

## Banks Eye Entrepreneurs

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The economy might be on life support, but news about the death of business loans isn't telling the whole story. Some institutions, in fact, are doubling down when it comes to extending entrepreneurial credit lines. Some are even tapping some of that controversial Troubled Asset Relief Program money to help out clients in need of a little liquidity boost.

It's true that many big banks are against the ropes. More than a few got caught up in subprime home loans, derivatives and other real estate side bets that are virtually worthless. A January Federal Reserve Board [survey](#) found that 65 percent of banks it polled continued to tighten lending standards for commercial and industrial clients. But the survey also found that demand for such credit is down, the credit tightening is less severe than in October, and distaste for home loans has prompted "an increase in the extension of new commercial real estate loans" among 15 percent of responding institutions.

A safer bet than visiting a major bank, hat-in-hand, is to query your regional lending institution. Many have avoided the subprime mess and are sitting on liquid--lendable cash. Some have even taken a sliver of that federal TARP rescue money specifically to do what Congress and the U.S. Treasury intended: Give entrepreneurs and the American economy an injection of greenbacks in the form of business loans.

"We're entering an era when specialized institutions and community banks are the go-to source for small business," says Chris Hurn, CEO of [Mercantile Commercial Capital](#) in Altamonte Springs, Fla.

Mercantile is not a bank. Rather it's a financial services corporation that focuses on administrating and supplementing the SBA's 504 loan program. With the help of the SBA, Mercantile can offer entrepreneurs a loan on 90 percent of the value of a commercial property, with terms as long as 25 years and interest rates in the 5 percent range.

"Office buildings and industrial warehouses, day-care facilities, restaurants and hotels" are game, Hurn says. "We don't do many investor projects with speculation. We don't do multi-family residential. We don't do gigantic development projects. Our niche is generally half a million to \$7 million projects."

The institution's pitch, Hurn says, is to wean business owners off money-losing leases and rents. "I finance people who go from leasing a facility to owning," he says. "It's a wealth-building strategy."

At a time when troubled big banks are trimming their small-business loan departments to benefit their own troubled balance sheets, Hurn is concerned that the federal government isn't cultivating economic growth where it could count the most--at the entrepreneurial level.

"There have been about 300 lenders get out of the SBA loan business"--many that have taken TARP money, Hurn says. "It compounds the problem when we know that small businesses lead us out of recession. They're making the situation worse than it needs to be. Rather than strengthen the success of sectors like small business, we've got a government philosophy that says we need to prop up failure."

So don't expect Mercantile to prop up just any mogul-in-training. Most willing lenders are survivors of this mess specifically because they've been wary about who gets their legal tender. You can bet your bottom dollar that they're not about to weaken their lending criteria in this climate. But if you have good credit, if your business shows positive cash flow and if you have collateral such as property, you can probably get a loan.

Hurn says he asks one question when evaluating a potential customer: "Is there enough capital spun off by a company to cover the debt on the loan?"

"It's not that complicated," he says. "We look at tax returns, we take rent, profits, we look at non-cash expenses; add all that, and that gives an idea of the capital spun off on the business. We compare that to the annualized debt on the loan. Say the business spins \$1.20 for every dollar of debt payments. If it's that or higher, chances are we'll approve the loan. We'll also look at credit scores and make sure you're a good boy or girl."

At [Sterling National Bank](#) the story's much the same: Those who wouldn't have gotten a loan before the markets' collapse in the fall still won't get one now. Still, the bank recently took \$42 million in TARP funds, and president John C. Millman says "for every dollar we took in from the Fed, we could leverage 8 to 10 times that." Half of the TARP cash it has will go to new clients, he adds.

"We have lots of liquidity," Millman says. "But we saw it as a once-in-a-lifetime window to access more new clients."

Sterling's lending policy is conservative, too. Restaurants and construction companies are out of luck here.

"All of our clients are entrepreneur-owned, and we require personal guarantees," Millman says. "We have not changed how we lend. There's an effort to redouble our underwriting and our caution."

[California Bank & Trust](#) didn't get into the subprime real estate mess, and now it has plenty of money to lend, including TARP-backed funds. Its parent, Salt Lake City-based Zions Bank, took \$1.4 billion in TARP money, with some of it--including lines that range from less than \$100,000 to a recent record-setting loan of \$19.5 million--flowing through the West Coast institution.

Senior vice president Steve Borg says it's important for the California institution's bottom line to keep lending: Many recession-wary business owners are concentrating on paying down debt, making it hard on banks that depend on interest for profits.

"Some businesses are paying down and paying off their debts," Borg says, "so it's important for us to keep the lending machine lending."

Indeed, while major banks focus on balance sheets, the leaders of some small, regional and midsize institutions want to make it clear that entrepreneurial lending is the lifeblood of American business. They want to keep it flowing.

"I think that's where the economic turnaround is going to come from--small business," says Sterling head Millman. "It drives employment. The turnaround is going to come from the bottom of the economy, not from the big companies at the top."

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