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The Few, the Proud, the Bankable

A look at how companies from the 1998 Inc. 500 managed to land bank loans or lines of credit right from the start.

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Finance

Twenty-one companies on this year's Inc. 500 list got bank loans right from the start. Heck, if they did it, so can you, right? Probably not

Looking for a line of credit for your newly minted start-up? Well, if the experience of this year's Inc. 500 CEOs is any indication, don't even bother unless you already have sizable assets, a friend in the banking business, or rich relatives willing to cosign.

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And even that might not be enough. Take, for example, Prasad Rao, CEO of Cybertech International Corp. (#7), a systems-integration consultant in Oak Brook, Ill., who, despite pledging more than enough collateral to cover a loan, was initially turned down by bank after bank. "No one believed my story," says Rao, who finally won a line of credit one year after he applied. Seems the bankers Rao was talking to weren't all that impressed by his projections but were swayed only by his actual sales.

Fact is, most banks just don't make loans to start-ups. It's a game of probabilities, explains Mike James, executive vice-president of the business-banking group at Wells Fargo. "As a banker you work on very thin margins," says James. As a rule, he says, banks can tolerate defaults on up to 5% of their loan portfolios. "The failure rate of start-ups is much higher than that," he says. Collateral helps, James notes, but by itself is usually not enough because "we don't want to be in the liquidation business."

Demonstrating an ability to repay from revenues, not collateral, was critical for the select few who did successfully negotiate the start-up lending gantlet. When Francine Tucker Diggs needed \$25,000 to start VSI Group (#118), a staffing and security-services business in Columbia, Md., she worked the Rolodex she had compiled from her years as deputy state treasurer of the Commonwealth of Pennsylvania, and managed to get face time with a local bank president. Although she personally guaranteed the loan, Diggs's most important lever was a signed contract from a waiting customer. "It wasn't speculation," she says. "They were financing a deal that had already been made."

J. Sherman Henderson, CEO of Uni-Dial Communications Inc. (#19), a tele-communications-products reseller in Louisville, used a different strategy to obtain his initial \$500,000 line of credit at the Bank of Louisville. He choreographed the approval by treating his lender to a confidence-building dog-and-pony show that involved eight of his employees, including his receptionist. Another key was making the presentation at the company, not at the bank. "It makes a big difference if you can get them on your turf," Henderson says. But once you do, you have to make a big impression on the lenders. "Everyone in the company must be prepared for when the banker

comes calling," says Henderson.

Likewise, Jack Rogers, CEO of JR Industries (#423), a parts-cleaning-systems manufacturer in Springfield, Mo., built bankers' confidence in his projections by emphasizing his willingness to forgo a salary for the first six months of operations. Of course, it didn't hurt that Rogers also put up everything he owned as collateral--including his 3,000-square-foot house and his car, a Dodge Stealth. "If this had failed," Rogers says, "I would have had to start all over again."

Not surprisingly, banks also look hard at the books. An able certified public accountant, says banker James, can help tell the story of your business in the language lenders understand. Good credit ratings, both personal and for your business, are also essential. "If you want credit," says James, "you'd better have a record of paying your bills on time."

Making the Banker Smile

Here are some tips on getting a line of credit for your start-up ASAP:

- Hire a good CPA who can tell your story in numbers.
- Conduct meetings at your site, not at the bank.
- Do a tag-team presentation, involving key employees.
- Maintain, or clean up, your credit rating.
- Put skin in the game: offer ample collateral.
- Cut or eliminate your salary. (In other words, don't seek a loan to pay yourself.)

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