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## Banks in quandary over small-biz lending

BY JENNIFER A. JOHNSON  
Phoenix Business Journal

When the building Jammie Shaughnessy was renting for her dental practice in Anthem became available for purchase, she knew it would be an asset for her business. There was just one obstacle: She needed a large loan to buy it.

Shaughnessy, an entrepreneur and dental hygienist, purchased North Valley Family Dentistry in 2007 with her husband, Scott.

She was dismayed when she found out that her landlord had missed loan payments.



Shaughnessy

"When I found out he wasn't paying the bank, I looked into how much it would cost to buy the building," she said. "I knew my bank wasn't going to loan me the whole amount."

Many banks are in a curious predicament when it comes to making small-business loans. They have been encouraged to lend by the federal government, and even been given bailout money in some cases to boost capital; but at the same time, they have been ordered to reduce risk,

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## LENDING: Banks remain conservative overall as loan demand increases

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boost loan-loss reserves and strengthen risk-management practices.

"Many people will point their fingers at banks and say they don't want to lend, but we do," said Scott Schaefer, president and CEO of Phoenix-based Meridian Bank. "In this environment, banks are more conservative than before, often because the regulators are more conservative."

As a result, small-business owners often struggle to obtain loans to cover their real estate purchases or other needs.



Alberti

Shaughnessy said she reached a turning point when her loan officer at Bank of America recommended contacting the U.S. Small Business Administration for help.

While the SBA does not make direct loans, it does set guidelines for guaranteed loans, which then are made by banks, certified development companies and micro-lending organizations. The SBA guarantee eliminates some of the risk for lenders.

Shaughnessy was able to obtain an SBA 504 loan in addition to a loan from Bank of America to purchase the building for her dental practice.

SBA 504 loans offer longer terms and lower down payments for office, retail and industrial buildings, according to Lisa Alberti, a loan officer with Certified Development Co. Small Business Finance, which

### ARIZONA SBA 504 LOANS\*

Fiscal 2010\*\*, through June 30:  
NUMBER OF LOANS APPROVED: 90  
TOTAL DOLLARS LOANED: \$107 million

Fiscal 2011\*\*, through June 30:  
NUMBER OF LOANS APPROVED: 87  
TOTAL DOLLARS LOANED: \$88 million

### CDC SMALL-BUSINESS FINANCE LOANS

Fiscal 2010\*\*, through June 30:  
NUMBER OF LOANS APPROVED: 20  
TOTAL DOLLARS LOANED: \$21 million

Fiscal 2011\*\*, through June 30:  
NUMBER OF LOANS APPROVED: 28  
TOTAL DOLLARS LOANED: \$28 million

\* Dollar amounts represent the SBA 504 loan value and the bank loan.  
\*\* Fiscal year is Oct. 1 through Sept. 30.  
Source: Certified Development Co. (CDC) Small Business Finance

An SBA 504 loan finances 40 percent of a project, a bank or lender provides 50 percent, and the business owner contributes the rest.

In Shaughnessy's case, she needed \$810,000 to finance her 6,000-square-foot building.

"There is definitely an increase in people seeking loans," Alberti said. "I'm the busiest that I've been in a year and a half."

She said many businesses have used the

of commercial real estate prices.

Richard Carter, owner of Tolleson-based Western Ag Enterprises Inc., was able to obtain financing to purchase a \$2 million warehouse through CDC Small Business Finance.

"We needed the space, and right now we are really, really busy," he said. "I would have been turning away some business."

He worked with Bank of America and CDC to work out the terms of the loan.

"We gathered piles of financial information," Carter said. "Once we could show the financial stability of the company, the decision was made pretty quickly."

Bank of America is on track to lend more this year than last year through the SBA 504 loan program, said Jeremy Grogan, BofA senior vice president and small-business banking manager.

Grogan said the Charlotte, N.C.-based bank hired 29 small-business bankers in the Arizona market this past spring.

"They have a deep understanding of the diversity of the local market," he said, adding that the banks have met with nearly 900 small businesses in Arizona since the initiative was launched in April.

Event Video Co. in Phoenix recently obtained a line of credit for \$50,000 through BofA.

"The company has been growing very fast," said Chris Ronzio, Event Video's founder and president. "I needed a line of

Ronzio said the loan allowed him to hire a bookkeeper and CFO.

The quality of financial statements is "paramount" for businesses seeking lines of credit or loans, Grogan said.

"Take the time to have an annual financial checkup with a banker and a certified public accountant," he advised.

Schaefer said this is where banks today sometimes have a disconnect with entrepreneurs.

"They have absolute conviction in their ideas, which is tremendous," he said. "But we have to be careful when we take on more risk."

Don Satrioff, senior vice president and regional manager of M&I Bank, said the bank spends a lot of time with business owners discussing how to help maximize cash flow.

He suggests that existing businesses gather documents including at least three years of financial statements and tax returns, most recent year-to-date data, profile sheets of the management team, and financial statements and tax returns for the loan guarantors.

Despite the vast amount of documentation required, Shaughnessy said business owners who are able to stick with the process and show a viable business plan eventually will see results.

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Ronzio



Schaefer