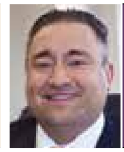

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Don't Take "No" for a Lending Answer

Private loans may be the only route for many borrowers

Since the credit-bubble burst in 2008, lenders have tightened funding criteria, making it difficult for many commercial real estate borrowers to secure deals for their properties. In particular, capital has become more expensive for small businesses.

Unable to secure lending from traditional lenders, many small-business borrowers have looked into alternative sources of funding. They work with private lenders because they recognize that these lenders offer a different process and perspective on qualifying applicants.

In short, nonbank lenders provide the only viable option for many borrowers. But the question is: Are loans through alternative lenders more expensive than prime loans? The answer is "Yes," but that cost is relative.

To put it in perspective, borrowers should consider the cost that a business undertakes when capital isn't available for expansion. A shortage of capital can lead to stagnation at best and insolvency at worst. This is a devastating cost for business owners, employees and communities.

Private lenders offer a viable funding option for small businesses based on two criteria.

- **The future of the business:** Unlike traditional funding sources, private lenders look at the business's potential rather than its past. They base their credit analysis on future revenues.
- **Risk tolerance:** Alternative lenders have a higher level of tolerance for risk. Because they typically provide nonrecourse loans, lenders are responsible for any future liability exposure, personal guarantees, collateral or forward exposure. There is, of course, a cost associated with assuming that risk, but for many businesses this cost is just part of how they can get funding.

Alternative lenders provide businesses with immediate access to cash, a less intrusive and time-consuming process than the one that bank loans typically entail. In addition, although these alternative funding options come at a higher interest rate, they are not meant to be used for the long run. Merchant-cash advances, for example, are a short-term aid for specific situations in which businesses can't get other types of funding.

Similarly, factoring is another alternative funding channel that often is misunderstood, and comparing it to a traditional loan product is misleading. Factoring doesn't carry an interest rate; rather, it carries a discount paid on the revenues financed. In a way, factoring is more similar to providing credit insurance than it is to offering a loan.

Business owners who are looking for funding always have the option of selling a stake in the business — that's giving up equity — to outside investors or to buyers. Many owners don't favor this option because it simply involves a loss of control, independence and future profit participation. In many ways, this choice can end up being costly for the business.

Commercial mortgage brokers can help potential borrowers see the many alternative-funding options and weigh the pros and cons associated with each of them. Because alternative lending is the only way for many borrowers to get their deals funded, your knowledge and contacts with private lenders can be invaluable in getting these deals closed.

Kris Roglieri is a New York-based financier, president and founder of multiple commercial finance companies including Prime Commercial Lending (offering financing products for businesses and commercial real estate), Durham Commercial Capital (a nonrecourse factor) and Commercial Capital Training Group (a specialized commercial finance training company) based in Albany, N.Y., and Atlanta. Roglieri's companies provide all types of commercial lending directly for national and international clients. Reach him at (518) 320-7600 or info@primecommerciallending.com.

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