

Ask SCORE for Business Advice

“Ask SCORE” Column

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Finding Funding by Tina Dettman-Bielefeldt

“It is probably as difficult to get a loan today as it has ever been.” This comment was made by KaraLynne Moore, SCORE volunteer and senior analyst at Community First Credit Union, at a recent SCORE meeting. As a regular presenter at SCORE seminars, Moore doesn’t mince words.

It is harder to get financing for a business and options are fewer. More than ever, lenders scrutinize the company’s ability to repay the loan. And, they aren’t only looking at the business income, especially for start up companies; lenders are more comfortable if there is other income available, such as a second wage earner, to support the business debt if the business should experience cash flow problems.

“Loans are being structured and priced based on the risk profile, rather than competitive pressures,” Moore explained. “Many lenders have gone back to the basics – requiring equity of 25% or more, making loans to people who have good personal credit histories, verifying information, requiring personal guarantees, loan repayment amortizations that make sense (for example, 20 years on commercial property, not 30 or 40 years) and in general, making sound credit decisions.”

As a result, recent changes include a requirement for updated appraisals since there has been a deterioration in real estate values, and many lenders are setting floors, or minimums, on floating interest rates. Government regulations are tightening and that means detailed due diligence by lenders, including for small businesses.

Lending institution’s examiners/auditors’ insistence on updated appraisals means that appraisals older than a year old are no longer considered valid. With a cost of \$2,500 to \$5,000 for a new commercial appraisal, that means additional costs for potential borrowers. And, once there is a new appraisal, the business owner may find that they are now underwater (the building is valued lower than the balance of the loan). That means the lender could require additional equity in order to renew the loan.

So, there’s the problem of obtaining a loan AND keeping it. Lenders are closely scrutinizing their portfolios and often restrict the type of new loans that can be added. For example, it’s common to find that lenders won’t even consider a restaurant due to the

high risk of failure in that industry.

Moore says that there are still options. If the loan amount is small, a home equity loan or credit card might provide the needed start-up funds. There is also the possibility of borrowing from a family member, or if an existing business is being purchased, the seller might provide financing.

Many SCORE clients ask if they can get a loan with no collateral, and Moore thinks this is unlikely. While SBA loans might require less collateral, there is still a need to have a minimum of 10 to 15% down.

“No lender will provide 100% financing,” she said. “Personal investment is important. If the person is not confident enough in their ability to repay the loan (thus, not have to worry about the loss of personal assets) why would a lender feel confident enough to “It is probably as difficult to get a loan today as it has ever been.”

If you'd like to learn more, contact the Green Bay Chapter of SCORE. Visit www.greenbayscore.org or call Cindy Gokey at 920-496-8930 for information.

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