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**By Brian Quinlan - 2/13/2006**

Biz Spotlight - Banking and Finance

You've got to spend money to make money and sometimes you've got to borrow money to spend it. While everyone wants to secure the lowest possible interest rates on their business loans, experts say that shouldn't be the overriding consideration.

The most important thing is what you'll do with the money, says Eugene Gillespie of Gillespie & Associates, a Totowa management-consulting firm. "The key thing to look at is what you're buying [with the loan] and what kind of return you'll get," he says.

Once management is certain that the borrowed money will generate enough income to pay off the principal and interest, says Gillespie, it can look at other issues, like whether to commit to a fixed-term loan or borrow at a variable rate. Paramount, he says, is evaluating the level of interest rates and whether the applicant thinks they will rise or fall.

"If you think rates are going to continue to go up significantly, lock it in," says Gillespie. "If you think rates will go down, let it float."

He says other important issues include determining affordability, how the loan will be secured and the risk associated with borrowing.

Steven Fulda, a professor of entrepreneurship at Fairleigh Dickinson University in Madison and a board member of several businesses and nonprofit groups, says one company he works with is a northern New Jersey technology firm that needed money to hire new employees and expand its offices.

The owners of the privately held firm didn't want to give up control by trading equity for cash, he says. So they took a riskier route and put their homes up as collateral to get the loan. The executives decided to go with a fixed-rate loan instead because they were confident they could handle the interest rate.

"They have a long-term business plan that they're very comfortable with," Fulda says.

Depending on the size of a company, its method of borrowing and its credit rating, loan rates can fluctuate a great deal, says Vince D'Elia, the regional director for the Bergen Small Business Development Center at Bergen Community College in Hackensack.

Lenders view start-ups and smaller businesses as a greater risk than larger, more established companies and offer them higher rates accordingly. In addition, says D'Elia, a history of bankruptcies or foreclosures is "deadly" for businesses looking to borrow money and can result in even higher costs.

These days, says Thomas P. McNabola, managing director of Hunter Group, a Fair Lawn-based accounting firm, the lowest-risk borrowers can expect rates to be between 6.5% and 7.5%. The riskiest borrowers might pay between 9% and 12%.

Although it makes sense to seek out a low rate before committing to a loan, both McNabola and D'Elia say it's just as important to pull the trigger at the right time. Businesses often end up watching the best rates go by and settling for something higher when they hesitate to act, McNabola says.

Small businesses should draft a solid business plan that takes into account buying supplies with borrowed money and generating enough revenue to pay back the loans, D'Elia says. "The important thing is that they figure the cost of borrowing the money into their business plan," he says.

If rates slide after it has locked in a higher rate, D'Elia says, a company with good cash flow can always refinance later.

E-mail to [bquinlan@njbiz.com](mailto:bquinlan@njbiz.com)