



WHO GETS THE CREDIT?



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One of the biggest challenges facing individuals or businesses in their efforts at economic recovery is the lack of access to credit. Nowhere is this more evident than with the domestic automakers. Ford Motor Company obtained credit while it was still available and has been able to avoid the financial crises affecting both General Motors and Chrysler.

Business owners and individuals are frustrated that many of the banks that have received bailout funds are reluctant to ease their credit requirements. What they fail to recognize is the severe liquidity problems still being experienced by many banks. Unlike most businesses, banks have reserve requirements that limit the amount of funds available for lending. Moreover, it is difficult for many banks to assess the quality of their loan portfolios. What may have been a good loan a couple of years ago can become a watch credit as economic conditions continue to deteriorate. Banks must be concerned about loan quality to protect liquidity and to maintain adequate reserves.

The liquidity problem has been exacerbated by the FASB mark to market rules. While a particular bank's investment may be performing well, a down grade in the quality of that investment by a rating agency or the reluctance of other investors to offer fair value for a similar investment may require the bank to write down the value of its investment, thus having a negative impact on liquidity. The recent relaxing of the mark to market rules by FASB will help but will not eliminate the problem.

One bright spot on the lending horizon has been community banks, most of which were not caught up in the subprime mortgage problem and did not invest in financial derivatives which are now suspect. For many community banks, it is business as usual. However, their underwriting standards or pricing may require an adjustment for those individuals or businesses applying for credit. Furthermore, community banks have seen a tidal wave of loan requests only a portion of which they can meet due to their own reserve requirements or limits on loans to one borrower.

Notwithstanding what you may have heard credit is still available. Banks, life insurance companies and other financial intermediaries are still making loans. Admittedly, there are challenges in acquiring credit, but, with the assistance of a professional familiar with all the available sources of credit, both individuals and businesses can get the capital they need even in these difficult times.