Sunday Business

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STAYING AFLOAT

Private lenders provide a lifeline

Small businesses can gain even when banks pass them by

By Macaela J. Bennett

Contributed photo / Michael Ciaburri

Michael Ciaburri, founder and managing partner of Worth Avenue Capital, a private lending group based in Guilford, speaks at a New England Real Estate Journal event on Sept. 9.

Last month, Chris Downey found out a large bank had denied his Stamford-based construction company a line of credit he needed to tide over his work for a few weeks.

"My hands were tied," said Downey, who owns two businesses. "If you don't fit into a perfect little box, even when you show consistent income, it's very difficult dealing with banks."

Downey was denied after waiting almost a month to hear the verdict. He later learned the decision was based on inaccurate information in his business' credit report, which he is still trying to correct. In the meantime, his construction company needed cash.

Dewey Raymond found himself in a similar situation a year and a half ago. Raymond is a managing partner at Red Zone Metrics, a small analytics technology company in Norwalk that installed the nation's first inmotiotec system, which tracks athletic metrics, at a training facility at the University of Connecticut.

"The whole environment around small-business financing is very prohibitive for a smaller company in a time crunch," Raymond said. "There aren't a lot of lenders out there anymore. There used to be thousands, but they've been regulated down. ... It makes it very difficult for small businesses to survive."

"Within six months of leaving the bank, I knew I needed to get into the private lending space because the regulatory environment was just getting worse, and I knew there would be an opportunity for a private lender where banks can't operate."

Michael Ciaburri, owner of Worth Avenue Capital

Another option

Downey and Raymond were out of options. They both turned to Michael Ciaburri, who owns private-lending firm Worth Avenue Capital, which works with small businesses across Fairfield County and Connecticut.

Ciaburri comes from a banking background. His father started the Bank of New Haven in 1979 and Ciaburri followed, later opening The Bank of Southern Connecticut.

But bigger banks continually crept into Ciaburri's territory, and by 2008, he decided to sell.

The timing was partially by design and partially fortuitous. Ciaburri didn't see any other way for a small bank to grow and please shareholders, but he couldn't have foreseen what would soon happen to the financial industry.

The Great Recession served as the impetus for regulations like the Dodd-Frank financial reform package that was intended as protection, but Ciaburri said ultimately ended up hurting small banks and businesses.

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Ciaburri cited the amount of time and money he spent on compliance issues as a primary reason for leaving the banking world.

"We spent $100,000 per year to comply with Sarbanes-Oxley (an earlier reform law)," he said. "That's a lot of money to comply with just one regulation."

He now calls Dodd-Frank "the icing on the cake."

It has doubled the amount of time spent on compliance, his friends in the business tell him. Ciaburri doesn't view such regulations as unnecessary for the big banks they were intended to shepherd, he said, but they ended up with wide applications.

"Dodd-Frank was implemented for Wall Street when the world almost came to an end," he said. "But it blanketed everybody."

The result, Ciaburri said, is that small banks can barely make it and the amount of time and money it takes for big banks to review loan requests from small businesses means owners like Downey and Raymond probably won't get help.

Lending decline

An analysis of banks' regulatory filings by the Wall Street Journal last year backs him up.

The 10 largest banks who gave the most small-business loans in 2006 lent almost $30 billion less in

See Lenders on C3