

inside small-balance

By **Randy Fuchs**, principal and co-founder, Boxwood Means Inc.

Small-business sheepishness

Economic perceptions are a powerful force. And as major commercial and investment banks try to rejuvenate their capital base, small businesses are ratcheting down their expectations this year.

That's not a good sign for those who offer small-balance loans, i.e., those of less than \$5 million. Owner-occupied and single-tenant businesses account for a sizable chunk of the small-balance-originations pie.

The optimism index from the National Federation of Independent Business' January *Small Business Economic Trends Report* (nfib.com/page/sbet) illustrates the mounting anxiety in this important sector of the economy.

December's 0.2-point gain from an index value to 94.6 is where the good news starts and stops.

These readings are the index's lowest in 15 years — a period that spans a few national recessions. The key components that slid in the latest period: plans to increase inventories and expectations about sales and credit conditions in the next six months.

Boxwood Means' preliminary calculation of \$31.3 billion in small-balance-commercial originations in the third quarter of 2007 follows this sentiment. This total represents a sizable 8.3-percent decline in volume from the second quarter.

Overall originations have dropped nearly 15 percent since the third quarter of 2006, with mortgage purchases alone plummeting 32 percent in that time.

If small-business sentiment continues to sink, we'll

Small-Business Optimism Index



Source: NFIB Research Foundation

likely see further cutbacks in financing requirements for real estate acquisitions and facility expansions.

These conditions suggest that to be successful in the months ahead, originators must reconfigure their strengths and loan programs to fit changing market opportunities. Pessimism among small-business owners likely will cap enthusiasm for real estate purchases in the short term.

That said, refinance-loan volume remains steady compared to purchase loans, and general borrower demand for loans on the large end of the small-balance spectrum is holding up well relative to smaller loans.



Randy Fuchs, a principal and co-founder of real estate research and consulting firm Boxwood Means Inc., writes a monthly column on small-balance commercial loans for *Scotsman Guide*. Boxwood provides lenders with strategic mortgage reports, direct-mail lists, portfolio analytics and other services based on its proprietary database of small-balance transactions. E-mail randy.fuchs@boxwoodmeans.com.