

# Business lending

How to obtain financing for your company **Interviewed by Bridget McCrea**

**E**very business needs financing at some point to grow. Whether it's to purchase new equipment, lease real estate for physical expansion, hire new workers or increase production to accommodate customer demands, financing is the lifeblood of any successful company.

"There are very few companies that don't use loans to finance their growth at some point in the business cycle," says Vicki Hays, senior vice president and chief lending officer at NexTier Bank in Pittsburgh.

The good news, says Hays, is that the current lending environment is favorable to small business owners, with a variety of financing options.

*Smart Business* spoke with Hays about the small business lending climate, the best funding options and key strategies that companies can use to best position themselves to obtain financing.

## What's the lending environment like right now for small companies?

It's very good. There are many successful small businesses operating in America. As a result, banks are paying attention to their financing needs.

They are major sources of deposits at financial institutions and are also a key source of business for most banks, regardless of size. Community banks, for example, do a significant amount of business with small companies. The availability of government assistance for banks that are making loans to small companies is yet another positive trend.

## What are the best lending options for small businesses right now, and why?

They should start where they make their daily deposits. Most banks aren't willing to make a sizable, unsecured loan to a new business customer but will try to work with its current customers by providing them with financing with collateral that includes personal or business assets. Quite often, for example, businesses will use personal assets when they are first getting started and then switch to business assets as their companies grow.



A company that's not a candidate for a bank loan should consider a loan that's guaranteed by an entity like the U.S. Small Business Administration, which provides various programs for banks to secure government-guaranteed loans for start-up and growing companies.

There are a number of programs through which businesses can get sources of funds for development, such as nonbank financing options like accounts receivable factoring (where a third party purchases the company's receivables in exchange for a percentage of funds collected).

## How can a small business best position itself to obtain a loan right now?

Business owners need to strike a balance between their reason for being in business and their ability to operate the day-to-day activities of the company. If they're lacking in business management skills, for example, then they should surround themselves with good advisers (such as CPAs) who can help them establish good accounting systems.

Engage the services of an accountant and/or attorney early on to set up the firm's legal entity, and to ensure that their bookkeeping is accurate and up-to-date. That way, when the bank asks for income statements or profit-and-loss statements, they can be generated quickly and seamlessly.

A professional business plan can go a long way in helping the banker learn about the business, its progress, future goals and how it will get there. Business owners also need to be willing to put their own personal assets on

the line, (because) most banks aren't willing to take all of the risk involved with reaching those goals.

## When is the best time for a business to seek funding?

Business owners should be preparing to obtain financing right out of the gate. Even if they don't need it immediately, they should have the resources and abilities to go after the financing when the situation necessitates it.

They should be thinking about financing from the earliest stages and using the services of their attorneys, CPAs, trade groups and other resources to help them prepare, rather than waiting until they're at their weakest point during an emergency cash crunch. To avoid this trap, they should get their financing package together early and then know it's there when the time comes to use it.

## What's the outlook for small business lending?

It continues to be strong. We continue to see new businesses opening every day, and existing small businesses growing into larger entities.

In fact, small business is moving the economy forward. That makes the prospect for banks offering loans to small businesses even stronger.

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