

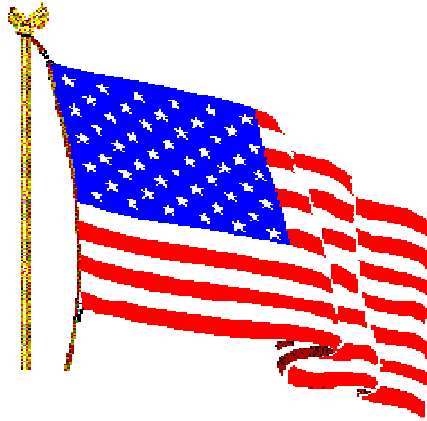
Real Small Business Loans for Real Small Businesses

Seren Funding Corp.

Tel: 800.961.9486

Web: www.serenfunding.com

If you were looking for a \$300,000 business loan, would you pay an additional \$67,000 over three years in order to get a two percentage point reduction in the interest rate?



Unlikely.

But that's what plenty of small business owners do because they seek bank financing with seemingly low rates of interest, versus a so-called stated income/asset loan that carries an apparently higher interest rate.

How can this be?

Simple. The low rate loan is a full documentation, conventional loan. The seemingly higher rate loan, the stated income/asset loan, requires limited documentation and no income verification. For small business owners, there is a world of difference. The reason is because the owner of a small and or cash based business may have a very low salary, but quite legitimately derive economic value from the business in excess of \$100,000. But stating this to satisfy a bank can at the same time provoke tax authorities, and generate significantly more taxes well into the future.

Thus the savings from the apparently lower rate of interest are illusory. Worse, because of potential tax liabilities, low rate loans may result in an effective interest rate that is much, much higher.

We are all brought up to believe that banks finance businesses. And there is a myth that small banks and small businesses fit hand and glove with one

another. But the truth is that banks and small businesses are actually a tough fit.

The bankers aren't bad guys. It's simply that banks - even regional and community banks that have a vested interest in funding businesses where they operate - are structurally incapable of serving the needs of small and or cash based businesses. Banks need plenty of hard assets to collateralize loans. In addition, they are subject to scrutiny by federal regulators on their underwriting policies and practices, and have an expensive monitoring process that favor larger borrowers - those that need to borrow \$500,000 to \$1 million or more.

By contrast, smaller, cash based businesses typically do not possess a lot of hard assets, may have uneven financial performance that make regulators wince, and typically require loans of less than \$1 million. The reality of this "structural mismatch" can be vexing and frustrating for small business owners who often diligently visit every bank in town only to get turned down by each one.

For these reasons, non bank lenders and stated income/asset programs can be a viable alternative for cash businesses, 'mom and pop' shops, self employed individuals, businesses with environmentally sensitive properties (i.e. auto repair shops, dry cleaners) as well as property owners that want to cash out, or

leverage up to purchase additional properties. In the highly regulated environment of a conventional bank, these borrowers present insurmountable obstacles. In the more entrepreneurially driven non bank lender environment, these borrowers present a myriad of opportunities for which creative solutions can be developed.

What is the secret of non bank lenders that offer stated income/asset loans? First, they operate in an underserved market: small businesses seeking loans of less than \$1 million. By virtue of this, non bank lenders can identify promising businesses that traditional banks would not even see. Second, non bank lenders are not regulated. This means they can adopt policies that while sound, would nonetheless go against the grain of federal regulators provoking questions and inquiries that bank executives would like to avoid altogether. Finally, non bank lenders believe in the value of real property as collateral. By lending prudently against the value of real property, non bank lenders need go no further in assuring the safety of their capital.

Putting all these factors together means that non bank lenders offering stated income/asset programs can provide small businesses with solutions that are more consistent with the challenges they face.

For example, many traditional lenders require cross collateral agreements. These are agreements in which the borrower, after pledging all of the business-es' assets and real property as collateral, pledge their personal property as well. This arrangement can complicate loans,

especially when there are multiple business owners whose active participation in the business may vary. Because stated income lenders focus on the underlying value of the businesses' real estate, in addition to its cashflow, they generally do not require cross collateral agreements.

Stated income/asset lenders are also more comfortable with so called cash out loans. For example, suppose you own a property that houses your business, and you want to leverage the value of your equity, and take cash out. Perhaps this cash will be used to expand the business. Or perhaps you might view this cash as a just reward for years of carefully managing the business and the property.

Traditional bank lenders are uncomfortable with cash out loans. They often feel that such arrangements leave them vulnerable. By contrast, stated income/asset lenders, which again place an emphasis not only on the business's cash flow but the underlying property as

well, actively seek such loans. Their appetite for these loans is a valuable source of liquidity for small business owners.

As one more example of how stated income/asset lenders are more geared to the needs of small businesses, consider typical loan covenants. Traditional lenders often seek the right to audit the books of the borrower and have the borrower issue a covenant pledging that the business will perform at its current level or better. A breach of this covenant, over which the small business owner may not have complete control, can result in the borrower being in default, and the lender initiating foreclosure proceedings.

Again, there is nothing wrong with this per se. After all because banks are the stewards of consumer deposits that are insured by federal funds, i.e. taxpayer dollars, they must avoid risk at all costs. This is why banks operate in what is often characterized as 'an abundance of caution mode,' and adds bulk to the explanation of why banks are not built for the kinds of risks that small businesses typically present.

It also explains why there is such a void in the market for loan and credit services to small businesses. However, stated income/asset lenders have stepped into this void and are actively seeking out companies to provide loan solutions to help businesses maintain their track record of success, or take a giant step forward to the next level.

Seren Funding Corp is a Commercial Lender specializing in Stated Assets / Stated Income mortgages. To discuss a loan scenario please call 800.961.9486.