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Finding the Fuel to Keep Going in a Stalling Economy

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New Mexicans who hoped that the Treasury Department's Troubled Asset Relief Program would benefit small businesses by making it easier and cheaper to obtain credit are finding that only a few of the nation's largest banks received infusions of taxpayer-financed capital — and the ones that did seem reluctant to part with it.

Instead, the state's businesses are finding lenders reducing or withdrawing credit lines in reaction to the nationwide economic slowdown and to fears that local businesses will suffer from reductions in retail and government spending.

Web of woes

When the word recession is used frequently enough, everyone begins to believe it. Workers assume their jobs are in jeopardy so their families spend less and save more, and this has a dramatic impact on the economy. State and local governments cut programs as tax revenues fall, and banks tighten credit standards, reduce credit availability, and sometimes stop lending.

But some spending is unavoidable, and when cash isn't available, people borrow money. When credit is hard to get, people are willing to pay exorbitant interest rates of 28 percent or more to obtain it. They're easily seduced by low introductory rates offered by credit card or mortgage companies, and many later find they don't qualify for the same rates over the life of the loan once they've secured it.

Businesses face those challenges and then some: They must also maintain inventory, meet payroll and pay overhead costs with limited reserves. Many make up for the shortfall by tapping credit lines to pay weekly or monthly bills. In good times, these credit lines are used, repaid, then used again the next month, but when sales slow, credit lines are frequently exhausted without being repaid. Debt grows, the business's value drops and credit becomes more difficult and more expensive to obtain. In an attempt to control spending, many businesses start re-evaluating fixed costs and taking drastic measures to stay afloat. Layoffs begin, advertising is reduced, medical and retirement benefits are eroded, and inventory is cut to a minimum.

Finding fuel

Even when the economy is running on fumes, businesses can find the fuel to keep going — if they demonstrate a willingness to wisely use these resources.

While many banks can't or won't lend money these days to people or businesses that don't meet their rigorous standards or don't have credit histories free of blemish, alternative lenders can be found through the New Mexico Small Business Investment Corporation (NMSBIC), which provides capital to small businesses through third parties such as ACCION New Mexico, The Loan Fund and WESST Corp.

These alternative lenders resemble traditional lenders in some ways: They require that the businesses that borrow from them offer collateral and liquid assets to support the loan, and they want to see a budget with revenues and expenses in balance. But, unlike banks, they have more flexible policies and a greater willingness to work creatively with business owners. Over the past four years, they have loaned NMSBIC money to more than 1,500 businesses statewide.

Each of these organizations has a Web site, or they can be reached through www.financenewmexico.org.

Finance New Mexico is an initiative of the New Mexico Small Business Investment Corporation (NMSBIC), New Mexico Small Business Development Center (NMSBDC), Empowering Business Spirit (EBS), the New Mexico Venture Capital Association (NMVCA) and other partners to assist individuals and businesses in obtaining skills and funding resources for their business or idea. To learn more about resources available to New Mexicans, go to www.FinanceNewMexico.org.

