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How to Approach Lenders Now

Borrowers should be prepared to talk about how they steered through the downturn.

Eileen P. Gunn | March 8, 2011

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Tell your survival story. That's the advice to entrepreneurs seeking loans from the head of a leader in small-business lending.

"I like to say that if there were four dry cleaners in your town, and now there are two, those are the two that never ruined people's shirts," says Chris Reilly, president of CIT Small Business Lending, a Small Business Administration-approved lender based in Livingston, N.J. "There's a natural selection process that's happened over the past two years. The survivors are the companies that had a better business and better owners."

CIT, an arm of commercial finance company CIT Group Inc. and once the No. 1 small-business lender by volume, is itself a survivor. CIT Group sought and emerged from Chapter 11 bankruptcy protection in 2009. Known for its asset-based lending, loans to franchisees and factoring services for manufacturers, it still provides those services, but at a much lower volume.



Chris Reilly, president of CIT Small Business Lending

CIT wrote \$82.5 million in SBA 7(a) loans in 2010, down from \$771 million in 2008, according to the Coleman Report, a newsletter for SBA lenders. But in the first quarter of its 2011 fiscal year, which ended Dec. 31, CIT's small-business arm had already approved more than \$53 million in loans, according to the SBA.

While the climate for small-business lending isn't what it was pre-recession, it's better than it was a year ago, according to Reilly. Borrowers should be ready to talk with lenders about how they made the changes they did to help offset revenue losses and keep their doors open through the recession, she says.

Reilly spoke to Entrepreneur.com about the improving economic environment and how to get your loan application approved in 2011. Here are excerpts from that conversation.

Entrepreneur: How is the lending climate for small business changing?

Reilly: Credit is coming back to midsize and larger companies faster than small businesses. That's because small businesses are riskier. . . Small businesses should benefit from general economic conditions improving and, as that happens, lenders should feel comfortable taking on more risk and making more small-business loans.

By the Numbers:
SBA 7(a) Program 2010

Number of Loans: 47,000
Gross loan amount: \$12.5 billion
Average loan size: \$264,000
Average guaranty: 81%
Loan volume change: 34% (since 2009)
Source: Coleman Report

Entrepreneur: Can you talk about recent legislation that might help entrepreneurs to find loans?

Reilly: The Small Business Jobs Act of 2010 expanded several Small Business Administration loan programs significantly in terms of the size of loans and the kinds of businesses that are eligible. For example, The [SBA's 7\(a\) program](#) had been capped at \$2 million per loan, and now those loans can be made for up to \$5 million. As entrepreneurs start to think about expansion and do their lease-versus-buy analysis, now is a good time to buy property. But \$2 million often doesn't cut the mustard [to

buy commercial space]. So \$5 million gives some business owners the opportunity to borrow, not just for working capital or capital investments, but also for real estate.

Also the [CDC/504 program](#) used to be just for new business and real estate. Now you can refinance an existing loan, so they've expanded that program, too.

Separately, the Jobs Act also made \$30 billion in funding available for qualifying banks to use to make small-business loans, and that money is starting to become available.

Entrepreneur: How will the SBA-backed loan-application process be different than it was three years ago?

Reilly: You need to be prepared to have more skin in the game. You can't put 5% or 10% down and get a loan. Those days are gone. If you want someone to lend you money, you need to share the risk, and in a painful way. Depending on the lender, you should expect to put up 20% to 25%. With SBA-backed loans, the down-payment rates are lower, but even with these loans, some lenders were doing 100% financing a few years ago, and now that's no longer possible.

Entrepreneur: Any advice for winning the loan you want?

Reilly: Stick to what you know. Entrepreneurs are innovative and love to do creative things, but now is not the time to go way outside of your box. Then it comes down to good financial planning. Make sure your financial records are well-organized. You need financial statements or three years of tax returns, and a business plan that explains what happened over the past two years. You need to know what you want to do and what it takes to do it, then figure out what it's going to cost. You have to have a good, realistic plan. Don't ask for less than you need. But don't over-leverage yourself.

Entrepreneur: What's the biggest mistake you see in loan applications?

Reilly: For a startup or a business that wants an expansion, they can be overly optimistic about the timetable, how fast those cash flows are going to come. Lenders are focused on that. They want to make sure your business cash flows. They want to make sure your plan is realistic and will cover your debt service and leave money left over for the entrepreneur to live on.