

Lending Undergoes Changes

10/06/08

“What are the financial rules under which I’m going to have to operate?” It’s a time of financial questions and concerns. Rewards go to those who are prepared. Let me share with you some observations from this past week.

Lending officer to a small business customer in Fairfield County: “I’m sorry. I know you have good credit and have been a customer of ours for some time. Increasing your credit line will take a lot more paperwork that you’re used to, and it’s going to take longer – I’m not sure how long it will take. I’m sorry if you need something quickly.”

Entrepreneur in Westchester County, asking a teller about clearing time on a check he was about to deposit: “One of my customers just bounced a big check on me, and I’m going to have to get these funds from my home equity line into my business account today, in order to cover payroll. How do I do that?”

Small business owner in Rockland County, preparing for an annual review with the bank: “Let’s make sure we don’t give the bank any reason to question how we’re doing. We want to present a strong balance sheet.”

What can you do to protect your company financially? Learn to play by the rules. Get credit lines in place long before you need them. Better yet, get rid of debt

and cash shortfalls. Most companies will make it through this period, but some won’t – you need to know the difference. And, build up assets.

Expect any loan approval process to take longer. Don’t wait until the last minute to apply. Be aware that some banks have cut back significantly on lending, as they seek to strengthen their balance sheets. Go see your banker. Ask them to tell you what you can expect in terms of credit review, loans and increases in lines. Consider shopping around.

Many regional banks remain active in the lending game. In general, most were less caught up in the speculative lending that’s gone bust. This means they have an asset base to work with when it comes to lending. While regional banks may have funds available, they, like every other institution, are looking carefully at every credit application. Expect that they’ll have advice for you on what you can, and cannot do, to shore up your financial position.

Don’t be surprised if your company gets queried more closely when it comes time for quarterly and annual reviews of your financials. Make sure your balance sheet is strong enough to justify any loans you’re carrying. If you’re not sure what the bank will be looking for, call your accountant and your loan officer. Get an education ahead of time.

If your company needs to lease trucks and other equipment, or if you personally need to replace a car, don’t expect that it will be business as usual. You may pay higher interest. Some dealerships may push purchases rather than leasing. Purchases will impact your balance sheet differently than leases. Talk to your accountant and banker about what your strategy should be.

Check your market viability. How likely is it that your customers are going to be impacted by any downturn? Can you add a new set of customers who are likely to have fewer problems, or who will get financially stronger in a down market?

Review specific client accounts. Restrict credit on vulnerable accounts. Don’t get caught selling lots goods or services on credit to a customer where the likelihood of getting paid is small. Tell customers to put their charges on a credit instrument. If they can’t do that, be even more cautious, as that can be an indication they’re already overextended.

Do consider extending credit to those customers you know have deep pockets. Set a threshold for lending. When accounts exceed that threshold, regularly re-check the client’s credit to be sure the clients remain financially sound.

Build up your assets – in the business and at home. Be aware that your assets in money market



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accounts are insured. Bank accounts are insured up to \$100,000 for each social security number at each bank. Make sure your assets are earning money. Consider working with a skilled financial manager.

Put together a budget and match that to a forecast of revenue. Include in your forecast both categories of income: work on hand and a conservative projection of sales. If you find a shortfall when you marry the budget to the forecast, then you must aggressively cut into expenses. I can't say this strongly enough. Now is not the time to be operating with losses. Figure out how to operate cash-positive.

Looking for a good book? Try, *Financial Intelligence: A Manager's Guide to Knowing What the Numbers Really Mean*, by Karen Berman, Joe Knight, John Case.

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