SMALL BUSINESS: Borrowing capital in a weak economy

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Raising capital can be challenging in a good economy, but it's likely to get much more difficult given the current economic downturn.

Lending experts say there is money out there for small businesses though getting your hands on some may require more work and diligence.

"Banks have become more cautious," says Keith Leggett, a senior economist with the American Bankers Association in Washington. "That reflects the fact that we are seeing fairly flat economic growth at this time and an increased probability that we may be slipping into a recession."

Banks are "getting more conservative," tightening credit standards and starting to lower their loan-to-value ratios, notes Roslyn Goldmacher of the Long Island Development Corp. in Bethpage, which provides financing and technical assistance to small businesses and not-for-profits. This means banks may lend up to 65 percent of the value of the collateral you pledge for a loan, she explains, rather than 85 percent or more in better times.

But tighter credit doesn't mean you shouldn't try approaching your lender, she says. You just need to be better prepared. Have the necessary financial information organized and up to date, she says, including three years' worth of historical financials, plus current financials and three-year projected financials.

Leggett says it's useful to establish a relationship with a lender before you go in for a loan. Maintain a checking account there, he suggests, or use one of its other services such as credit card processing.

"If you just walk in cold off the street, banks may be a little more cautious to lend to you than if you're someone who is an existing customer," he says.

But if you follow that strategy and don't get a loan, don't give up. Government lending programs of the Small Business Administration and state and local assistance agencies are available, Goldmacher says.

For instance, Richmar Printing Inc. in Farmingdale snagged a $250,000 loan through the New York State

Targeted Industry Revolving Loan Fund, which is for targeted industries such as manufacturers like Richmar. The printing company specializing in cosmetic inserts worked with the Long Island Development Corp. and will use the funds to buy more folding equipment, says president Richard Goldstein. He also got a loan from Wells Fargo.

You can learn more about targeted loans from state, county or local economic development offices. Beyond that, it may be worth considering alternative financing sources.

"Venture capitalists are still investing," says Bob Brill of Newlight Management in Jericho, which manages $150 million in investments. Such investors continue to look for good deals, albeit cautiously, he notes.

The asset-based lending market also has been heating up, says Neil Seiden, managing director of Asset Enhancement Solutions Llc, a financial consulting firm in Port Washington. Unlike banks, these lenders are not so focused on cash flow and net worth, he explains, as on the borrower's assets, such as accounts receivable and inventory. There is generally more flexibility on the amount that can be borrowed, although this type of financing tends to be more expensive than a traditional bank line of credit.

Expect credit advances of 75 percent to 85 percent of eligible accounts receivable and 40 percent to 50 percent of eligible inventory, notes James Occhiogrosso, executive vice president of Rosenthal & Rosenthal, an asset-based lending company in Manhattan. And as your assets increase, he explains, so does your ability to borrow more.

"It's definitely an alternative, especially in a weakened economy," he says.

So start shopping around.

BE PREPARED

Don't approach a lender unprepared. Have all your financial documents up to date and organized.

Do check your credit report before approaching a lender. Lenders don't like surprises.

Don't approach a lender asking, "How much do you want to give me?" Figure out how much you need to borrow and be able to explain how it will enable you to grow your business.

Do talk to people in your industry about where they are getting financing. It may reveal which lenders favor which industries.

Don't give up without tapping all your resources. Be creative and shop around.

SOURCE: GOLDMACHER; LONG ISLAND DEVELOPMENT CORP.