IT'S A BORROWER'S MARKET

For established businesses, the time to shop your loan is now. Even newer companies have more financing options than ever.

BY **STEVEN YODER**

For a snapshot of how tough it was for companies to find credit in the months after the housing collapse, consider this: Between December 2008 and July 2009, more small businesses were using their credit cards to borrow for capital investments than were using bank loans.

Happily, those days are gone. For the last five years or so, banks have been so eager to make commercial loans that they're spreading their operations into new geographic areas and competing on how flexible they can make their loan terms, says Jeff Cryer, executive vice president and chief credit officer at the Bank of Feather River in Yuba City. That means one thing: "Businesses have been in the driver's seat," he says.

For companies thinking of refinancing or expanding, market conditions look ideal. "If you haven't looked at your banking in a while, now's the time," says Erik Langeland, managing director and region manager at JPMorgan Chase in Sacramento. Cryer says that for established businesses, better loan arrangements can be had — like 10-year loan terms and fixed rates on commercial real estate loans.

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Biz2Credit Small Business Lending Index

If you do go shopping, the financing details aren't the only element to consider — you should find a banker you can talk to. Regular, transparent conversations are key to a good loan: your banker can help you navigate your financial choices since they have a stake in your success, says Nathan Cox, senior vice president and market manager at U.S. Bank in Sacramento. "A good friend will tell you what you need to know, not necessarily what you want to hear," Cox says. "A good relationship with a bank is the same."

That doesn't mean every established business can get great terms. Small businesses will likely have more luck at smaller community banks: Big banks approve only about a quarter of applications for small business loans, while small banks approve almost half, according to the latest Biz2Credit Small Business Lending Index. All banks want to do the large loan because a small loan costs them as much to process as a large one, says Cryer. "Smaller loans tend to go to smaller community banks because that's our niche," he says. "The $160,000 loan — that's our bread and butter."

Still, terms haven't changed much for startups and businesses without a track record. Even when a loan to a startup does get approved, banks require 10- to 35-percent equity from the borrower, says Cryer.

But compared with years past, even new companies have more routes to financing today. For example, banks can help them get into loans backed by the Small Business Administration like the 7(a) Program. Under that plan, the SBA guarantees from 75-85 percent of the loan amount, which lets banks relax their lending standards slightly. Under another popular SBA plan, the 504 program, banks and certified development corporations jointly finance loans to small businesses for up to 90 percent of the loan amount for long-term capital assets like land and buildings, with part of the amount guaranteed by the SBA. SBA loans do require more documentation and paperwork — but today that's not much more than what's involved with a traditional loan, says Heather Luzzi, district director of the SBA Sacramento office.

For businesses that don't qualify for SBA loans, nonprofits like the Stockton Impact Corps and Sacramento's Opening Doors help owners with shaky credit or no track record get microloans with banks. At SIC, those range from $1,000 to $5,000. To qualify, business owners meet with SIC consultants over the course of six weeks to prepare a loan application and complete a boot camp

NEW WEB-BASED SOURCES OF CAPITAL

Another day, another new online tool for raising money for a business:

CROWDFUNDING leverages platforms like Indiegogo or Kickstarter to pitch your idea to the world and get interested parties to fork over startup capital in exchange for tiny rewards like discounts and t-shirts.

PEER-TO-PEER LENDING connects individual borrowers, via websites like LendingClub and Prosper, with individual lenders looking for good returns.

EQUITY CROWDSOURCING works like peer-to-peer lending but lets investors buy into your company instead of making a loan.

BLOCKCHAIN FINANCING, launched within the last year, automates lending and allows would-be borrowers who hold assets in cryptocurrency like Bitcoin and Ethereum to use those as collateral to take out a loan.

How successful are those in connecting businesses with capital?

+ Crowdfunding campaigns can work, but most don't: Between 69 and 89 percent of crowdfunding campaigns didn't meet their fundraising goals (depending on the platform used), according to a January 2016 report by The Crowdfunding Centre on five of the largest U.S., U.K. and Canada-based crowdfunding platforms.
+ Peer-to-peer lenders may be more forgiving of borrowers with short credit histories than banks, but borrowers pay a higher interest rate: It ranges from 5–26 percent at LendingClub, for example.
+ Equity crowdsourcing, for companies that want to let individual investors buy in, involves a complicated and expensive due diligence process.
+ Blockchain financing is so new that it's hard to know yet how well it will work for borrowers.

on business fundamentals. About half of those who start that process make it through and end up getting a loan, says Mark Crockett, SIC's executive director.

Startups that can't make those options work are left with the classic choices for bootstrapping capital: using their own savings, asking friends and family, or drawing on a home-equity line of credit. Many also explore the newer web-based platforms for connecting with cash (*see sidebar*).

Just because the market conditions favor borrowers doesn't mean every enterprise is in a position to use leverage to boost profits. "We're busting ourselves to make you a loan," Cryer says. "If someone crashes and burns, we say, 'Oh man we shouldn't have done that.' It's like being your best friend or your dad. If you don't get a loan, it may be time to look again at your model or delay your business plan until you have a reasonable amount of capital." ■

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