

*Note: **Sierra Economic Development Corporation** has been a participant in the Jim O'Brien development of the position advocated by the California Reinvestment Coalition.*

For Immediate Release
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Small Business Lenders Pick Up the Banks' Slack

Without access to capital, nonprofits see a state of emergency for small businesses

SAN FRANCISCO, April 14, 2009-California's community lenders report a dramatic increase in the amount of small business loans they make as a result of the banks' lending freeze, and are calling on congressional leaders for reform of Small Business Administration rules so that nonprofits can better fill the lending gap during this recession.

Thirty-two economic development organizations, representing the bulk of California's nonprofit lending sector, say they have more than doubled their small business lending in 2008. Many of their clients had been rejected for loans from banks even though they were long-term customers with good credit scores.

Small businesses are the engine of California's economy, generating 87.6 percent of new jobs from 2004 to 2005, according to the SBA's Office of Advocacy.

"Lack of access to conventional business or SBA loans is crippling entrepreneurs, small businesses and neighborhoods, which in turn will stymie any economic recovery effort," said Alan Fisher, executive director of the California Reinvestment Coalition.

Nationally, only 28 percent of small businesses are currently accessing bank loans, according to the National Small Business Association.

"We are in the worst credit crunch we've ever seen. Businesses that banks would have lended to all day last year are getting their credit lines cut-existing businesses that have been in the community for years, people with employees, are all of a sudden losing their credit," said Roberto Barragan, president of Valley Economic Development Center in Los Angeles. "Right now, nonprofits are the only game in town for helping these businesses and saving jobs."

Between November 2008 and February 2009, the private sector lost a little over 2 million jobs, nearly 40 percent of them from businesses

with fewer than 50 employees, according to the ADP National Employment Report. Entrepreneurs in ethnic communities are especially vulnerable to the economic downturn because they traditionally rely on home equity lines of credit to finance their businesses.

"Ethnic communities have been hit exceptionally hard in terms of foreclosures, and houses represent one of the largest assets on the balance sheets of minority small businesses," said Clarence Williams, president of California Capital in Sacramento. "We know the lack of capital to small businesses in urban areas and ethnic communities will have devastating consequences, not only on those individual business, but on the minority population that they have a greater propensity to hire."

Organizations providing small business incubation and technical assistance have also seen a spike in demand because laid-off workers are turning to self-employment to survive, and existing entrepreneurs need help to survive the recession.

"I think we're going to see more self-employment as families try to patch together income to make up for the loss of wage employment," said Sharon Miller, CEO of the Renaissance Entrepreneurship Center in San Francisco. "We are seeing a significant increase in the number of applicants to our programs, as well as graduates returning for additional services to determine the best way to operate in this economy."

Solutions to the small business credit crunch include changing federal rules to allow nonprofit lenders to offer the same loans that financial institutions offer under the SBA's loan guarantee program; and increased investment funds for nonprofit lenders' loan pools.

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*For more information or to arrange interviews, please call CRC Media Coordinator Tram Nguyen at (510) 213-3680. *

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*/The California Reinvestment Coalition/** *advocates for the right of low-income communities and communities of color to have fair and equal access to banking and other financial services. CRC has a membership of more than 275 nonprofit organizations and public agencies across the state.* *

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