

Business credit and Northeast Wisconsin

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Credit remains available for the creditworthy

Northeast Wisconsin is frequently said to be more level, economically speaking, than the East or West coasts — the peaks are not as high, but the valleys are not as low.

If true, that appears to be a positive for Northeast Wisconsin businesses seeking credit. So far, according to area business lenders, the business credit freeze and the mortgage crisis that staggered the economy in the fall has had little effect here.

“The general environment is there continues to be available credit, I think, in the Valley for good solid creditworthy companies or projects, so I don’t think that’s changed,” says Dave Coggins, president of the Business Lending Group, a consortium of four area credit unions.

“There’s plenty of liquidity available for good customers,” says Jim Wilson, president of The Business Bank in Appleton. “We still assess credit based on how they’re doing.”

“We haven’t been touched by the mortgage debacle, so our situation is significantly different from our perspective,” says Mickey Noone, president of First Business Bank–Northeast in Appleton. “From our eyes, it’s all good; we don’t have the problems retail banks currently have.

“From our eyes, it’s a world of opportunity — our competition is the big regional and national players, and it’s our opinion that, when they make changes, it’s at the top and it filters down so it’s not reflective of the local situation.”

Effects of the national credit crunch have been felt in certain business sectors and on the margin.

“I don’t think that’s necessarily affecting real firm institutions dramatically,” says Coggins. “I think concerns about the economy, as they always do, mean a little less willingness to stretch on unproven projects.” He adds that had the national economy been better, credit standards might be “a little less stringent,” but that would be based on the economy.

“You need to focus on quality and keep your standards high,” says Noone. “Here in Northeast Wisconsin, anyway, manufacturing is going quite strong; even in the commercial real estate market, there’s still some opportunities, but it has slowed considerably.”

Wilson says land development is “a difficult environment, and will be. It affects things depending on the ripple effects — for instance, the subprime situation; it depends on what industry you have.” Small manufacturers, however, are doing well now, he adds.

Wilson is not seeing payment problems among his customers, but “a precursor of our business to that is margin issues, profitability, but our delinquencies are pretty good.”

Coggins believes underwriting standards are tightening on projects that are “not proven or a company that’s trying to expand without a long track record — the entrepreneurial ventures that need capacity but don’t have a track record tend to get squeezed out at a time like this.”

“You certainly can’t rely on what you’ve done in the past,” says Noone. “Certainly most banks have changed their standards, when it comes to policies and procedures, when it comes to due diligence; you have to look at it with both eyes open.”

Another factor might be whether a financial institution is based in this area or is part of a larger national company.

“We’ve been able to take advantage of some of these situations and pick up some nice clients,” says Noone.

“Locally owned financial institutions tend to be a lot more steady,” says Coggins. “In times like this they tend to not be so driven by national macroeconomic conditions.”

“There’s a drive for liquidity for large banks — most banks, if they’re growing at all, use some wholesale,” says Wilson. “There’s plenty of money available, but it affects the price of money, which affects the customer.”

One unknown is the impact of the consolidation of national banks as a result of the financial industry bailouts — Bank of America’s purchase of Merrill Lynch and JPMorgan Chase’s purchase of Bear Stearns and Washington Mutual Inc.

“How that plays out and how that impacts local institutions is something of interest, but I don’t know how to predict that,” says Coggins.

Is the stereotype of lower highs and higher lows in Northeast Wisconsin true?

“Certain industries are always much more hard hit, but I think whether it’s housing prices or economic impact, we don’t get impacted as much by spikes and valleys,” says Coggins.

Wilson says both the economy in general and housing in particular are “better” now in Northeast Wisconsin — “we’ve never had the great highs or lows.”

“The Midwest is not on either end of the spectrum, and most companies have felt this coming for some time,” says Noone, pointing to changes in the paper industry.

While business credit appears at least somewhat immune to the national economy at the moment, that may not remain the case.

“The economy is weakening — I don’t think there’s any question, especially on the retail side, and that’s two-thirds of the economy, so that’s going to definitely affect us,” says Wilson. “To that extent, what happens in the nation affects us.”

“The challenge for financial institutions is to be as steady as possible, not overly optimistic in good times and too restrictive in bad times, so they can have be a steady, responsible financial source in good times and in bad,” says Coggins.

Northeast Wisconsin bankers still seem optimistic that this area will do better than the nation as a whole.

“What kind of people weather a storm like this? Conservative people,” says Wilson. “A great deal of this problem was created by excessive leverage. Most of the people we deal with are

conservative people with strong balance sheets, so they don't have as much leverage. It's not that they won't borrow, but they're not leveraged to the same extent as other parts of the country."

Noone predicts that 2009 will be "relatively the same as they are today, but improving thereafter. We're not anticipating a drawn-out economic impact. There are still good clients out there that are operating successfully in most industries; you just have to find them."