

**LENDING TO BUSINESSES IN A "NO EQUITY" MARKET:  
LOOK TO THE BUSINESS**

Time was, lenders automatically looked to the equity in a borrower's house or the business as sure collateral in underwriting a business loan. Times sure have changed. Now, chances are you're seeing minimal equity in the home or business. One or both might even be upside down. When there's little or no equity in the business or personal residence, lenders are increasingly turning to SBA lending to mitigate the loss of collateral.

And increasingly, the quality of the business and the borrower's ability to run an ongoing concern are the key deciding factors in evaluating SBA and business loan prospects. The message: Rather than looking at equity as a collateral safety net, look directly at the business.

Evaluate the credit as a free-standing business based on cash flow. Look to the balance sheet. Here are some factors to evaluate:

- Quality of the income statement, profit and loss
- Operational efficiency. Is there "fat" or is the business being run for maximum cost effectiveness?
- Cash flow. Will the business generate enough revenue to satisfy the business owner's personal debt vs. the needs of the enterprise?

You'll also want to evaluate the ongoing stability of the industry. Is the business sustainable in a variety of environments or is it subject to the ebbs and flows of the economy? Is it reasonable to assume that the business can keep going based on income? Or is it possible the business would need to restructure or diversify in response to the changing marketplace?

We're still in a roller-coaster economy. It makes sense to lend to businesses with a good chance of surviving the ups and downs. It also makes sense to increase your SBA loan portfolio. At J.R. Bruno & Associates, we're long-time SBA Lender Service Providers and are known for our underwriting expertise. Many of our clients outsource all their underwriting to us. Others rely on our expertise to assist their staff. Call us at 626.688.2125 or visit [www.jrbrunoassoc.com](http://www.jrbrunoassoc.com). We look forward to working with you!

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