Q&A | SBA lending

David W. Gill | CEO | MileStone Bank

MileStone Bank of Doylestown was one of three startup banks that entered the Bucks County market in 2007, just as the economy was turning sour. Despite skepticism that the 35 banks competing for Bucks County's 600,000 residents and countless small businesses would not all succeed, MileStone has weathered the downturn.

In 2009, MileStone became part of the growing trend of small banks participating in SBA lending, a market traditionally dominated by larger companies. SBA lending now contributes about 30 percent of the bank's total loans. So far in 2011, MileStone has done 19 SBA 7(a) loans totaling $15.9 million.

David W. Gill, MileStone Bank co-founder, president and CEO, spoke with the Philadelphia Business Journal about the bank's experience with SBA lending and what borrowers need to know when pursuing a loan.

— Christine Fisher

Q: Why did MileStone Bank, a small startup bank, decide to get involved in SBA lending?

Part of the impetus behind that was the economy. You have businesses out there that sometimes, through no fault of their own, are struggling, so our ability to step in and help them, with the support of the government guarantee, really just makes sense. It has helped us a lot. It's enabled us to do some relations we might not have done, and at the end of the day we get a good solid business relationship.

Q: How is getting an SBA loan different from a conventional loan?

People should know that they shouldn't be afraid of the prospect of an SBA guarantee for their loan. In the past, people have been kind of turned away from that because they were afraid of the paperwork. It took a lot longer to get the loans approved and so-forth. I think today the process is much more streamlined. What I would say to the small businesses out there that are looking for some funding and maybe have found some challenges getting it again because of the financial crisis over the last few years is consider the SBA alternative, because they really do work. ... At MileStone we are able to originate, underwrite, approve and close SBA loans in time frames very similar to those associated with conventional financing.

Q: Is it easier to get loans now?

For sure; 2010 was great because [the government] waived fees, and they raised the limits [as a stimulus, the federal government temporarily raised the guarantee level for certain SBA loans to 90 percent, up from 75 to 85 percent]. That certainly opened the doors for a lot of business entities who may not have been able to participate in the past or who may have been hesitant to do so. The fact that the guarantee is there actually helps banks like ours to consider credits that we might not be able to consider but not for that guarantee.

Q: Are your underwriting standards stricter now than they were before the recession?

MileStone Bank's underwriting standards have remained consistent even as the overall economy has struggled. Our expectations of the equity and down money a borrower will bring to a deal haven't changed. However, the SBA guarantee enables MileStone to support the financing requirements of small business borrowers even when they meet all other underwriting criteria, but lack the full collateral support typically required for a conventional deal. While conventional financing usually can provide up to an 80 percent loan-to-value, SBA financing can provide 90 percent or more.

Q: What do you look for when evaluating loan applications?

We're going to look for a strong business plan. We're going to look for an entity that has a good track record. We're going to look, obviously, for the ability to service the debt, and we're going to look for the ability to collateralize the loan, which as you know was partly supplemented by the SBA guarantee.

Q: What kinds of things do you consider a red flag in a loan application?

If you've got a company that's continuing to borrow, for instance, on a line of credit basis that perpetually terms out and then comes back for more, that can throw up red flags. Red flags about accounts receivable concentrations, red flags about management successions, new product lines or new equipment purchases that don't really make sense or haven't been completely analyzed in terms of the business plan — those kind of red flags are going to get in our way regardless of whether it's a conventional deal or an SBA deal.

How to get a small business loan

BARBARA PINCKNEY
SPECIAL TO THE BUSINESS JOURNAL

In most ways, a loan backed by the Small Business Administration is just like any other loan, and the process for getting one is much the same.

The borrower applies to the bank, and the bank decides if he or she meets the criteria for credit. If the bank determines it cannot make the loan on its own, it may then look to an SBA program, most commonly the 7(a) guarantee program. If the SBA agrees, it will guarantee a portion of the credit, typically 75 percent or more.

There are pros and cons for the borrower. Working with the SBA typically allows banks to offer rates and terms they may not otherwise be comfortable with. But there are also fees that range from 2 percent to 3.75 percent of the guaranteed portion of the loan, depending on loan size. For example, a $250,000 7(a) loan with a 75 percent guarantee would carry a $5,625 fee.

Bernard Paprocki, director of the SBA's Syracuse, New York, district, said it is important that entrepreneurs and business owners understand how this process works. A borrower should not go into a bank thinking they want an SBA loan.

"The goal is just to get a loan," he said.

Going into the bank is actually one of the last steps in the process. First comes research and preparation. Whether you are starting a new business or expanding an existing one, you need a solid business plan, reasonable cash flow projections and a good sense of the competitive landscape.

"Your chances of getting a loan are greatly enhanced when you do your homework first," Paprocki said.

Thomas Burke, vice president of SBA lending for San Francisco-based Wells Fargo, advised getting help from an outside expert, such as an accountant, a business consultant or one of the organizations affiliated with the SBA. These include Small Business Development Centers, which typically are tied to large universities; Women's Business Centers and SCORE, a group of retired executives who mentor entrepreneurs. All three provide their services at little or no cost.

Burke, whose bank is the nation's largest SBA lender and the largest depositor in the Philadelphia area, also likes to see entrepreneurs with some experience — preferably managerial — in the industry they want to enter. It is also important to have some of your own money to invest.

"We want you to have skin in the game," he said. "For a startup the norm is 30 percent. For existing businesses it may be 10 or 20 percent."

The next step is to find the right lender. Paprocki recommends starting with your own institution, if you have one.

"They have the most familiarity with you, your business and your plans," he said.

Burke said people in the market for a new bank should research which institutions in their areas have expertise in their industries. Local SBA offices also can provide lists of certified and preferred lenders, those who have the most experience with the agency's programs. Preferred lenders can put through an SBA loan without prior approval.

When you have a few banks in mind, go in and talk to them.

"This is just like any other service you would purchase," Burke said. "Do you feel comfortable talking to them? Do they have an understanding of your business? You should interview them the way they will interview you."

When you do sit down to apply for a loan, be prepared to show financial statements and have your past probed.

"We pull credit reports on people to make sure their personal finances are clean," Burke said. "You also have to fill out a personal history form. The SBA will do an FBI background check."

One of the keys to getting what you need from a bank is also knowing what you need. A line of credit? A term loan?

"A 7(a) loan is a term loan," Burke said. "That is good if you are purchasing a business or a big piece of equipment you want to pay off over time. But if what you need is working capital, you may be better off with a line of credit. The SBA Express product is a line of credit."

It is also wise, he said, to keep expectations reasonable. It is better, and easier, to borrow $20,000 now, and more later, than to get in over your head by asking for $200,000 now.

"It should be like building blocks," Burke said.

BARBARA PINCKNEY is a reporter for The Business Review of Albany, N.Y., a sister publication.

TIP BOX

DO YOUR homework, including preparation of a business plan and cash flow projections.

FIND A lender that understands your business and has experience with SBA programs.

KNOW WHAT you need, and keep your expectations reasonable.