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Sent via email to Mr. Patrick McGreevy, patrick_mcgreevy@cop.senate.gov

April 27, 2010

Ms. Elizabeth Warren, Panel Chair
Congress of the United States
Congressional Oversight Panel
732 North Capitol Street, NW, Room C-320
Washington, DC 20401

Dear Ms. Warren and Congressional Oversight Panel,

My name is Cindy Anderson, and I own a business consultancy called Anderson Business Development, Inc. dba Great Biz Plans. We provide customized business planning and consulting services to business owners across the country and internationally, as well as to clients in Arizona.

Business owners that most need our services are those looking to start or grow their businesses. Typically our clients are either brand new, or in their first three years of business, or making efforts to dramatically grow their business. They need help with business strategies for new business development, they need help understanding their business model and value proposition (that is, how they make, spend, and earn money), and most importantly they need help developing sophisticated financial projections that support their plans. Our clients are almost always in need of funding from lenders or investors.

Background – History and Services, Capital Needs, Sources of Funds

My business has changed pretty dramatically since I started consulting in 1998. Over the years, while working very closely with several lenders, I developed a proprietary process for writing business plans that is especially suitable for those seeking loans – mostly SBA 7A working capital loans of less than \$1 million. I found and filled a niche in writing business plans for franchises and start-ups.

Like most small business owners, I personally funded my business. In 2006 I tapped into the equity in my home to launch the Great Biz Plans brand and spent \$150,000 to develop business processes and marketing systems that were scalable, plus payroll and other working capital needs. I grew my company to a staff of eight employees and contractors. To date, we've served just fewer than 200 clients in the United States, Canada, Mexico, Germany, and my newest international client is in Kuwait.

Affects of Financial Crisis, Credit Contraction

★ Affects on Great Biz Plans

After I launched the Great Biz Plans brand, we were successful in garnering a steady flow of clients and work for the next several years. During the summer of 2007, coincident with the decline in the housing market, I noticed that we had almost no hot prospects and a declining number of new clients in the pipeline. September 2007 was our largest



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revenue month ever. But due to several negative trends, it was also the month that I laid off two employees, radically cut back hours for all staff, and converted my Sales Director to straight commission.

In mid-2007 my business experienced the start of what would become a steady decline. My clients and prospects no longer had funds to access or pledge toward working capital and collateral to get themselves loans to fund their businesses. In 2008-2009 I experienced dangerously low-revenue and even several no-revenue months. Frankly, I was unsuccessful at finding a job, so I was back to being a solo-preneur and have continued in that role today.

Like many of my clients and other small business owners, my own personal financial situation is greatly diminished because of the link between declining home and financial markets. I never would have expected that the 50+% equity I had in my home when I took out my HELOC would be gone, and never anticipated bring in a position to need to repay that loan out of my personal funds. I have been unsuccessful in restructuring the debt, caught in the home loan modification process with two lenders, lots of promises, and no results after 17 months and four trial programs that just go nowhere. This has harmed my personal credit-worthiness, and my business is not strong enough to take on corporate debt. Despite a sterling corporate payment history, due to the decline in my personal financial situation (coupled with the restructuring of the credit card industry), American Express has decreased the open to buy on our corporate credit cards.

★ Affects on Our Clients

Running and growing a small business in these economic times isn't for wimps!

As I mentioned, my clients are the very people that have been most affected by the housing crisis as well as the financial crisis. For the past 8-10 years, they have gone to their home equity and other easy-to-access assets to fund their portion of the working capital that's needed to start or grow their business, to secure lines of credit that fund payroll and inventory, etc. Those personal and loaned funds and assets just aren't there any more. Many that are still starting businesses or securing credit are doing so by rolling over their 401K's into a C-corporation to access their retirement funds for some or all of their working capital. Many others are just like me: they've scaled back to unsustainable levels, handling more with less, caught in a Catch 22 without adequate operating capital/bandwidth.

Some – a few – are able to secure SBA loans, mostly with community banks where they know the lender personally, have a viable business with at least two years of financials with the bank, have golden credit, are a Veteran, or operate in a select industry group that the lender's board or underwriting team has interest in, etc.

It's not that loan demand is down; the problem is that the supply has dried up. Most small business owners are just not able to access capital. The rules of the game have changed, admittedly for the lenders and for the borrowers. The problem is that most often, these rules aren't made plain to the prospective borrowers.

Well-intentioned lenders are still networking in the community, meeting with prospects, marketing their bank's services, looking for the "top ten" in their local market, solid real estate-backed loan candidates, or niche industries like medical and dental which are traditionally more attractive. The net worth of most of my clients is so greatly diminished that they have a hard time coming up with the capital or the collateral to make themselves attractive enough to SBA or other lenders. And most of these business owners I'm referring to are solid. They have viable businesses or they are experts in their fields or they have plenty of net worth and also really good credit. ***They look great on paper... yet somehow they just don't fit the elusive lending criteria. It's fair to generalize that banks just aren't lending anymore.***



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The Good News

My business has always been a pre-cursor to the economy. When 9-11 hit, we were hit first and hardest, and then we recovered more quickly than most. During this "Great Recession", we experienced pain earlier than most in 2007. The good news is that March 2010 was my company's second highest revenue month – ever. While the recovery I've experienced is not yet stable, the trend is very clear and very positive. Incremental gains are being made. The phone is ringing again – frankly, I'm swamped with business.

Business owners are making sales and growing their businesses again. Investors are buying franchises again. Franchisors are selling franchises again, too. Granted, entrepreneurs are self-funding their business development efforts. But they are starting to move forward. They are in meaningful motion to start and grow their businesses. Business owners have been very conservative in their spending and keen in their capitalization strategies both for sources and uses of funds.

Demand is definitely bouncing back in response to improving economic conditions. But the demand is soft. And small business owners need strong financial programs to support their efforts to fund inventory, bring products to market, add jobs and start businesses.

Suggestions for Improvement

The lending market needs to be there to support business owners and start-ups, to fuel economic growth. Specifically, SBA lending needs to be there for them with plain-spoken criteria, and enough funds to support smaller, non-real estate small business loans in a way that works for both the lenders and the borrowers.

Recent statements that many lenders and the SBA make about improvements in lending are white-washing the situation, and just don't tell a story that's fair to both sides. Claims of "doubling" the volume of loans, or quarter-over-quarter loan volume improvements encourage business owners to seek loans before lenders are ready and willing to fund them. Lenders are still, largely, not loaning money to the small businesses, to the start-ups, to those that create the majority of jobs in this state. Lending may be up from its dead standstill of recent months, but it's stalled at best.

The bottom line is that lenders have more money than they've ever had, with record profits. Among many other policies, their lending criteria have changed, as it should have. Yet, they have been given (or were forced to take) funds to stabilize the financial situation, and instead of moving those funds and profits through to the marketplace in the form of new loans which will stimulate the economic recovery, they have held onto those funds and the resulting profits without releasing them back into the very markets they are chartered to serve.

- ★ **Better Lending Criteria Transparency** – Business owners spend months of their time and thousands of their own dollars preparing to expand or launch their businesses. They assume they will get a business loan because of what they've read about lending being up, or they've spoken with a lender who didn't necessarily "shoot straight" with them. Typically, they don't understand what the lender's criteria or target ratios for collateral or cash flow or credit worthiness are, or they aren't aware that all of their assets aren't eligible for collateral, etc. Lenders use industry statistics and financial ratios business owners have never heard of and don't understand, and this is foolishness. There's no reason to keep this information a secret. It doesn't make sense for business owners to waste their limited resources only to get to the end of the line and find they didn't qualify for reasons they're not told about long before the loan package even gets submitted. None of this makes sense. In recent



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months I've heard story upon story from small business owners that have suffered greatly from situations like this.

- ★ **Clean, Consistent Lending Processes and Terminology** – Lenders use terminology and criteria that borrowers don't understand. A client of mine in New York City was working with an SBA lender that was pushing them to commit to their lease so they could submit the package under the deadline for the 90% SBA guarantee. My clients fully complied with the lender's requirements and during the three month loan application process (Sept. – Nov. 2009) finally got a letter of intent, which the banker said "was as good as it gets." Under pressure from the lender to keep moving forward, they signed their lease and even started pre-construction on the space. They (and I) pursued the lender asking when the loan would process. The lender backed out of the loan in the 11th hour. This left my clients on the hook for a secured \$175,000 yearly lease in Union Square plus some construction they'd started at the lender's urging – commitments they never would have made if the lender was forthcoming. All this will likely bankrupt one of the partners. My client didn't understand that a letter of intent is not a pre-approval, and that this lender's criterion for "working capital" does not include tenant improvements. Who knew? Certainly not the borrower. Certainly not me, I'd never heard of this restriction on an SBA 7A loan before. People believe what they read about increased lending and believe they are savvy and strong enough to prevail. Much of lending is a sales process, and borrowers need better protection. While the SBA.gov web site is outstanding – one of the finest resources any business owner can use – it can go further in protecting prospective borrowers. SBA information packets should provide even clearer guidelines and pre-loan training that steps up and fills in the gaps for borrowers, regardless of the diversity among SBA lenders in the different programs.
- ★ **Expanded SBA Funding, Particularly 7A Funding** – Any recovery-focused SBA funding number that starts with "million" instead of "billion" is wholly insufficient, and geared not toward small business owners and job expansion, but toward larger businesses and lenders. Most small business borrowers won't ever qualify for the proposed limit increases or for real estate-backed loans. This is not a use of SBA funds that will benefit enough businesses to grow the economy or to add jobs. Piece-mealing the SBA funding in small packages that are good for a few months is not solving the problem; it exacerbates the problem. Lenders are comfortable putting loans through for their current clients, but not comfortable enough to expand their lending criteria because the special funding packages are relatively short-lived. This also muddies the water making it look like demand for loans is soft, when it's just more of the same. Lenders are not comfortable extending their resources because the rules of the game continue to change. A change in the lender role, their portfolio, and their criteria has shut off the supply. From both the borrower's and the lender's perspective, why go to a well when you know there's insufficient water and it ran dry on you the last time you were there?

Many thanks for this opportunity to contribute to this process.

Best regards,

A handwritten signature in cursive script that reads "Cindy Anderson".

Cindy Anderson, CEO and President
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