

Published: Sep 27, 2008 12:30 AM
Modified: Sep 27, 2008 05:06 AM

Credit vise limits local growth

Expansion plans are on ice; residents can't get loans

JONATHAN B. COX, Staff Writer
[Comment on this story](#)

Kevin and Stacey Jennings have built several successful restaurants in the Triangle, but a bank recently denied them \$2 million to finance one in Charlotte.

The lender had no appetite for another restaurant on its books, said Kevin Jennings, who wants to replicate Raleigh's Vivace in the Queen City. He expects a second bank to approve the loan -- with stricter requirements.

"The down payment is probably going to be more," said Jennings, whose restaurants also include Frazier's and Porter's in Raleigh. "We're anticipating it."

That illustrates the credit crunch that has intensified amid Wall Street's turmoil. Small businesses, especially those in real estate, are having a harder time getting money for expansion. Community banks are seeing more customers seeking refuge from big institutions.

And the rest of us are having trouble getting credit to pay for everything from Internet access to cars, which could lead to even deeper problems in the land of buy now, pay later. Consumer spending accounts for about two-thirds of U.S. economic activity.

So far, the difficulties here are not as pronounced as elsewhere. But they underscore the effect of a teetering financial system and the urgency of the bailout debate in Washington.

Local executives fear that without government action, the credit markets will stop working altogether and trigger a downward spiral that could put the country in a deep recession or depression.

"It's very necessary," said Robert W. Winston III, chief executive of hotel developer Winston Hospitality in Raleigh, which has at least two delayed Triangle projects. "The federal government is investing in the future for everybody, given the circumstances that we're in today."

There is no guarantee that the \$700 billion plan under consideration in Washington will actually fix the mess. It would help banks rid balance sheets of bad loans, but that doesn't mean they'll make more loans.

For that reason, Campbell R. Harvey, a professor at Duke University's Fuqua School of Business, said the bailout doesn't go far enough.

"It deals with the troubled assets, and it's important to get those off the financial institutions' balance sheets, but it doesn't directly address the issue that these banks are not lending money," he said. "It is a positive step but insufficient to deal with the magnitude of the problems we have."



Jay Spungin, a managing partner at Vivace restaurant in North Hills, puts out silverware Friday afternoon. Vivace's owners are trying to get a loan to open a Charlotte restaurant.
Staff Photo by Jason Arthurs

Some economists said intervention, at the least, would help restore confidence in the U.S. financial system. Even so, it could take months for the economy to get back on sure footing.

"It won't turn us overnight into a roaring economy," said Mike Helmar, who tracks North Carolina for Moody's Economy.com. "We still have some fundamental weaknesses."

The housing market, for instance, will not recover instantly. The housing bubble touched off the economic problems, but the fallout has extended far beyond.

More than real estate

Ken Walker started to notice problems in May. He's the chief executive of Driven Brands, a Charlotte company that sells licenses for several automotive franchises, including Meineke Car Care Centers and Econo Lube. He vets prospective franchisees and sells licenses only to those who, based on experience, will get financing for new stores. Two of them recently -- one in New York and another in Arkansas -- haven't been able to get a bank loan for Meineke franchises, he said.

"We haven't had this kind of consternation on the loan front," Walker said. "It's just slowed down dramatically."

That's not to say lending has dried up completely.

Winston, the hotel developer, said he recently got a commitment from a bank for a project.

"It's as bad as I've ever seen it," he said. "But I think, somewhat, it depends on your relationship with your bank."

Several community banks in the Triangle report an influx of businesses seeking help. In general, the smaller banks have avoided troubles that have plagued some of the bigger institutions because their operations are more conservative.

Jim Beck, chief executive of TrustAtlantic Bank in Raleigh, said he's heard of larger banks taking steps that might seem surprising to some. They've asked customers to take business to rivals, demanded repayment, and, in some cases, even offered discounts to clients who pay off their loans.

"There certainly is a lot of nervousness going on," Beck said. "The topic of any conversation you sit in has to do with the economy and the financial markets."

That's likely because the tentacles of the credit crunch are touching people's lives in unexpected ways.

At the Yakety Yak wireless store in North Raleigh's Falls River Town Center, Jim Broutman sells mobile phones and Internet service from companies such as Alltel, Clearwire and Cricket. Most new contracts require credit checks for new customers.

In the past 30 days or so, the number of people rejected for Clearwire Internet service contracts because of credit has increased by 50 percent, he said.

Contract customers pay a \$29.99 monthly fee for service and rent the modem for \$5 a month. Customers without a contract pay \$36.99 each month and have to pay \$150 upfront for the modem.

"At that point, they say, 'I can't do it' " and walk away, Broutman said.

It's a refrain that executives wish financiers and investors would have used more often in recent years.

"Debt's a drug," Winston said. "A lot of people just love it, and then there's a hangover."

"The American people are having to share the hangover with Wall Street."

(Staff writers Sue Stock and Alan M. Wolf contributed to this report.)

jonathan.cox@newsobserver.com or (919) 836-4948

Staff writers Sue Stock and Alan M. Wolf contributed to this report.

© Copyright 2008, The News & Observer Publishing Company

A subsidiary of [The McClatchy Company](#)