

# Getting to Know Business Financing

The secret often is in finding the right lender

By **Paul Falvey**, senior vice president and chief credit officer, Business Lenders LLC

**I**N 2005, THE *WALL STREET JOURNAL* reported that more entrepreneurs — particularly baby boomers approaching retirement — were selling their businesses. With buyers expected to line up, this turnover might fuel an increase in demand for business-acquisition financing in the next decade.

While some economists predict modest economic growth for the next several years, many agree that the small-business sector will continue to be a key generator of new jobs. The U.S Small Business Administration (SBA) states that small businesses represent 99 percent of all employers. Small businesses continue to drive the economy. The demand for small-business financing continues to grow.

As a commercial broker, finding the appropriate financing for your small-business customers will allow you to participate in this healthy market. Knowing which financial product best fits your clients' needs, and realizing that these solutions don't necessarily come from traditional banks, can make you more successful in securing financing for your clients.

## Lenders to seek

This past October, the SBA reported that for the sixth-consecutive year, the number of loans and the dollars backed by the SBA increased. That translates into more than 100,000 SBA-backed loans for the government fiscal year 2006, totaling \$19.1 billion. Based on the average loan size of less than \$200,000, it is clear that many of these loans were used to support small businesses.

The increased demand for business-acquisition loans and industry-specific loans has fueled the creation of more specialty lenders. These are



lenders that specialize in certain industries or products, such as medical practices, franchises or owner-occupied commercial real estate.

Recognizing this trend, commercial mortgage brokers should evaluate the lenders they do business with. Ideally, you should develop a good working relationship with several lenders.

At least one of the lenders you do business with should be a national SBA "preferred" lender. These lenders are qualified to specialize in SBA loans for small and mid-size businesses. SBA-preferred lenders have more flexibility in structuring loans and can provide quicker turnaround.

Further, at least one of your lenders should be:

- **A lender dedicated to small business.** The senior officer and decision-makers should be experienced and dedicated small-business lenders.
- **A lender that has been dedicated to small business for several years.** This increases the chance that senior management has gone through an

economic cycle and understands the impact it has on small businesses.

- **A lender that specializes in loans, not banking.** This will allow you to source a loan for a borrower for a specific need without disrupting the lender's day-to-day banking relationship.

You also should consider dealing with a non-bank SBA lender for loan requests. Traditional banks tend to have more-restrictive lending policies because of the additional regulations they face. Conversely, nonbank lenders generally have greater flexibility in structuring loans used for business acquisitions. Experienced SBA lenders can be a great resource to you and your customers.

## Client guidelines

Once you have identified the best source of capital for your customer, the next task is to manage the process for your customer. Suggest that your clients follow these guidelines:

- **Be as thorough and accurate as possible on the initial loan application.** Incomplete or inaccurate information is a sure way to increase the processing time and to reduce the chances of a favorable response.
- **Have a professional prepare the business and personal financial information, if possible.** This

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will greatly improve the time it takes to process a loan.

- **Provide a concise and clear business plan.**
- **Use the lenders' application forms or kit.** Be accurate and thorough.
- **Provide realistic market values for any property being pledged.** Get a market assessment from a local real estate agent for real property. Talk to an equipment appraiser for personal property.

If you have identified a qualified lender, the lending professional also should be a helpful and knowledgeable guide and adviser throughout the process.



Business financing is projected to increase in the next decade as more baby boomers reach retirement age. It is in your best interest to be prepared with the appropriate financing products from reputable and experienced small-business lenders. **!!**

## Small Business Fact Sheet

The Small Business Administration's Office of Advocacy defines a small business as an independent business with less than 500 employees. According to the office, small businesses also:

- **Represent more than 99 percent of all employers**
- **Employ 50 percent of all private-sector employees**
- **Pay more than 45 percent of the total U.S. private payroll**
- **Generated 60 percent to 80 percent of annual net new jobs** in the past decade

*Source: SBA Office of Advocacy*