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Positioning yourself for a business bank loan

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Rates are low. The economy is improving. Banks have money to lend. “So,” you wonder, “how come I can’t get a loan?”

The answer is threefold: One, many business owners approach the wrong banks; two, some approach the right bank but do so poorly; and three, others are not “bankable” and need to look at non bank options.

In this post-Lehman world, banks have unquestionably cut back on the types of borrowers and loans they will entertain. The criteria have become much more stringent and if you don’t meet the criteria, it’s a complete waste of time looking for bank financing.

This means that despite the higher costs, you are probably stuck with non-bank options.

Meeting the criteria

Most banks cannot even consider an application if the borrower’s lowest credit score (among Transunion, Experian and Equifax) is under 660. Furthermore, banks are not interested in borrowers who are facing lawsuits or whose Internet profile may present character questions. And unsecured lending to small businesses is now virtually nonexistent, so anyone seeking a loan from a traditional bank needs to have collateral.

Real estate is considered the best collateral, but a business with a track record can still receive bank financing based on accounts receivable, work in process and finished goods inventory.

Many banks will also finance equipment purchases, but these days, the financing arranged by equipment vendors is generally easier to obtain and has terms that are not much more onerous than bank financing.

If the business owner has sufficient credit, character and collateral, he needs to present his “financial due diligence” in a neat package. This would include copies of at least three years of business and personal tax returns, a financial statement and, for a new business, a business plan.

Financial statements should not reflect a comingling of business and personal transactions, and anything unusual should be explained in a narrative or footnote. An accountant may assist in presenting the financial statements more professionally, and banks prefer CPA-prepared or reviewed financial statements over something an applicant personally prepares.

Approaching the right financial institution

You need to know which bank to approach. Although bank advertising is ubiquitous and generic, banks have different appetites for the loans they will entertain.

For instance, some banks will not even consider loans for construction or buildings with vacant space or sub-market leases. Some banks only want real estate loans when the collateral is also the location of the business. Other banks prefer loans to certain types of businesses and/or disfavor loans to others.

The difference in lending between local community banks and large (generally multi state) institutions cannot be overemphasized. According to the Institute for Local Self-Reliance, while small banks comprise only 21 percent of all bank assets, they account for 54% of all lending to small businesses.

Large banks offer many conveniences, but unless your loan is the proverbial round peg, they are likely to seek your deposits, not your loan business.

Local business lawyers and local accountants generally know which bank is the best match for a particular client. They also know which bankers actually mean yes when they say “yes” and which banks actually get to the closing table.

Non-bank alternatives

In the good old days, having significant deposits to offer a bank was sufficient for getting a loan.

Now, deposit accounts are helpful, but if your type of loan is not on the bank's "menu," your banker won't budge, regardless of the deposit size. Business owners should investigate what deposit accounts may bring at each potential bank.

SBA loans are a good way for a fledgling business to obtain its first bank loan, but since the SBA guaranties the bank repayment of 75 percent of the loan, the process and paperwork are more arduous than a traditional bank loan.

SBA loans also frequently require a blanket mortgage on the business owner's house. Most banks offer an SBA loan program, but consider going to a banker who primarily handles SBA loans, has a track record of recent successful SBA loan closings and can provide references whose situations are similar to yours. Larger banks frequently have better SBA programs than community banks because their scale allows for specialization within the bank.

There are private lenders, often called "hard money," who charge much higher rates but are more flexible.

There are also non bank lenders, most of which act like banks. Credit unions are straightforward and often grant small loans. If your credit score is high enough, you might try a zero percent interest virgin credit card for a few months.

People could also try loan brokers, who scour the universe of potential lenders on the customer's behalf and are paid a commission when the loan closes.

The money is out there for the lending. You just have to be clever in finding it.

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