

What you need to do to get a small biz loan

By H. Lee Murphy
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Jay Moore was sure that banks were going to line up to finance his new company, Maddie Powers Inc., three years ago. But the first dozen institutions he approached weren't ready to put money on the line for his business designing handbags that look like covers from old romance novels.

Bankers said the company was too new and didn't have enough customers. And the fashion industry was too volatile, they added.

But Mr. Moore was determined to qualify for a bank loan. So, he borrowed \$50,000 from friends to land a contract with a Chicago handbag manufacturer. That led to more retail customers and some angel investors. In December, Chicago's Cosmopolitan Bank & Trust Co. relented, extending a \$200,000 loan, enough to finance the rollout of a new spring handbag collection and start a line of accessories for men, ranging from flasks to cigarette holders.

Most banks reject more than half of the small business loan applications they receive. But bankers say their institutions want to lend money to entrepreneurs. "As sales and profits rise, companies are talking about expanding. We want to assist them as they grow," says John Timmer, executive vice-president of relationship banking at Cole Taylor Bank in Rosemont.

The key is to anticipate what bankers are looking for. And, it helps to deal with a bank that already knows you.

Small loans at most places are scored in a highly automated fashion using analytics developed by credit specialists such as Fair Isaac Corp. in San Rafael, Calif. First Midwest Bancorp in Itasca assigns its loan applicants a score ranging from 75 to 350, with the cut-off for eligibility set at 143. But the company will go lower than 143 about 7% of the time, according to Mark Kennedy, senior vice-president of centralized credit risk at the bank's Gurnee office.

"If we have a client who has a significant deposit history with us or an ongoing relationship, we'll weigh that against the score," Mr. Kennedy explains.

To get ready to apply for a loan, refine your business plan, says Chicagoland Entrepreneurial Center business adviser Jason Felger.

"Get down enough information so that your business is understandable, conveying a knowledge of your market and your customers and your competition. Explain exactly how the money you get in the loan will be utilized," he says. "Two pages probably isn't enough, and 12 pages is too much. What's important is to cover as many angles as possible."

Before Nicole Loftus started an office products promotional firm three years ago, she got advice from dozens of successful business people and met with target customers to assess their interest. Then, she enlisted the help

of a professor in the MBA program at Elmhurst College, and spent a year drafting a business plan. The legwork paid off. In December, she landed a \$250,000 loan from LaSalle Bank for her company, Zorch Inc. in Chicago

"The bankers put me through the wringer with a lot of tough questions and brought me down to earth fast," Ms. Loftus says.

▶ Bankers want to see audited balance sheets and tax returns from at least the past two years, and often three to five years, plus a three-to-five-year projection of future sales and cash flow. The best business projections should paint more than one scenario. What if general business conditions worsen two years from now? Bankers will be impressed if you can show them how you'll deal with that possibility.

Thorough planning can mean counting cars for an entire day in front of a sandwich shop location you hope to lease, or studying competitors' expansion patterns to determine whether they are likely to land in your town soon.

If you have a lousy balance sheet, you may still get a loan if you're willing to pledge personal assets. Some banks figure that more than half the loans they make to small businesses are secured by personal assets. "People have to understand that if we're loaning money to an ice cream store, there's not much value in the freezers and stools as collateral," says Nicholas F. Begley, president of Amcore Financial Inc.'s Lincolnshire branch. "The problem is that many business owners have already leveraged up their home with a second mortgage to get started. So, they often don't have much in their own assets to offer as collateral."

Bankers like to see personal and business expenses kept separate. If you put your family car in your company's name, you may reduce your corporate taxes, but you're also diminishing your cash flow on paper.

Finally, try to get support from an investor. "If we can see successful business people who are putting their own money at risk in backing your company, that speaks volumes," says Cosmopolitan Bank President and CEO Gary Pett.

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