

Ask SCORE for Business Advice

“Ask SCORE” Column

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Commercial loan renewals still big issue by Tina Dettman-Bielefeldt

Last week's column on commercial loan renewals seemed to have struck a chord with area builders, investors and developers. Many called or e-mailed to relate similar difficulties with obtaining loan renewals. John Bunker, owner of Johnny B Home Construction, called the situation a tsunami.

As a member of 20 different development groups, Bunker is being faced with numerous loan renewals. He is listening to a president who says that the administration is helping small businesses and encouraging lending while at the same time sending out regulators who are doing the opposite.

"This doesn't help the economy," Bunker said. "This extreme pressure on lenders is making things worse."

A Green Bay commercial lender agreed that they are feeling the pressure. He said that regulators are giving them their marching orders: Meet our requirements or face an enforcement action.

"Regulators are coming down hard and if you're found to be in violation, they can put you under a Memorandum of Understanding, or if you still don't comply, a Cease and Desist Order," he said.

The Cease and Desist Order eventually could mean the closure of a financial institution. It outlines the areas that the financial institution needs to change or improve. One of the items is the ratio of loans for commercial investment. The current guideline is 15 percent. There are also guidelines on loan-to-value ratios for raw land and commercial property. As those market values have declined, the lenders are finding their ratios inadequate.

Bunker blames a great deal of the current climate on the lenders.

"Banks probably approved loans that they shouldn't have and caused much of the problem, but rather than helping us get through this, they are continuing to make things worse," he said.

"Our partners were solid when we got into these developments, but not everyone has been strong enough to withstand the lender's requirements," Bunker said. "Basically, we've been blindsided and threatened. I feel like they've put a gun to my head and said, 'Sign up for the new terms or we'll start foreclosure in the morning.'"

Tina Dettman-Bielefeldt is co-owner of DB Commercial Real Estate in Green Bay and assistant district director for SCORE, Wisconsin.