Bank of America Reducing Existing Credit Lines for some Small Businesses

January 3, 2012 - According to a story in the Los Angeles Times, Bank of America has begun calling loans to small businesses that it deems to be risky. The bank is demanding full repayment of the loans in short order. Since most businesses rely on stable lines of credit, the move is likely to lead some businesses into bankruptcy and will almost certainly contribute to higher unemployment. The real question is, "will other banks follow B of A's example?"

Tweet

```
(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];
s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();
```

```
  (function() {
    var po = document.createElement('script'); po.type = 'text/javascript'; po.async = true;
    po.src = 'https://apis.google.com/js/plusone.js';
    var s = document.getElementsByTagName('script')[0]; s.parentNode.insertBefore(po, s);
  })();
```

Bank of America has been facing a wide variety of legal challenges surrounding its mortgage lending and foreclosure practices. Many of its problems stem from two things; its purchase of Countrywide and robosigning in foreclosures.

Without a doubt, B of A's purchase of Countrywide - which was at the time the largest company in the country offering residential home mortgages - has created issues to for the bank. Many of the loans offered by Countrywide were high risk. So as a result of the meltdown in housing markets, B of A has been feeling the pain associated with high risk loans; namely, high foreclosure rates.

And those high foreclosure rates led to the second problems. Accusations of robosigning in the foreclosure process. For the unindoctrinated, robosigning involved bank employees signing affidavits swearing that the bank had the right to foreclose on specific properties when those employees hadn't actually checked to see if their statements were really true. As it has turned out, B of A wasn't the only company to be accused of this, and it is far from the only bank facing lawsuits over the issue.

The end result of all of this is that the bank is under pressure from federal regulators "to raise capital and cut risks" according to the times. And small business owners with unsecured credit lines appear to be the way that the bank intends to start that process.

Although the bank has not said how many small businesses will be affected, they did say that the move wouldn't impact "hundreds of thousands" of businesses. So does that mean it will only impact tens of thousands of businesses? If so, the abrupt tightening of credit might actually lead to more issues for the bank than it actually solves. If a high percentage of these businesses actually go into bankruptcy, the bank could be turning performing loans into bad debt; further hurting B of A's capital position.

The bright side of the story is that it appears that most banks are in a better capital position than Bank of America. This means that many businesses may actually be able to find other banks to offer them the services that B of A had previously provided. But the bad news is that the move is almost certain to cause long term problems for both the bank and many of its customers. After all, knowing that the bank has done this to some businesses is going to make it much more difficult for them to recruit new customers. This, in turn, will only further hurt the bank.

If, on the other hand, B of A does successfully improve its position with this move, you can assume that other large banks will follow their lead. If that happens, small businesses will be squeezed even further. And when you consider that roughly 70% of all new jobs come from small businesses, it goes without saying that the overall economy would only be hurt even more.

byJim Malmberg
Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.
Follow me on Twitter: