

New loan option helps good biz grow

By Jennifer Heldt Powell / Small Business Matters | Sunday, June 15, 2008 | <http://www.bostonherald.com> | Business & Markets

Business was so good at TreMonte Restaurant & Bar in Woburn that owner Anthony Contarino was losing out on money.

With just a small bar, there was nowhere for customers to wait when the tables were full. Instead of staying around, they would go down the street for drinks before dinner and wait for a cell-phone call that there was a place for them.

Contarino decided to reconfigure the restaurant and expand the bar so that he could keep the business in-house. But first, he needed a loan. That can be a tall order for a small business these days. The bank turned him down because of tighter lending practices. Another option, which he had tried before, was to get a cash advance that would be paid back by a percentage of his credit card receipts. The problem with that arrangement is that if business is good and much of it is on credit cards, a bigger chunk goes back to the lender. The loan gets paid off faster, but that can create cash-flow issues.

Contarino found his solution in a company founded just two years ago to give small businesses an alternative lending option. On Deck Capital provides loans based on the cash flow of a business rather than the credit worthiness of the business owner.

The interest rates are higher than a typical bank loan but comparable to a credit card. The difference is that the loans are larger than most credit cards allow and they are paid back over a set amount of time, no longer than a year.

The application process is extremely simple and decisions are made within days.

"We've built a different model that focuses on electronic data from bank account reports and payment processing reports," said On Deck's founder and chief executive, Mitch Jacobs. "As a result, we're able to get far more accurate on the information on the real performance of these businesses much less work on the part of the business."

Jacobs launched On Deck after running two companies that handled financial transactions for small businesses.



Photo by Ted Fitzgerald

"I noticed that companies that had very good cash flow were being turned down for loans," he said. "I wanted to create a platform that would better identify, fund and collect from very strong small businesses.

The company began a beta phase of lending last August and officially launched its product last month. It's not for companies that are struggling. It is geared toward those that are healthy and looking to grow or facing a short-term crisis.

Still, the hardest part has been convincing lenders to get involved. In the wake of the recent credit crisis, underlying sources of capital have "heavily retrenched," Jacobs explained.

He said his job is convincing lenders that he has an accurate way of assessing risk. For Contarino, it seems to be working.

Contarino filled out the paperwork in December and by January he was working on the renovations. Just six weeks later, he was back in business. Now he's gearing up for a busy summer season with 16 seats at the bar.