

DAYTON BUSINESS JOURNAL

Securing cash for your small business

Finding the right lender first step in getting a loan

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Last summer, Steve Parker went to five banks to apply for a loan to help his small company.

Parker is president of **Rush Transportation Logistics Inc.**, a 24-year-old Dayton-based transportation company that grew its sales 20 percent this year from last year.

But in spite of the company's longevity, two of those banks turned him down.

"When applying for a loan, you need a bank that makes local decisions," Parker said.

Large banks may reject small businesses' requests for loans because the applications are sent to offices outside of the area -- to Cleveland, for example, Parker said. And bankers in those offices don't understand Dayton's economy and aren't familiar with Dayton's businesses, he said.

Parker eventually was able to secure a loan with **Huntington Bank**. Huntington's local bankers make decisions about loans for companies in the area, said Bob Hoersting, vice president for business banking for Huntington Bank in Dayton.

Parker's story is a common one. Many small businesses have trouble finding banks to approve them for loans, said Bart McMannon, Region IV director of the **Small Business Development Center** at Kettering-based **Edison Materials Technology Center**.

But there are ways to gain a competitive edge. Choosing the right bank is the first step, experts say. Certain banks are better matches for some small businesses, depending on their size and industry. And once you choose the right bank, you have to have the right materials and knowledge on hand to answer questions during the interview.

Preliminary research will help a business find the right bank, said Steve Budd, president of **CityWide Development Corp.**, which advises small businesses and issues loans. Budd suggests working with a counselor at CityWide, **County Corp.** or the **Dayton Development Coalition** to find a bank that commonly serves that business' industry niche.

Businesses also should find the correct bank -- or division within the bank -- for its size. Banks may reject loan applicants before referring them to the person who handles their size

business, Budd said. So businesses need to seek out the banker who handles their size; bankers shuffle businesses either above or below the \$10 million in annual sales mark.

Once they find the right bank, business owners must prepare for their interviews. First impressions are important because bankers may not grant a second interview to the loan seeker, Budd said.

Borrowers should be prepared for the bank to request how much they'll be expected to put down on the loan, said Patrick Fenech, vice president with the Small Business Administration division of **U.S. Bank**, covering the Dayton and Cincinnati areas. When buying commercial property, U.S. Bank will generally require the buyer to contribute 10 percent on multipurpose property (space that could be used for almost anything), 15 percent on limited purpose property (an auto repair shop or restaurant) and 20 percent to 25 percent on single purpose property (a car wash).

When financing things other than property, buyers should be aware they'll be expected to contribute 10 percent on new machinery, 20 percent on business acquisitions and 15 percent to 20 percent on startup businesses, Fenech said.

But those numbers aren't set in stone. The more education, experience and management skills business owners have, the less capital they'll have to front, McMannon of the SBDC said. And lending experts agree that cash isn't always necessary, as long as the business owner has equity in a home, equipment or other possessions.

Not only should a business owner prepare for the bank's requirements, but also prepare for its questions. A borrower should bring several materials to the interview, Hoersting said. Those include a business plan, corporate and personal financial statements, corporate and personal tax returns, and invoices or purchase contracts if the borrower plans to acquire property or equipment.

Lenders also advise bringing a cash flow statement to show that the business will make enough money to pay the bank back, McMannon said.

Even with their homework done, business owners still may get rejected for loans. Many businesses are turned down for loans because of bad credit scores, McMannon said. Banks will consider a score of 620 or higher, but they prefer a score that surpasses 700, he said.

Bankers agree that one of the best ways to get approved for a loan is to develop a good relationship with the lender.

"When you are able to provide somebody with funds they need to catapult them into their dream, it's a partnership," U.S. Bank's Fenech said. "The bank is paying us to work for you, so take advantage of that."

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