

Borrowers Welcome

The headlines scream “credit crunch,” but small businesses that put in a little extra elbow grease can get the loans they need.

FIVE YEARS AGO, WHEN THE ECONOMY was humming, 5 percent of small businesses surveyed by the National Federation of Independent Business labeled “financing” the biggest thorn in their paw. Fast-forward to today’s recession, which is breaking records for unpleasantness and leaving lenders like CIT Group in deep trouble. How many small businesses consider borrowing problems their top concern now? Five percent.

This is not to say that borrowing’s a walk in the park—the volume of small-business loans is down 38 percent from last year. But there’s reason to believe it’s “less dire for smaller businesses” than the numbers show, according to Holly Wade, policy analyst at the business federation. Small businesses traditionally have a variety of capital sources, tend to cut back on borrowing when sales decline and borrow from smaller banks that have sidestepped the toxic-loan issues. And after a slow start, the federal Small Business Administration is offering some stimulus-package relief, reducing bank fees and increasing the percentage of each loan that the government will guarantee. All these factors appear to be working more grease into the rusted capital-funding machine. The banks are at least saying they are open for business. As long as a borrower doesn’t expect “pre-2008” terms, “we have money to lend and a strong desire to do so,” chirps Robert McGannon, chief lending officer at Kansas City, Mo.-based Country Club Bank.

Borrowers may have more hoops to jump through to prove their worthiness, but plenty of entrepreneurs have scored government-backed loans—even during the most uncertain days of the

crisis. “Easier than I expected,” says Sarah Lindholm, of Vail, Colo., who was approved by the first lender she approached. A month after showing off her business plan, she had \$150,000 to launch Cooper Martin, a zipper-and-velcro-laden clothing line for people recovering from surgery. Lindholm didn’t even have flawless credit—she had some credit card debt following law school. One sign of tougher times: Her bank stipulated that she receive only 40 percent of her loan in cash and the remainder as a line of credit. But since she didn’t need to draw down the entire amount right away this summer, Lindholm was more than happy she didn’t have to pay interest on the whole sum.

It helps to have what Stephen Fraser calls the “suicidal single-mindedness” to run the paperwork gauntlet. Fraser and his partner Gart Davis started Spoonflower, a custom fabric company in Mebane, N.C., in May 2008—just before credit shut down. They invested \$35,000 of their own for software development but soon needed a loan to buy a new fabric printer. Of course, last December and this January were possibly the worst months to borrow. The partners approached three banks that might as well have had signs reading **NO START-UPS NEED APPLY**. One leasing company had the nerve to offer a loan at 54 percent interest. But the fourth lender, BB&T, lent them \$45,000 at 8 percent with the government’s backing, giving Fraser and Davis the money to keep up with the company’s escalating sales. Fraser calls his financing experience “harrowing” and his “most frightening experience outside of parenthood.” But then, entrepreneurship has never been for sissies. **S**

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New Rules for Loan Rangers

Show more. Banks are asking for more data than usual on past and projected cash flow—as much as three years of past records.

Have a Plan B. Lenders will want to see two strategies for getting a loan repaid. If option one is your business income, option two might be, say, selling the brick oven if your pizzeria goes bust.

Spruce up the score. Borrowers’ credit records are under more scrutiny. Those whose credit scores are below 700 may have a problem.



Photograph by Evan Kaifka