Digital Age Lending Embraces 'Old Time' Principles

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In addition to pressing the flesh, my mother told me not to slouch, look 'em straight in the eye and dress "clean cut." Although I never quite understood what clean cut meant, I don't think she envisioned the dark, pinstriped, vested suits that I wore two decades ago during my commercial real estate and business financing career.

Sure, the digital age has created a new paradigm. But pressing-the-flesh principles still exist for seeking financing, even if your banker is on the Pacific Coast and you are in New England, for example. What's more, it doesn't mean that you have to hop on the red eye so that your plane lands in Los Angeles, Calif., in time to beat the loan officer to her desk the next morning.

Just like in the bygone days, however, lenders still want you to be of good character and make a favorable impression on them beyond your financial statements. More specially, you need to stand out from the pack of applicants vying for the loan officer's attention.

Savvy business owners know that they have to differentiate themselves from their competition. So much so that banks will look for your niche as a prerequisite to approving your loan application. "The funder should be able to completely understand what specific niche the owner serves," Charles Green writes in his book Get Financing Now. The former CEO and founder of a community bank also published his third edition of The SBA Loan Book and is a financing expert.

"The owner should attempt to distinguish the business' unique characteristics and enable the funder to understand why the business is discernibly different from its market competitor," Green says. Enabling or spoon-feeding a lender or equity investor about the uniqueness of your enterprise is a process that few novices have mastered.

BoeFly.com, for instance, asks loan applicants to post their data online and then its proprietary technology translates the information into the most important financial ratios for bankers before your numbers go live. These are the ratios that lenders use to identify if your financing request is a fit for that bank's lending criteria. BoeFly does this so the borrower doesn't waste valuable time engaging with lenders that aren't a match. Similarly, this allows busy lenders to quickly separate the wheat from the chaff. BoeFly has a team of professionals that reviews each borrower posting for completeness and when appropriate, contacts the applicant with specifics on what items are missing so the borrower has the best chance for success.

But it is up to you to clarify how you arrived at the numbers and why your company is unique. Moreover, you should explain why your key financial ratios differ from the averages, according to your Standard Industrial Classification.

SIC codes are the federal government's system for classifying industries and bankers look at how your financial ratios compare. They also compare your business to similar ones in their own portfolio and to the predetermined ratios that they require to approve loans. Important ratios include your cash equity in the business to loan amount requested, value of the collateral to loan amount, and debt service coverage — the annual net operating income before income tax and depreciation divided by the annual debt service. BoeFly, understanding that few business owners have experience in this area, calculates the ratios for the borrower.

Many loan underwriters compare your financial ratios to the data in Risk Management Association's Annual Statement Studies. RMA's statistics tells lenders your industry's average ratios. You can find RMA at many libraries. Additionally, your industry's trade association and some trade magazines collect similar data.

But no two businesses are exactly alike, especially when you have a niche product, are in a unique location, fill a special void in the marketplace, or your proven management prowess has historically beat the industry averages.

For these reasons, BoeFly's proprietary footnoting capability next to each line item of your financial statements allows you to justify your company's deviations from the averages. Use the footnoting option extensively to explain your uniqueness and to tell financiers why they should choose your deal.

According to a January through February survey of banks by research firm Omega Performance, 77 percent indicated that they are likely to increase their small business lending activity. Twenty-three percent expect to do more multi-family housing lending and 14 percent even said they will be increasing their construction lending.

That means the most active lenders may not be able to fill their loan origination quotas from existing customers and they are likely to be prospecting on Internet sites that can provide quality applicants.

Jerry Chautin is a former entrepreneur, commercial mortgage banker and business lender. He writes and blogs about business and real estate for several publications and is SBA's 2006 national "Journalist of the Year." Jerry is a volunteer business mentor with SCORE, "Mentors to America's Small Business," offering free business advice. Post your comments and ask questions on this Blog or send Jerry an e-mail.