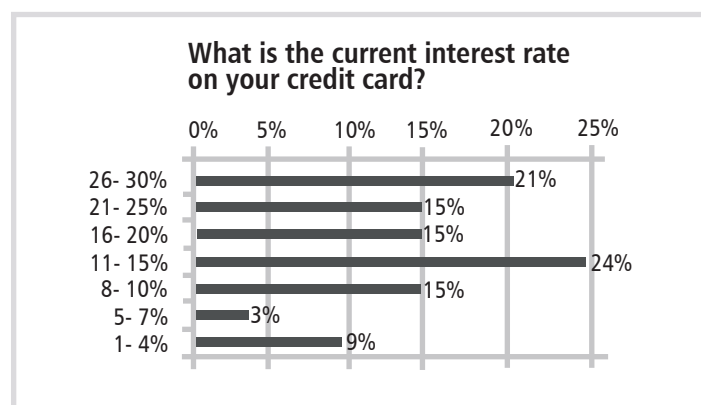
Other reported experiences included reducing employee hours, maxing out credit cards, and working without pay, taking a pay cut, or working longer hours without a commensurate pay increase.



The survey also questioned small businesses about their experiences with credit cards. Many participating small business owners have avoided relying on credit cards, with 53 percent of respondents reporting that they carried none of their business debt on a credit card. For those who did, the portions of debt carried on a credit card ranged from one to five percent (15 percent of respondents) to more than 60 percent (ten percent of respondents).



Credit card interest rates ranged from a rate of one to four percent (nine percent of respondents) to a rate between 26 and 30 percent (21 percent). The largest portion reported rates between 11 and 15 percent (24 percent of respondents), followed by 26 to 30 percent.



**Cheryl Oliver**  
Back Bay Bicycle  
Portland

Our business, a bicycle retail and repair shop, has been in operation for 25 years. Depending on the season, we employ between five and 12

people. It's important to me to not just employee people but also be able to pay them a living wage. It's been a pretty challenging couple of years, and one of the main problems is just being able to get enough credit for my business.

I have a line of credit with Bank of America I use most years. But they changed the payback terms on me, meaning I have to return whatever I've borrowed on a very short timeframe.

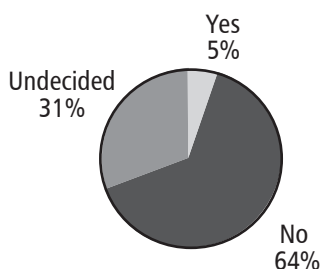
The end result is that I can't really use the line of credit, which has made my day-to-day operations really scary. I'm a seasonal business so a line of credit is a lifeline – not just for my business but also for the people I employ. I've had to lay off more employees earlier because of this, which has made me feel just awful. As bad as that is, I'm also wondering if the worst case scenario might come to pass: having to close my doors after 25 years because of lack of access to credit.

## Small Business Perspectives on a State Bank

In addition to questioning small businesses about their experiences with credit, the survey asked respondents about their perspectives on government action and the state bank proposal.

When asked whether elected officials have done enough to support small businesses or promote economic recovery, 64 percent of respondents said no. Another 31 percent were undecided.

**Do you believe that elected officials have done enough to support small business and promote economic recovery?**

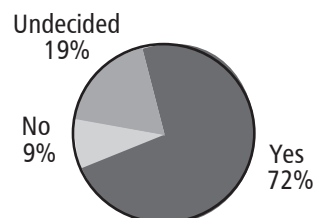


The survey also asked small businesses about their views on a state bank. Specifically, it asked:

The state of North Dakota has a state bank that supports small business lending by providing matching funds for loans to commercial banks. The State Bank of North Dakota has been credited with maintaining the flow of credit to small businesses, as well as increasing revenue for the state. Would you support the creation of such a bank in your state?

Seventy-two percent of respondents said they would support such a bank, with 19 percent remaining undecided and nine percent opposing.

**Would you support the creation of such a bank [like the Bank of North Dakota] in your state?**

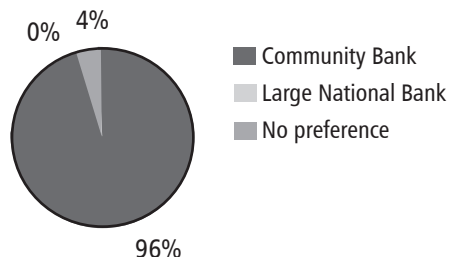


## Small Business Owners' Banking Preferences

Finally, the survey asked small business owners whether they preferred banking with a large, national bank or a community or local bank. Ninety-six percent of respondents preferred banking with a community bank, compared to four percent that expressed no preference.

The survey then asked respondents to compare community and large banks. Ninety-nine percent said that local or community banks invest more in the neighborhood or area where the respondent's business is located, have better customer service, and have provided more credit for their business. Ninety-eight percent said community or local banks offered more options, and 97 percent said they offer credit more affordably.

**Do you prefer banking with a large national bank or a community or local bank**





---

## Conclusion

Small businesses continue to suffer the effects of the economic downturn, undermining recovery for entire communities and the state as a whole. Main Street small business owners who participated in this survey are feeling the credit crunch in a variety of ways that they believe have harmed their businesses.

A majority believe that elected officials have not yet done enough to promote small business and economic recovery. Additionally, a strong majority support one proposal to increase small business lending: the creation of a state bank for Maine.

---

## References

- 1 SCORE: Counselors for America's Small Businesses, "Small Biz Stats & Trends." SCORE: Counselors for America's Small Businesses. Viewed at: [http://www.score.org/small\\_biz\\_stats.html](http://www.score.org/small_biz_stats.html)
- 2 Center for Workforce Research and Education, Maine Department of Labor, Quarterly Census of Employment and Wages, Private Employment by Size and Industry, March 2010, viewed at: <http://www.maine.gov/labor/lmis/qcew.html#PrivateSize>. Figure is for firms covered by the unemployment insurance program.
- 3 National Community Reinvestment Coalition, "Does CRA Small Business Lending Increase Employment: An Examination on a County Level," 2010, p. 1.
- 4 U.S. Congress Joint Economic Committee Majority Staff, "Small Business Employment: Bank Lending Restrains Job Creation," September 2010.
- 5 John Tozzi, "The Lending Squeeze On Small Business." Bloomberg Businessweek, August 9 - 15, pp. 24-25. Viewed at: Business Source Complete, EBSCOhost. [Hereinafter Tozzi]
- 6 Congressional Oversight Panel, "May Oversight Report: The Small Business Credit Crunch and the Impact of the TARP," May 13, 2010, p. 17.
- 7 Bob Ivry, "Small Businesses Can't Get Loans from Bailed-Out Banks," Bloomberg, September 16, 2010. Viewed at: <http://www.businessweek.com/news/2010-09-16/small-business-can-t-get-loans-from-bailed-out-banks.html>.
- 8 National Small Business Association, "2010 Mid-Year Economic Report," n.d., p. 9. [Hereinafter Mid-Year Economic Report.]
- 9 Tozzi, 2010.
- 10 Congressional Oversight Panel, "May Oversight Report: The Small Business Credit Crunch and the Impact of the TARP," May 13, 2010, p. 49.
- 11 Mid-Year Economic Report, p. 8.
- 12 National Small Business Administration, "2009 Small Business Credit Card Survey," p. 6. Viewed at: <http://www.Mid-YearEconomicReport.biz/docs/09CCSurvey.pdf>. [Hereinafter Credit Card Survey.] (Sixty-three percent of respondents reported that their credit card issuer had raised interest rates between April 2008 and April 2009.)
- 13 *Ibid.*
- 14 Mid-Year Economic Report, p. 9.
- 15 Kevin G. Hall, "Small firms would hire you, if only they could get loans," McClatchy, March 12, 2010. Viewed at: <http://www.mcclatchydc.com/2010/03/12/90309/too-small-to-succeed-firms-still.html>.
- 16 Mid-Year Economic Report, p. 8.
- 17 Small Business Administration. 2010. "Small Business Job Act of 2010." Viewed at: <http://www.sba.gov/jobsact/>
- 18 *Ibid.*
- 19 CBS News, "State-Owned Banks a Blueprint for Future?," February 16, 2010. Viewed at: <http://www.cbsnews.com/stories/2010/02/16/business/main6212789.shtml>. [Hereinafter CBS News.]
- 20 Bank of North Dakota, "Bank of North Dakota History," [http://www.banknd.nd.gov/about\\_BND/history\\_of\\_BND.html](http://www.banknd.nd.gov/about_BND/history_of_BND.html).
- 21 CBS News.
- 22 *Ibid.*
- 23 *Ibid.*
- 24 Oregon State Development Bank Analysis, Center for State Innovation, September 2010, p. 2. [Hereinafter Center for State Innovation.]
- 25 Center for State Innovation, p. 4.
- 26 *Ibid.*, p. 3.
- 27 "Building State Development Banks," September 2010. Viewed at: <http://Oregoniansforastatebank.org/resources/>.
- 28 *Ibid.*, p. 3.
- 29 Elizabeth McNichol, Phil Oliff, & Nicholas Johnson, "States Continue to Feel Recession's Impact," Center for Budget and Policy Priorities, December 16, 2010, pp. 2, 6. Viewed at: <http://www.cbpp.org/files/9-8-08sfp.pdf>.
- 30 Nicholas Johnson, Phil Oliff, & Erica Williams, "An Update on State Budget Cuts: At Least 46 States Have Imposed Cuts That Hurt Vulnerable Residents and Cause Job Loss," Center On Budget And Policy Priorities, Updated November 5, 2010. Viewed at: <http://www.cbpp.org/files/3-13-08sfp.pdf>; Larry Copeland, "Mayors measure effect of belt-tightening on quality of life," USA Today, Updated November 24, 2010. Viewed at: [http://www.usatoday.com/news/nation/2010-11-23-cutbacks23\\_ST\\_N.htm](http://www.usatoday.com/news/nation/2010-11-23-cutbacks23_ST_N.htm).







**In 2008, small business owners came together, with the help of the Maine People's Resource Center, to form the Maine Small Business Coalition, with the goal of identifying, recruiting, and developing Maine small business leaders to bring their values to the public debate over national health care reform. Over the past 3 years we have grown the coalition to almost 2,500 businesses and work on a range of issues that affect Maine's small business community. The Maine Small Business Coalition participates in the national Main Street Alliance small business network.**



Alliance for a Just Society brings together community-based and racial justice organizations from across the country.

3518 S. Edmunds, Seattle, WA 98118

Voice: (206)568-5400

Fax: (206)568-5444

[www.allianceforajustsociety.org](http://www.allianceforajustsociety.org)