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Why credit remains tight for borrowers

Billions of dollars have been poured into the financial system to get credit flowing again. But that hasn't exactly happened. Amy Scott reports.

TEXT OF STORY

KAI RYSSDAL: About those loans Mitchell mentioned. Let's recall that even before the word "recession" entered everyday use, what we had in this economy was a credit crisis. Banks not lending. In the year-and-a-half since Lehman Brothers collapsed, trillions of dollars have been poured into the financial system to get that credit flowing again.

Marketplace's Amy Scott reports that hasn't exactly happened.

AMY SCOTT: Fed Chairman Ben Bernanke spelled out the problem in a speech yesterday.

BEN BERNANKE: Despite the general improvement in financial conditions, credit remains tight for many borrowers, particularly bank-dependent borrowers such as households and small businesses.

The Fed says consumer lending shrank in October for the ninth month in a row. Loans to businesses fell more than 6 percent in the third quarter, according to the FDIC. Banks are still holding onto more than \$100 billion in government funds. The money was meant to stabilize the banks and get them lending again.

But Campbell Harvey of Duke University says the biggest beneficiaries have mostly been large corporations.

CAMPBELL HARVEY: We are definitely still in a credit crunch. And that crunch is asymmetric, in that most of the pain that's being felt is with small and medium-size businesses.

The banking industry says those businesses aren't asking for as much credit.

Bob Seiwert is with the American Bankers Association. He says lending is down partly because standards are tighter. But also because there's less demand.

BOB SEIWERT: When you have a recessionary economy, businesses are not expanding. They're not opening new locations. So when your business line is trending down, you don't need additional funds.

But many small businesses that want to grow say they're having problems getting the money they need.



River City Cellars in Richmond, Va.
(Courtesy of Julia Battaglini)



Julia Battaglini at River City Cellars in Richmond, Va.

Julia Battaglini is building a wine bar next to her retail shop in Richmond, Va. After a business loan fell through, and she lost three of her investors, she ended up selling her home to pay for the construction.

JULIA BATTAGLINI: The joke is I'm going to live at the wine bar anyway. So, that's hopefully going to close January 22nd, and we'll be open first quarter.

And that means jobs for at least five more people.

In New York, I'm Amy Scott for Marketplace.

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