

More Opportunity For Small Businesses As The Lending Environment Eases For Quality Borrowers

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The business lending environment is loosening as experts report easing standards for quality borrowers and moderately increasing demand for commercial and industrial (C&I) loans.

The Federal Reserve's Senior Loan Officer Opinion Survey on bank lending practices released last month indicates that banks are slowly continuing to ease standards as C&I lending demand shows a slight uptick from the previous survey in October.

The survey also shows that banks are participating in more lending opportunities as competition for business increases. As the ground becomes more fertile for new small businesses to pop up, bankers agree that lending to quality borrowers for startup businesses is a way to boost the economy and create more jobs.

"We think there's been some consistent and steady improvement in the economic conditions, and I personally see a lot of stories with our customers feeling more optimistic and being willing to make more investments and growth in 2011," Heather Endresen, senior vice president of SBA and government lending with Union Bank of California, tells the Business Journal. Endresen says Union Bank customers' financial statements are looking better as well, contributing to "an easing environment for businesses."



Heather Endresen, senior vice president of SBA and government lending with City National Bank, told the Business Journal she believes that 2011 will show more investments and an easing in the lending market. (Union Bank photograph)

Ben Alvarado, senior vice president of Wells Fargo Bank and regional president for the Downtown Los Angeles and Long Beach areas, says Wells Fargo has been lending and there is money out there for small busi-

ness. Last year, Wells Fargo lent \$14.9 billion in new loans, with \$4.6 billion of that in the fourth quarter alone – an 18 percent increase over fourth quarter 2009 numbers, Alvarado points out.

As banks are lending more, entrepreneurs have an opportunity to

become the quality borrowers bankers say "Yes" to. New business owners and entrepreneurs, who may have taken out a student loan or home loan, are now poised to take out their first business loans.

If an entrepreneur has a thorough business plan, he or she will likely be able to easily complete the preparation necessary to apply for a business loan. However, individuals new to business are not likely to know how that process works, either. Regina Peterson, CEO of Advantage Consumer Development Corporation (CDC), composed a list of questions for business owners to ask themselves before attempting to get a bank loan. Peterson has taught many business development workshops sponsored by banks, cities and counties over the years, and her outline for individuals new to business loans has been successful. "We try to show people what's needed," she states.

Peterson says the key is to be prepared, knowing ahead of time how much money is needed and how it would be spent. Financial statements and income tax returns are necessary items for both the business and the business owners. Instead of only utilizing a tax preparer, as many do, preparing regular statements on their own can assist business owners in knowing on which areas to concentrate, where their business is profitable and where there may be a problem. A balance sheet is also important, Peterson says, which is something that many sole proprietors often don't prepare.

Endresen says Union Bank sees some applicants who are more prepared than others, so the bank is about to launch a new process that authorizes it to access individual tax returns from the IRS directly, "making it a lot smoother and easier so [applicants] don't have to be so prepared." She says the focus should be on the business plan and what entrepreneurs do best, "which usually isn't accounting and financial statements. Although they're good at it, we want them to be able spend their time getting their business plan together."

Alvarado encourages entrepreneurs and business owners to seek the assistance of a certified public accountant (CPA). "It's always great to talk to a CPA about your business because they are going to handle the financials, the paperwork, and they're usually pretty well versed on what banks are looking for as well," he states, adding that it's important to be well informed about what a bank requires. He notes that Wells Fargo provides resources for



Ben Alvarado, senior vice president of Wells Fargo and regional president for the Downtown Los Angeles and Long Beach area, said it is important for new business owners and entrepreneurs looking to apply for a business loan to establish an open and honest relationship with their banker. He is seen here at a Wells Fargo branch on the 1st floor of the Landmark Square building, located at 111 W. Ocean Blvd. (Photograph by the Business Journal's Thomas McConville)

loan applicants such as its online Business Insights Resource Center. “The more you can talk to your banker about these programs and just inform yourself, the better you can arm yourself to submit a package and get it qualified when you know the ins and outs of it,” Alvarado says.

Alvarado adds that he notices that many small business owners or entrepreneurs do not spend enough time in “an honest and open dialogue about exactly what it is they would like to do, as well as what’s going on in the background, so the banker can understand how to direct them.”

Both Endresen and Alvarado agree that having a face-to-face conversation and establishing a relationship with a banker is key in the loan application process.

The business financing basics are typically the same no matter the bank, whether it is Wells Fargo, City National Bank, Farmers & Merchants or Bank of America. When adding SBA loans and a company like Advantage CDC in the mix, the basics are still there but a debt service must be added from another lender.

“In today’s market, everyone still looks for the three ‘C’s’ in lending: credit, collateral and character,” Peterson says. “Credit scores will always be important. Lenders have been burnt in this economy and had to take back properties they did not want, so their underwriting has become more stringent than years past.” Peterson says this is a good thing because some lenders were too flexible with credit in the past and did not document some things they should have. “We have all – the borrowers and the lenders – learned something from the ‘great recession.’”

How To Prepare To Ask For A Loan

Here are the 13 questions from the document “How To Get Your Banker To Say Yes!” – prepared by Advantage CDC:

- What amount of money do you want?
- What is the purpose of the loan?
- What are the primary sources of repayment?
- What kind of collateral do you have to support your loan request?
- What collateral is owned personally by the businessperson, which can be assigned to the bank?
- Do you, as a businessperson, have the services of a certified public accountant?
- Do you have the services of an attorney?
- Do you have business life insurance?
- Do you have protection insurance?
- How much do you, as a businessperson, know about your business?
- How much personal debt do you have?
- How much competition will you have?
- How much money does the businessperson have to put into the business or how much money is already invested in the business? ■