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## Hawaii small-business owners seek out less-traditional funding options

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Tighter credit standards are steering Hawaii's small-business owners away from traditional bank loans and toward alternative funding options.

That has created opportunities for lenders such as On **Deck Capital**, which loaned the **Brew Moon Restaurant & Microbrewery** \$33,000.

On Deck Capital, which has its headquarters in New York, lends exclusively to small businesses, but looks at a company's performance metrics rather than the business owner's personal credit score.

David Pierce, who bought Brew Moon in Ward Centre in September 2007, got his loan approved in October of this year.

"I applied after the rough stock market crashes in September and well into the credit freezes," said Pierce, 44. "Because On Deck screens applicants based on cash flow performance, the process was fairly simple. We have to be really diverse to survive; it's almost impossible to be simply a restaurant."

With that in mind, Pierce said the money will go primarily toward marketing to draw in more business through such things as weekly events. The restaurant sees an average of 200 customers a night.

"It's going toward anything to get more business in here," he said. "We've started doing club nights on the weekends, comedy nights on Thursdays, fundraising events and corporate events — any event we can get our hands on."

On Deck founder and CEO Mitch Jacobs said the firm looks at data generated by a company to determine volume and stability of its cash flow.

"Typically, banks rely on personal credit scores of small-business owners," he said. "And, unfortunately, small-business owners have to use a lot of personal credit to finance their businesses, so their credit scores tend to be middle-of-the-road at best. We look for businesses with a lot of customers coming through the door, or ones that are moving a lot of product that have short-term capital needs."

On Deck, which began lending in August 2007, has funded more than 500 small businesses for a total of \$20 million. Loan sizes range from \$30,000 to \$100,000.

Jacobs declined to say how many Hawaii companies On Deck has financed, but said the firm does market to local companies.

“For small businesses in Hawaii that are in a tourist area or areas that banks are concerned about these days, if they have strong cash flow they’re the businesses we’re actively lending to,” he said. “Unlike traditional banks, we’re not turning away applicants just because they’re in a certain economic climate that might be wavering.”

Jacobs said On Deck’s biggest competitor has been home equity credit lines and second mortgages, which many small-business owners have relied on.

The company is financed by five national venture capital funds, including Contour Venture Partners of New York and First Round Capital of Pennsylvania.

### **SBA loans**

Hawaii business owners also are turning to **Small Business Administration** loan programs for financing alternatives.

The current financial market is attracting both Hawaii lenders and small businesses to the agency’s loan programs, which enable banks and credit unions to make loans to newer small businesses that typically don’t qualify for conventional loans.

Hawaii small businesses have taken out 261 loans totaling \$62.4 million through the SBA’s primary 7(a) loan program this year. Loans through the agency’s 504 program numbered 27 for a total of \$33.5 million.

The SBA does not lend the money, but guarantees between 50 percent and 85 percent of a bank loan for small-business owners. The loans are a product that the banks can use, and the SBA’s guarantee assures the bank that the federal government will cover at least some of the loss if a borrower does not repay the loan.

A total of 24 banks have offered SBA-backed loans this year in the agency’s Hawaii district, which includes Guam and America Samoa. That number is up from 18 banks last year.

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