

# Lending locally

How SBA 504 loans helped three small Valley businesses grow

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**A**s banks continue to write off bad loans and tighten lending standards, some small-business owners are finding themselves at a crossroad.

Even companies with strong credit lines and cash flow are finding it tough to get good loans from banks. Others are finding it nearly impossible and so are turning to alternative sources for funds.

Many growing businesses need loans to boost their operations to compete and gain market share. But the economic environment and struggles in the financial sector are prolonging the credit crunch for all types of business.

Bob McGee, president of Southwestern Business Financing Corp. in Phoenix,

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**Bob McGee**  
Southwestern Business  
Financing Corp.



**IMIDORS | SPECIAL TO PHOENIX BUSINESS JOURNAL**  
Gary Williams owns Academy of Classical Ballet in Peoria. He and his wife, Jeni, secured loans to purchase a 5,100-square-foot industrial condominium and transform it into a dance studio.

said banks typically overreact during economic slowdowns. The difference this time around is that many banks created their own problems by easing lending standards during the real estate boom and giving loans to borrowers without stated income.

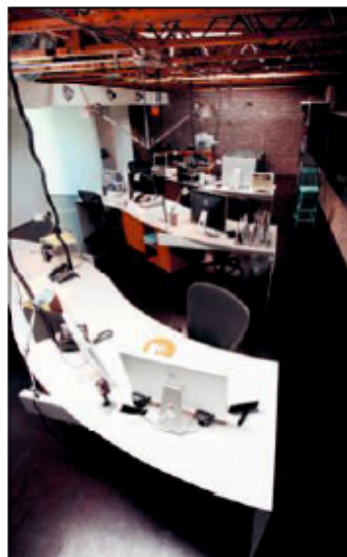
"There were a lot of very dumb loans made, but that doesn't mean you should stop making them," said McGee, whose company is one of three in Arizona that have been approved by the U.S. Small Business Administration to grant 504 loans. The others are Phoenix-based Business Development Finance Corp. and San Diego-based CDC Small Business Finance Corp., which operates a Phoenix office.

The SBA's low-risk 504 loans are for fixed-asset projects, such as renovations or purchasing land, new facilities or long-term machinery and equipment. They have helped scores of Arizona small businesses grow, and in doing so they've created local jobs and revitalized neighborhoods.

Southwestern loaned about \$90 million for projects in 2007, about the same amount it did in 2006. This year, officials predict a drop of \$10 million to \$15 million. Still, McGee expects lending standards to



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T.J. Atchinson grinds a part for a metal security door. Atchinson works for First Impression Security Doors, based in Gilbert. In 2002 the firm had 17 employees. Now it has 120. The firm used approximately \$1.3 million in SBA loans to purchase warehouses and equipment.



**PROVIDED BY KITCHENSINK STUDIOS**  
After securing SBA funding for their multimedia company, Kitchen Sink Studios owners Nick Hower and Kory Kapfer bought and renovated a building at 828 N. Third St. in Phoenix.

# LOANS: Local firms would not be what they are now without SBA funds

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ease in the third and fourth quarter, which should spur more 504 loans.

Without access to these loans, many local companies would not be what they are today. Here's a look at three:

## KITCHEN SINK STUDIOS

Like many entrepreneurial ventures, Nick Hower's Phoenix business had a humble beginning. The first base of operations for the multimedia and branding company was a guest house.

When Kitchen Sink Studios Inc. outgrew its next location, a 3,000-square-foot restoration at First Avenue and Roosevelt Street, Hower and partner Kory Kapfer started to look for another downtown site.

"We love downtown, and we like to see it transform," said Hower.

They found a two-story, 6,500-square-foot space built in 1976 that was perfect.

After securing an SBA 504 loan and another loan from Arizona Business Bank, they bought the building at 828 N. Third St. in 2006 for \$800,000. Final upgrades and designs boosted the total cost to more than \$1 million.

The space now is equipped with the latest technology and features high ceilings, an open coffee bar, courtyard space, sliding glass doors, and two presentation rooms. It is conducive to the creative aspects of the company, which also specializes in computer animation, brochures, and Web site and graphic design.

Hower said the renovations wouldn't

have been possible without the SBA loan, because the partners would have had to make a down payment of more than 12 percent.

Kitchen Sink's 12 employees occupy 70 percent of the building. The remaining space is leased.

## ACADEMY OF CLASSICAL BALLET

The Williams family never envisioned owning a dance business. But after their 15-year-old son's studio closed in the West Valley, the idea started to take shape.

About a dozen families started talking about ways to keep their children together, creating a solid core of clients for a new business.

"It was a risk we were willing to take," said Gary Williams, owner of the Academy of Classical Ballet, which opened its doors last October at 78th Avenue and Deer Valley Road in Peoria.

Williams and his wife, Jeni, a consultant at Procter & Gamble, secured loans for more than \$900,000 from Camelback Community Bank and the SBA to purchase a 5,100-square-foot industrial condominium and transform it into a full dance studio.

The space now features wood flooring, mirrors, parent viewing areas, wireless Internet, three large studios and four smaller ones.

In less than a year, the business has grown to accommodate 140 students, including an adult ballet program.

Nine dance instructors teach traditional ballet, jazz and tap. The studio also has a partnership with the Bracken School of Irish Dance.

Some students have landed spots at the

American Ballet Theatre, Boston Ballet and Ballet Austin.

"There aren't many studios in the Valley that have as many girls going to prestigious summer camps," Williams said. "I think we're positioned well."

## FIRST IMPRESSION SECURITY DOORS

Tim Cornelius could have secured commercial financing from a private lender for his door installation company, but the SBA's locked-in 20-year rate of a little more than 7 percent saved his business a lot of money.

First Impression Security Doors has expanded rapidly since Cornelius purchased it in 2002.

The company plans to open its second manufacturing facility in Gilbert. In May, the company opened a showroom in Peoria. Its main office and showroom is at 1415 N. Mondel Drive in Gilbert.

"A lot of that growth has been supported by the SBA," said Cornelius, the third owner of the company. Under his watch, the staff has increased from 17 to more than 120 employees.

He has used approximately \$1.3 million in SBA loans to purchase warehouses and equipment. \$100,000.

## GET CONNECTED

### First Impression Security Doors:

[www.firstimpressionsecuritydoors.com](http://www.firstimpressionsecuritydoors.com)

Southwestern Business Financing Corp.: [www.swbfc.com](http://www.swbfc.com)

Kitchen Sink Studios Inc.: [www.kitchensinkstudios.com](http://www.kitchensinkstudios.com)

Academy of Classical Ballet: [www.acballet.com](http://www.acballet.com)

## 504 FACTS

**504 LOANS:** Long-term financing for economic development within a community. The 504 program provides growing, small businesses with fixed-rate financing for major fixed assets, such as land and buildings. A certified development company is a nonprofit corporation set up to contribute to the economic development of its community. CDCs work with the SBA and private-sector lenders.

**LOAN USES:** Purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping; construction of new facilities, or modernizing, renovating or converting existing facilities; or purchasing long-term machinery and equipment.

**WHAT ELSE IS NEEDED:** A 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and a contribution of at least 10 percent equity from the small business being helped.

**LOAN AMOUNTS:** \$1.5 million for regular 504 loans meeting the job creation criteria or a community development goal; \$2 million for loans meeting certain public policy goals; \$4 million for manufacturing loans.

Source: U.S. Small Business Administration