

Cactus Salon near oasis in loan desert

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Photo credit: Steve Pfost | Cactus CEO Ron Knauf, left, and Joe Secreti, founder, came up dry until The Loan Source stepped in. (Dec. 16, 2011)

For many small businesses, the landscape for financing in recent years has been as dry as a desert. But Cactus Salon & Spa hopes a connection to a community bank might lead to a monetary oasis.

The Hauppauge-based, upscale beauty chain, started in 1976 by Joseph Secreti, has grown to 25 locations on Long Island, a cosmetology school and 250 full-time employees, with sales upward of \$10 million a year.

For the last several years Cactus has been searching for financing. The chain wants to develop its own line of hair color, consolidate and update salons and refinance some high-interest debt, says Ron Knauf, its chief executive.

But with little collateral to offer, the company's attempts at qualifying for a loan came up empty. Five or six banks and some private investors turned them away.

A lack of collateral has become a big hurdle for small businesses seeking loans, says Paul Merski, executive vice president and chief economist for the Independent Community Bankers of America. In the wake of the financial crisis, banking regulators are requiring higher levels of collateral to secure loans, he says; at the same time, the value of real estate, a key source of collateral for small business loans, has plummeted.

Regulations a hindrance

Eventually, an acquaintance introduced the salon chain's management to Joseph Perri, president and chief executive at Gold Coast Bank in Islandia. Perri had a dilemma of his own: Despite having announced that the bank had \$40 million to lend to qualifying small businesses, he found that federal regulations were making it difficult for him to make those loans -- businesses weren't qualifying.

"Hair dryers and scissors don't give you good collateral," Perri says.

To give Cactus a chance at financing, Perri directed them to The Loan Source Inc., a non-bank lender based in New York City that is approved to make [Small Business Administration](#) loans. Because The Loan Source isn't a bank, it doesn't face the same regulatory scrutiny that Gold Coast does. And because the federal government guarantees 75 percent of an SBA loan over \$150,000, The Loan Source has more flexibility to lend to businesses with good cash flow but little collateral, says Steve Kravitz, president of The Loan Source.

Knauf says Perri helped the Cactus team "paint a clear financial picture," making sure they formatted their application properly and hit the important points that they'd need to make to get an SBA loan.

As of mid-December, Cactus and The Loan Source were in the thick of due diligence, having already come up with a structure for a loan that would be in "the very low millions," Knauf says. If everything works out, Gold Coast will provide a smaller portion of the financing.

Knauf hopes the financing package will be finalized by January. The new loan, which would let the salon refinance its existing debt, is "going to have a major effect on both our income statement and our balance sheet," he says.

Given the pressure on lenders, Knauf says, "You have to find people who are creative."